


annual report 2008

PIZZA EXPRESS

ASK

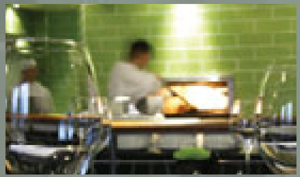
Zizzi

GONDOLA
GROUP LIMITED




Contents

highlights[1]




Financial highlights

7.1%
restaurant sales up 7.1% to £453.1m

7.0%
EBITDA up 7.0% to £103.0m

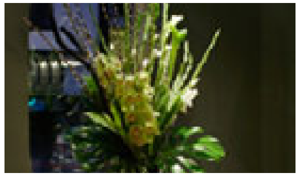
£105.1m
net operating cash flow of £105.1m

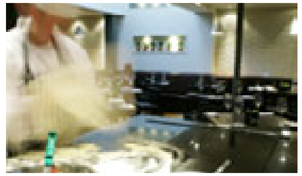
Operational highlights

- 34 new restaurants opened, a significant increase over the 21 opened in the prior year
- strong pipeline of new restaurants developed, with 32 already contracted for 2008/09
- strengthening of senior management team finalised
- significant operational changes implemented
- offices consolidated, support functions brought together, efficiencies increased

1 Note: references to prior year results or percentage changes are pro-forma as the prior year figures include trading which precedes the change of ownership of the business and its ownership structure on 22 December 2006.

Gondola at a glance





The Gondola Group is the market leader in the UK casual dining sector, operating PizzaExpress, ASK and Zizzi, together with a number of smaller brands. The Group employs over 12,000 people, serving over 36 million meals a year in over 560 restaurants.

Gondola's restaurants are positioned to offer a great eating out experience which provides value for money, with typical spend per head ranging from £13.00 to £17.00. Gondola's three distinct main brands have broad customer appeal, and lend themselves to different occasions:

PizzaExpress (347 restaurants)
A local pizzeria, the national favourite, pioneering pizza on the high street since 1965.

ASK (117 restaurants)
Local, informal Italian restaurant, evoking the Trattoria experience.

Zizzi (97 restaurants)
A special Italian experience, with truly memorable food at the heart of it.

Gondola has also established a New Development Group to nurture the development of its smaller brands. These include the new burger format, Byron, together with Kettners (a long-standing institution in London's Soho), along with a small number of other concepts.

Gondola's strategy is to:

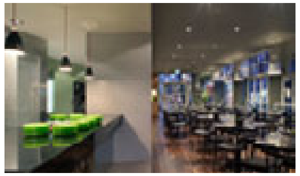
- focus on 'restaurant basics' – great food, the best people and stylish locations – to deliver profitable growth from its existing estate
- expand the estate through the roll-out of its main brands
- develop other growth opportunities, including new concepts

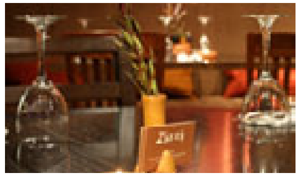
chairman's statement




We have made significant progress in building upon our market leading position, with a clear focus on the detail of 'restaurant basics' and through this the delivery of a consistent, quality offer to each of our customers.

chairman's statement



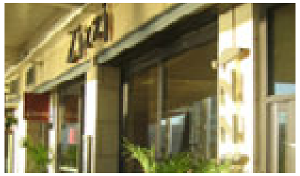
This was the first full year for Gondola since the Group was acquired by Cinven and management in December 2006. It has been an important period of consolidation, building on the foundations developed during the six months of 2006/07 which fell post buyout.

Our approach has not changed since the business was taken private although recent emphasis has been on strengthening the management team, streamlining decision-making and increasing efficiency in the way the Group works. In so doing, we are creating even greater momentum towards excellence in operational execution.

People are the most important element in the delivery of any strategy and I was particularly pleased that this financial year saw the appointment of Mark Angela as Chief Executive of PizzaExpress and Emma English as Managing Director of ASK. We now have clear lines of responsibility and focus, with each brand retaining its own sense of direction and a healthy level of competitive independence under the direction of a separate management team. At the centre, we have also been making significant progress in building and improving group-wide support services including Finance, Information Systems, Human Resources and Property. These improvements in part reflect the significant contribution made during this financial year by Nick Carter and Kieran Pitcher who joined us as Group Finance Director and Property Director respectively in the latter part of last financial year.

Looking to the future, we have established a New Development Group to provide greater focus to the creation and growth of our smaller development brands. Neil Wickers was appointed Managing Director of this Group, and in December his team opened the first of our new Byron format to much critical acclaim. We are excited by the growth potential of all new business streams under Neil's direction and are confident that they will help fuel growth in future years.

chairman's statement

The second half of the year saw a further increase in our level of new openings, with 21 new restaurants in H2 taking the total for 2007/08 to 34 – comfortably in excess of our original target of 30. This reflects the significant progress which was made during the year in developing the property pipeline and a tremendous effort on the part of our operational teams to successfully deliver each opening.

Progress across all of these areas has been reflected in the Group's strong trading results for the year which are detailed below. The Group continues to trade well in the early part of 2008/09, though economic conditions clearly became progressively tougher in the latter part of our 2007/08 financial year. The Board believes that the Group's portfolio of brands should be more resilient in a consumer downturn than many as a result of the strength of their offer to customers, including a compelling value proposition. We also believe that Gondola will be able to take advantage of its market leading position in these more difficult times, increasing its pipeline of new sites as some competitors scale back their ambitions.

We continue to view the prospects for the Group very positively, and believe that the management team is in place to provide the right leadership, developing a strong organisational platform to underpin future growth.

We continue to enjoy the valuable support of over 12,000 employees who provide masses of energy, enthusiasm and hard work in each of our businesses. I would like to welcome those that have joined us during the year and thank everyone for the important parts they have played during the year just ended.

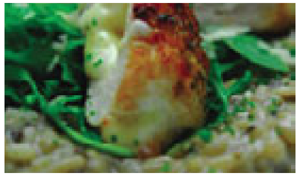
Chris Woodhouse
Chairman

operational review
our food




Gondola's aim is to demonstrate a passion for delicious food through a combination of quality ingredients and innovation in the way these are used.

operational review
our food




During 2007/08, PizzaExpress continued the success of its new 'Romana' style of pizza in its Roman-themed Autumn menu which proved very popular. This was then followed in March with a Spring menu launch using a 'viva tomato' theme, together with the launch of an updated wine menu. Menu development continues for PizzaExpress, with a number of exciting elements which form part of the Autumn menu that has just been launched in October 2008.

As highlighted in our interim statement, we have also been working on a series of significant menu changes within Zizzi as part of a broader process to sharpen the customer proposition. A wide range of new menu items were developed and trialled in H1, leading to a series of incremental changes being introduced to update and refine Zizzi's menu offer during H2 of 2007/08. These changes have been made in parallel with the trialling of some 'look and feel' changes to new restaurants, experimenting with the restaurant environment and the branding of Zizzi. These trials will continue into 2008/09, to underpin the evolution of Zizzi in terms of both its food offer and the setting for its delivery to customers.

2007/08 has also been a significant year for ASK in terms of food development, with a new team established and a series of new dishes created and trialled. Some of the key successes were incorporated in a new Spring menu launched in May. Again, the overall programme of menu development has been implemented alongside some trialling of changes to the restaurant environment.

operational review
our people

2007/08 has seen significant organisational change in terms of how our teams are structured and how they work together. Separate management teams are now focused on developing each of our brands, supported by centralised support functions.

operational review
our people




During the year, PizzaExpress expanded its programme which establishes a benchmark restaurant in each geographical area to support training for surrounding restaurants. In addition, new programmes were created to help restaurant teams to develop their own localised business plan and to provide greater development opportunities for restaurant managers running PizzaExpress' larger, more profitable (and complex) restaurants.

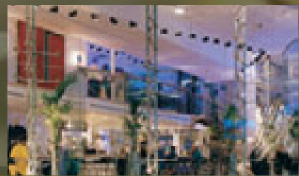
For ASK and Zizzi, 2007/08 has been a significant year of change. Previously, as part of the ASK Group, the operational management of these two brands was combined, with operational teams typically managing both ASK and Zizzi restaurants. Alongside the work being carried out to sharpen the customer proposition and differentiation for these two brands in terms of menu development and restaurant environments, a key decision was taken to separate the operational management of these brands. By focusing all of their energies on only one brand, we believe each team will be better able to support their future development.

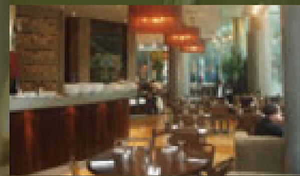
Since implementing this change around the end of H1, the focus has been on the bedding down of these new operational teams and we are already starting to see the benefits of the revised structure and new ways of working.

To support the businesses, major changes were also made to the way in which group functions are organised and managed. H1 saw the announcement of plans to consolidate offices (through the closure of an office in St Albans) and centralise various support functions in a Shared Service Centre to be established in Uxbridge. This process was successfully completed in H2, leading to greater efficiency in the way in which accounting, administrative and IT support is provided across the Group.

To complement this approach, a new office was established in Marylebone to co-locate management, finance, marketing and human resources teams.

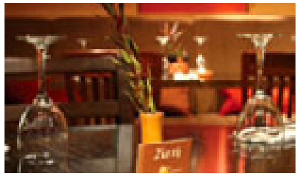
operational review
our locations






Working closely together, our property and operational teams have successfully opened 34 new restaurants this year. This represents a particularly successful year for new openings, compared to an equivalent total for 2006/07 of 21.

operational review
our locations



Our new openings for the year were:

PizzaExpress
Falmouth, Worcester, Teesside Park, Brighton, Derby, Kendal, Stevenage, Peterborough, Northallerton, Monmouth, Barnstable, Devizes, Liverpool (Albert Dock), York, Chester, Clacton, Birmingham (Mailbox), Aberdeen and Cheam.

Milano (PizzaExpress' brand in Ireland)
Dublin (Grand Canal) and Dublin (Upper Baggot Street).

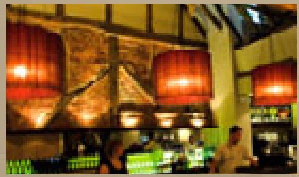
ASK
Broadstairs, Leighton Buzzard and Great Malvern.

Zizzi
Milton Keynes, Sheffield, Kenilworth, Manchester Triangle, Brighton Marina, Surbiton, High Wycombe, Taunton, South Woodford and London (St Katharine Docks).

Following the establishment of our New Development Group, responsible for the creation and growth of our smaller development brands, work on the introduction of a new burger format was completed with the conversion of an existing site to become the Group's first Byron restaurant in London. This was followed with a second site just prior to the end of 2007/08, and a third conversion early in the new financial year, with plans already developed to extend the trial of this new concept through new openings during 2008/09.

The general pattern of trading from the openings in 2007/08 has been strong relative to the approval targets set. This, combined with a strong pipeline of new sites, has increased our expectations for new openings in 2008/09.

operational review
current trading and outlook

Whilst the economic backdrop and general consumer climate have deteriorated during 2007/08, trading for the Group has remained relatively strong.

operational review
current trading and outlook




The Group has continued to enjoy like-for-like sales growth in line with expectations in the early part of 2008/09 and indications are that the strength of our brands positions us well to cope with the more difficult trading conditions.

With eight new restaurants opened to date and a further 16 on-site, we are confident of increasing our total level of openings beyond that achieved in 2007/08.

The outlook for the Group therefore remains very positive.

financial review

Overview

The reported statutory results cover the 52 week period to 29 June 2008 and comparatives for the part year period (following the change of ownership of the business and its ownership structure) from 22 December 2006 to 1 July 2007 (approximately 27 weeks).

Pro forma comparatives for the 52 week period to 1 July 2007, together with pro forma percentage changes, have been provided below, to include trading which precedes this change of ownership and structure. Management believe this pro forma comparison provides a clearer picture of the Group's underlying financial performance in 2007/08.

Summary	**2007/08 52 wks Reported £m**	**2006/07 52 wks Pro forma £m**	*52 wks Change %*
Restaurant sales	453.1	422.9	*7.1%*
Retail and other	8.6	8.5	*0.1%*
Total sales	461.7	431.4	*7.0%*
EBITDA[1]	103.0	96.3	*7.0%*
Margin	22.3%	22.3%	
Depreciation and amortisation	(20.2)	(23.2)	*(12.9)%*
EBITA[2]	82.8	73.1	*13.3%*
Margin	17.9%	17.0%	
Goodwill amortisation[3]	(36.4)	(36.4)	*0.0%*
EBIT[4]	46.4	36.7	*26.4%*
Exceptional items[5]	(1.9)		
Operating profit	44.5		

1 EBITDA is defined as EBITA plus depreciation and amortisation (including impairment charges)
2 EBITA is defined as EBIT plus goodwill amortisation. Goodwill of approximately £728m was established following the acquisition of the business in December 2006 and this is being amortised over 20 years
3 Annualising the part-year goodwill amortisation charge for 2006/07 for comparative purposes
4 EBIT is defined as operating profit excluding exceptional costs
5 Exceptional items for 2007/08 comprised £1.9m of costs primarily relating to a restructuring of operational and support teams and associated office closure, including redundancy payments

financial review

The Group achieved total sales of £461.7m in 2007/08, with growth of 7.0% representing a strong performance given the more challenging economic climate and weaker consumer confidence. The 7.1% increase in restaurant sales reflected growth from the existing restaurants within the Group, combined with the contribution from new openings during the year.

Operating margins were maintained at 22.3% despite considerable cost pressures during the financial year, with food input costs (particularly dairy and meat) rising sharply and a range of other costs increasing above expectations. The Group has worked closely with its supplier base to mitigate some of these increases.

In addition, management has sought to ensure further efficiencies are generated through better leverage of support functions, following the organisational changes described previously, to manage the underlying cost base of the Group.

As a result, the Group increased EBITDA by 7.0% to £103.0m for 2007/08.

Depreciation and amortisation in 2007/08 was significantly lower than the prior year equivalent primarily because the prior year charge included approximately £3.3m of accelerated depreciation to reflect the impairment of assets for a small number of restaurants that were trading below expectations (compared with only £0.6m in 2007/08).

The combination of EBITDA growth, together with a level of depreciation more reflective of the current asset base, resulted in a 13.3% increase in EBITA (ie before goodwill amortisation) to £82.8m. Given a consistent level of goodwill amortisation in 2007/08 compared to prior year, on a pro forma basis, EBIT increased by 26.4% to £46.4m.

Cash flow

The Group continues to be highly cash generative. In 2007/08, net cash flow from operations was £105.1m. From this, £55.5m was used to service the Group's net cash interest and other costs associated with its financing structure, £4.4m was paid in tax, and £42.9m was invested in capital expenditure (offset by £4.9m of asset sale proceeds).

The Group places particular importance on the expansion and maintenance of its high quality restaurant estate. Managing the allocation of capital across the Group's portfolio of brands is a key area of focus, and individual projects are assessed against operational and financial targets to ensure that expenditure is prioritised.

Financing structure

The Group's financing structure, implemented when the Group's business was taken private in December 2006, comprises three main components:

- external bank debt
- shareholder loan notes
- shareholder equity

The external debt is in the form of senior and mezzanine debt which was syndicated to a number of participating financial institutions after the original transaction. The loan notes and equity were provided by the Cinven Funds[1], together with smaller investments by Bank of Scotland and management. Interest on the shareholder loan notes and on a portion of the mezzanine facility rolls up into the principal balance and is not due for payment until the maturity or repayment of the respective loan.

As at 29 June 2008, the Group's net external debt was £567.4m. Including shareholder loans, total net debt was £929.0m. Further details on the Group's borrowings are provided in notes 16 and 18 to the financial statements.

In addition to the external debt facilities, the Group has an undrawn revolving credit facility of £20.0m. The facility agreements also allow for an additional capital investment facility of up to £25.0m to be established within the existing framework – although to date this has not been utilised.

The external bank debt facilities are subject to certain financial and non-financial covenants. The financial covenants include annual limitations on capital expenditure and require the maintenance of certain minimum ratios of EBITDA to interest payable and a maximum ratio of EBITDA to net debt. In addition, there is a requirement that net operating cash flows are not less than the Group's cash cost of servicing the bank debt. All of the covenants were met with adequate headroom during 2007/08.

1 Funds managed and advised by Cinven Limited as detailed in note 25 to the financial statements

corporate social responsibility

Employees

Serving 36 million meals to customers a year, our people truly are our greatest asset and we believe in treating them as such: with respect, looking after their welfare and allowing them the freedom to be themselves and to flourish.

We encourage a work environment that is fair, open and communicative with many benefits for our employees.

Our employees have a performance review at least once a year, which includes consideration of skills development and career prospects. We aim to 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 do not 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.

Safety, quality and nutrition

We serve hand-made food using fresh, high quality ingredients in environments where safety and quality are paramount.

Firstly, 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.

corporate social responsibility

Food hygiene is also key. A dedicated food safety team focuses 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.

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 also work closely with suppliers to develop dishes that reduce salt, sugar and fat content without compromising flavour and customer enjoyment.

Environment

Whilst respecting the individuality of our sites, we are designing energy and water saving features into our restaurants.

We partnered with The Carbon Trust to evaluate our environmental impact with the aim of continuous improvement and are working with existing and new suppliers on initiatives to achieve this.

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.

Supporting our local communities

Our brands are familiar faces and are close to communities throughout the UK.

PizzaExpress' Schools Programme, developed in association with Education Business Partnerships, engaged with over 45,000 primary school children in 2007. This programme gives children an introduction to the workplace, a chance to see the practical application of subjects learnt at school and an experience to build on back in the classroom.

PizzaExpress has continued its long-term support of the 'Venice in Peril' charity, which was set up to help in the restoration of Venice. A 25p contribution from every Veneziana pizza sold goes to this fund, which has raised £1.6m since it was set up in the late 1960s.

In autumn 2007, PizzaExpress partnered with the Daily Telegraph to raise funds for Kids Company, a charity that offers practical, emotional and educational support to inner city children whose lives have been affected by parental neglect, drug-taking and violence. Casilda Grigg, deputy editor of the Weekend Telegraph, and Antonio Romani, head chef at PizzaExpress, created the 'Casilda' pizza. A contribution from sales of this pizza paid for a meal for 800 deprived children at Kids Company on Christmas Day.

ASK and Zizzi also donated vouchers to charities that support babies, children, adults and the elderly, ranging from nationally-known charities such as Crisis to local groups such as the Amersham on the Hill Scout Group.

In February ASK supported 'Kiss It Better', a national appeal by Great Ormond Street Hospital to fund research into the causes and treatment of childhood cancer. Between 11 February and 2 March ASK donated a 'KISS' (£1) for the first 20,000 children's meals ordered and asked customers to add a 'KISS' to their bill. The campaign raised over £73,000.

The Group is also actively supporting Bliss, the UK's leading charity working to support sick and premature babies, their families and the dedicated nurses and doctors who care for them. During August and September 2008, Zizzi supported the charity by donating 50p for every children's menu ordered, whilst PizzaExpress raised funds by donating 25p from every 'La Reine' pizza sold.

Also in support of Bliss, the Group has taken up one of its toughest tests of endurance yet. At the end of September, a team of dedicated individuals from across the Group cycled through the Pyrenees from Biarritz to Banyuls, near Perpignan, in just eight days, climbing an average of 2,000 metres a day. The team included waiters, restaurant managers and senior management from across PizzaExpress, ASK, Zizzi and Byron. They were joined by some of the UK's leading business people and personalities from the world of sport including ex-England rugby players Lawrence Dallaglio and Damian Hopley and one of Britain's leading professional freeskiers, Warren Smith. These fundraising activities raised a total of approximately £350,000 for Bliss.

board of directors

Chris Woodhouse (47)
Chris became non-executive Chairman of the Group in April 2007. He holds an executive role as Finance Director of Debenhams plc. He was previously Deputy Chairman of Halfords Group plc and Commercial Director and Deputy Chief Executive at Homebase Group. He is a former finance director of Birthdays Group Limited and Superdrug Stores plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales and is an Associate of the Association of Corporate Treasurers.

Yagnish Chotai (49)
Yagnish became a non-executive director of the Group in October 2006 and was involved in its subsequent acquisition of Gondola Holdings plc in December 2006. He is a Partner with Cinven Limited, having joined them in 1996. He has been involved in a number of transactions in addition to Gondola, including Partnerships in Care, Fitness First, Unique Pub Company, William Hill, United Biscuits, COMAX, Oxoid and General Healthcare.

Peter Catterall (39)
Peter became a non-executive director of the Group in October 2006 and was involved in its subsequent acquisition of Gondola Holdings plc in December 2006. He is a Partner with Cinven Limited, having joined them in 1997 and has been involved in several transactions in addition to Gondola, including Gala Coral, Amadeus and Frans Bonhomme.

Charles Miller-Jones (27)
Charles joined the Group's board as a non-executive director in July 2007. He is a Principal with Cinven Limited, having joined them in 2005 and is a member of the Consumer sector team. He has been involved in a number of investments including Gondola, Gala Coral and Smurfit Kappa.

Harvey Smyth (40)
Harvey joined PizzaExpress in October 2003 as its Chief Executive Officer, and became Chief Executive Officer of the Gondola business following the acquisition of Gondola Holdings plc by Cinven in December 2006. He was previously Deputy Chief Executive Officer and UK Managing Director of Pret A Manger. Harvey has a degree in biochemistry from Bristol University, and is also a qualified Chartered Accountant.

Nick Carter (41)
Nick was appointed Finance Director of the Group in April 2007. Prior to this he was Finance Director at Halfords Group plc and Birthdays Group Limited and held a number of finance and commercial roles at Superdrug Stores plc and Kingfisher plc. Nick qualified as a Chartered Accountant at KPMG.

directors' report

The directors present their second annual report for Gondola Group Limited ("the Company") and its subsidiaries (together "the Group"), together with their audited financial statements for the 52 week period ended 29 June 2008. The comparative information presented relates to the period from 22 December 2006 to 1 July 2007. The basis of preparation of the accounts is set out in note 1 on page 35.

Results and dividends

The results of the Group for the period are set out on page 30.

The directors are unable to recommend the payment of a final dividend.

Principal activity, business review and future developments

During the period, the Company continued activity as an investment company.

The principal activity of the Group is operating restaurants.

The performance of the Group is measured through the use of three key performance indicators being sales and profitability versus annual budget and the number of open restaurants. A review of the Group's operations and performance during the period and of future developments is included in the Operational Review and the Financial Review, which form part of this report on pages 6 to 16.

Principal business risks and uncertainties

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, a semi-annual Risk Review is presented to the Board.

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 food supplies, labour, lease rentals, utilities and other inputs
- securing of suitable new sites to achieve roll-out plans

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 guidance 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.

(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. During the period ended 29 June 2008, the Group 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 its operations results in a large and diverse customer base 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

The Group manages its exposure to liquidity risk through a naturally low level of debtors, maintaining a diversity of funding sources and the spreading of 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. The Group has entered into an interest rate swap to manage its interest rate risk. Further details of interest rate risk are given in note 18 to the financial statements.

Directors

The directors of the Company during the period and up to the date of signing the accounts were:

N Carter
P Catterall
Y Chotai
C Miller-Jones
H Smyth
C Woodhouse

A brief summary of the experience of each director is provided on page 20.

Charitable and political donations

The Group makes significant contributions to community related initiatives and uses the sale of certain menu items to raise funds for specific causes as described on pages 18 and 19. In addition to these initiatives, the Group made charitable donations in the period of £13,000 (2007: £29,000). No political donations were made in the period.

Creditors

The Group aims to settle invoices within agreed terms, provided the relevant services or goods have been received in accordance with the agreed terms and conditions. The Group's trade creditors at the period end amounted to 43 days of purchases (2007: 53 days).

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 comply with the Companies Act 1985. 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.

Directors' indemnities

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

Provision of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

N Carter
Secretary
24 October 2008

corporate governance report

The Group is committed to high standards of corporate governance appropriate for a large, private company and the Board is accountable to all of the Group's shareholders, including minority shareholdings held by management and employees, for good corporate governance.

The Board

The current Board has been in place since early 2007, following the acquisition of Gondola Holdings plc by the Group in December 2006. 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 non-executive directors who represent Cinven Limited (as representatives of the ultimate parent undertakings, the Cinven Funds) and two executive directors.

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 approval of annual budgets, strategic plans, senior management appointments, dividend policy and capital structure management, major contracts and major capital expenditure. Items delegated to the executive directors include the approval of capital or other expenditure below the limits required for board sign off, disposal of low value assets and approval of minor contracts or less senior appointments.

The Board is scheduled to meet between eight and twelve times each financial year.

The executive responsibility for overseeing the day-to-day management of the Group is delegated to Harvey Smyth, the Chief Executive, together with his executive team.

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

The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda
- Facilitation of the effective contribution of non-executive directors, and ensuring constructive relations between them and the executive directors.

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 annual financial statements.

The Company 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.

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, which includes a review of performance against a range of specific objectives.

Relations with shareholders

The Group is committed to maintaining effective communication with all of its shareholders in order to maintain a clear understanding of its objectives and its performance against those objectives.

Three non-executive directors currently represent the largest shareholders of the Group, the Cinven Funds. The remaining shareholders of the Group are typically senior management and employees of the Group who hold shares through the 'Gondola Investment Plan' which was established following the acquisition of Gondola Holdings plc. Employees receive regular communication about the performance of the Group, as described on page 17.

Remuneration Committee

This committee comprises the Chairman, the Chief Executive and two of the non-executive directors and is chaired by Chris Woodhouse.

The Remuneration Committee is responsible for the following key areas:

- Determining the participation of directors and employees in the Gondola Investment Plan

- Agreeing the framework for the remuneration of the executive directors and other senior executives, and determining the total individual remuneration packages of each person, including pension arrangements

- Determining specific incentives for the executive directors and senior management to encourage enhanced performance by being rewarded in a fair manner for their individual contributions to the success of the Group

- Ensuring that contractual terms on termination and any payments made are fair to the individual and to the Group (and that failure is not rewarded)

- Evaluating the performance of the executive directors against objectives set.

Audit Committee

This committee comprises the Chairman, the Finance Director and two of the non-executive directors and is chaired by Chris Woodhouse. Relevant senior management are invited to attend audit committee meetings as required.

The Audit Committee is responsible for 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.

Key areas for which the committee is responsible include:

- Reviewing the Group's financial statements prior to approval on behalf of the Board and reviewing the external auditors' reports thereon

- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately

- Reviewing internal controls to establish an internal audit plan to monitor the effectiveness of those controls

- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where different approaches are possible

- Assessing the independence and objectivity of the external auditors.

independent auditors' report to the members of Gondola Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Gondola Group Limited for the 52 weeks ended 29 June 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Reconciliation of Movements in Shareholders' Deficit, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also 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 Review and the Financial Review that is cross referenced from the Business Review section of the Directors' Report.

In addition we 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 read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Operational and Financial Reviews, the Directors' Report, the Corporate Governance Report and all of the information listed on the contents page. We consider the implications for our report if we

independent auditors' report to the members of Gondola Group Limited

become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 29 June 2008 and of the group's loss and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick
24 October 2008

consolidated profit and loss account

for the 52 weeks ended 29 June 2008

Continuing operations	Notes	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Turnover	3	**461.7**	228.5
Cost of sales		**(356.8)**	(181.4)
Gross profit		**104.9**	47.1
Administrative expenses (excluding exceptional costs)		**(58.5)**	(26.6)
Operating exceptional costs	5	**(1.9)**	(7.9)
Total administrative expenses		**(60.4)**	(34.5)
Operating profit	4	**44.5**	12.6
(Loss)/profit on disposal of fixed assets		**(0.5)**	1.0
Profit on ordinary activities before interest and taxation		**44.0**	13.6
Net interest payable and similar charges	7	**(96.3)**	(48.6)
Loss on ordinary activities before taxation		**(52.3)**	(35.0)
Taxation on loss on ordinary activities	8	**(4.4)**	1.9
Loss for the financial period	20	**(56.7)**	(33.1)

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial period stated above and their historical cost equivalents.

As permitted by Section 230 of the Companies Act 1985, a profit and loss account for Gondola Group Limited has not been presented in these Financial Statements. For the 52 weeks ended 29 June 2008 the Company made a loss of £0.2m (2007: £0.1m).

consolidated balance sheet

as at 29 June 2008

	Notes	29 June 2008 £m	1 July 2007 £m
Fixed assets			
Intangible assets – goodwill	9	**672.8**	709.2
Tangible assets	10	**240.6**	224.1
		913.4	933.3
Current assets			
Stock	12	**10.5**	9.3
Debtors	13	**25.6**	19.2
Cash at bank and in hand	14	**44.0**	64.2
		80.1	92.7
Creditors: amounts falling due within one year	15	**(92.4)**	(117.9)
Net current liabilities		**(12.3)**	(25.2)
Total assets less current liabilities		**901.1**	908.1
Creditors: amounts falling due after more than one year	16	**(958.2)**	(912.6)
Provisions for liabilities and charges	17	**(24.1)**	(20.6)
Net liabilities		**(81.2)**	(25.1)
Capital and reserves			
Called up share capital	19	**8.0**	8.0
Profit and loss account	20	**(89.2)**	(33.1)
Total shareholders' deficit		**(81.2)**	(25.1)

The financial statements on pages 30 to 64 were approved by the Board of Directors on 24 October 2008.

H Smyth
Director

N Carter
Director

company balance sheet

as at 29 June 2008

	Notes	29 June 2008 £m	1 July 2007 £m
Fixed assets			
Investments	11	**7.9**	7.9
		7.9	7.9
Current assets			
Debtors	13	**0.7**	–
Cash at bank and in hand	14	**0.3**	0.2
		1.0	0.2
Creditors: amounts falling due within one year	15	**(1.2)**	(0.2)
Net current liabilities		**(0.2)**	–
Net assets		**7.7**	7.9
Capital and reserves			
Called up share capital	19	**8.0**	8.0
Profit and loss account	20	**(0.3)**	(0.1)
Total shareholders' funds		**7.7**	7.9

The financial statements on pages 30 to 64 were approved by the Board of Directors on 24 October 2008.

H Smyth
Director

N Carter
Director

consolidated cash flow statement

for the 52 weeks ended 29 June 2008

	Notes	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Net cash inflow from operating activities	21	**105.1**	48.5
Returns on investments and servicing of finance			
Interest received		**2.7**	1.3
Interest paid		**(58.2)**	(10.1)
Issue costs of debt finance		**–**	(22.3)
Net cash outflow from returns on investments and servicing of finance		**(55.5)**	(31.1)
Taxation paid		**(4.4)**	(3.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(42.9)**	(17.9)
Sale of tangible fixed assets		**4.9**	1.6
Net cash outflow from capital expenditure and financial investment		**(38.0)**	(16.3)
Acquisitions and disposals			
Acquisition of Gondola Holdings plc		**–**	(554.7)
Cash acquired on acquisition of Gondola Holdings plc		**–**	27.4
Acquisition of minority interests		**–**	(1.5)
Net cash outflow from acquisitions and disposals		**–**	(528.8)
Net cash inflow/(outflow) before use of liquid resources and financing		**7.2**	(530.9)
Management of liquid resources			
Increase in short term deposits with banks	14	**(7.3)**	(21.7)
Net cash outflow from management of liquid resources		**(7.3)**	(21.7)
Financing			
Issue of share capital	19	**–**	8.0
Transfers from/(to) restricted bank accounts	14	**28.3**	(29.2)
Bank loans received		**–**	610.0
Shareholder loans received		**–**	303.3
Loans repaid		**–**	(355.0)
Issue of loan notes		**–**	29.2
Redemption of loan notes		**(27.4)**	(0.8)
Net cash inflow from financing		**0.9**	565.5
Increase in cash	14, 21 (b), (c)	**0.8**	12.9

consolidated reconciliation of movements in shareholders' deficit

as at 29 June 2008

	29 June 2008 £m	1 July 2007 £m
Loss for the financial period	**(56.7)**	(33.1)
Foreign exchange	**0.6**	–
New share capital subscribed	**–**	8.0
Net decrease in shareholders' deficit	**(56.1)**	(25.1)
Opening shareholders' deficit	**(25.1)**	–
Closing shareholders' deficit	**(81.2)**	(25.1)

consolidated statement of total recognised gains and losses

for the 52 weeks ended 29 June 2008

	29 June 2008 £m	1 July 2007 £m
Loss for the financial period	**(56.7)**	(33.1)
Exchange gains offset in reserves	**0.6**	–
Total recognised losses since last financial period	**(56.1)**	(33.1)

1 Basis of preparation

The principal activity of Gondola Group Limited ("Gondola") and its subsidiaries (the "Group") is operating restaurants.

The consolidated financial information presented is in respect of the underlying businesses of PizzaExpress Limited ("PizzaExpress") and ASK Central Limited ("ASK") together with the Group holding companies described in note 26. The comparative Group and Company financial information presented is for the period from incorporation on 2 October 2006 to 1 July 2007. Gondola acquired PizzaExpress and ASK on 22 December 2006, from which date trading commenced.

2 Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the Companies Act 1985. The most significant accounting policies, which have been applied consistently throughout the period are described below.

Going concern

The directors have prepared the accounts on a going concern basis. Whilst the Group has net current liabilities of £12.3m at 29 June 2008, management have prepared cash flow forecasts for a three year period from the year end date which indicate that the Group will be able to meet its liabilities when they fall due for the foreseeable future. In addition, the Group has a committed revolving credit facility of £20.0m which management do not currently expect to utilise.

Basis of consolidation

The consolidated balance sheets include all the assets and liabilities of all subsidiaries including those acquired during the period. 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.

The Group loss on ordinary activities after taxation in the prior year includes only that proportion of the results arising since the effective date of control to the year end or, in the case of undertakings or interests disposed of, from the beginning of the period to the date of disposal.

All transactions and balances between the Group's businesses have been eliminated in the preparation of the consolidated financial information. All subsidiaries have co-terminous year ends and follow uniform accounting policies.

Turnover

Turnover represents net invoiced sales of food and beverages and royalties from retail sales excluding value added tax. Turnover of restaurant services is recognised when the goods have been provided. Retail turnover is recognised on product delivery. Royalties from retail sales are recognised in turnover when due under the terms of the relevant franchise and retail sales agreements.

2 Accounting policies (continued)

Allocation of costs
Cost of sales includes all direct costs incurred in restaurants. Administrative expenses includes central and area management, administration and head office costs together with goodwill amortisation.

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

Tangible fixed assets
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Costs includes the purchase price of the asset together with incidental expenses incurred. Depreciation is provided at the following annual rates in order to write down to estimated residual values the cost of each asset over its estimated useful economic life on a straight-line basis:

Plant	20% per annum
Fixtures	10% per annum
Motor vehicles	25% per annum
IT equipment	20-33% per annum

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

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

Assets under construction comprise tangible fixed assets acquired for restaurants under construction, including costs directly attributable to bringing the asset into use. Assets are transferred to long leaseholds, short leaseholds and plant, fixtures and motor vehicles when the restaurant opens. No depreciation is provided on assets under construction, as these assets have not been brought into working condition for intended use.

Sales of properties are recognised in the accounts when unconditional contracts are exchanged.

Impairment of fixed assets
The carrying values of fixed assets are reviewed for impairment by the Directors at each balance sheet date and in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account up to the extent that the original loss was recognised.

2 Accounting policies (continued)

Onerous lease provisions
Onerous lease provisions are recognised when the company has a sublet property for which the Group's lease obligation cannot be met in full, or where a restaurant is loss-making for an extended period of time. An estimate is made of the period of time and the extent to which the lease obligations cannot be fulfilled and a provision made accordingly.

Pre-opening costs
Pre-opening costs, which comprise site operating costs, are expensed as incurred.

Exceptional costs
The Group presents a total net figure, on the face of the profit and loss account, for exceptional items. Exceptional items are material items of profit and cost 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.

Stocks
Raw materials and consumables are valued at the lower of cost and net realisable value. Cost is based on the purchase cost on a first-in, first-out basis.

Deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date which are due to transactions or events which have occurred at that date and which will result in an obligation to pay more, or a right to pay less, tax in the future.

Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the deferred tax assets resulting from the underlying timing differences can be recovered.

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

Goodwill
Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the separable net assets acquired. Goodwill on the acquisition of a business is capitalised and amortised over its useful economic life. The useful economic life is a maximum of 20 years.

Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any other time when the directors believe that an impairment may have occurred. Changes in provision for impairment are taken to the profit and loss account.

2 Accounting policies (continued)

Foreign currency transactions
Transactions denominated in foreign currencies are recorded at spot rate at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies held at the balance sheet date are translated at the closing rate. The resulting exchange gain or loss is dealt with in the profit and loss account. The results of foreign subsidiaries are translated at the average rate. The balance sheets of foreign subsidiaries are translated at the closing rate. The resulting exchange differences are dealt with through reserves and are reported in the consolidated statement of total recognised gains and losses.

Operating leases
Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease. The benefit of lease incentives are taken to the profit and loss account on a straight-line basis over the shorter of the lease term or the period until the first rent review. Contributions received from landlords as an incentive to enter into a lease are treated as deferred income within creditors.

Pension costs
Contributions to defined contribution personal pension schemes are charged to the profit and loss account in the year in which they become payable.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are defined as current asset investments, given that they are readily convertible into known amounts of cash without curtailing or disrupting the business. Liquid resources comprise term deposits of less than one year (other than cash).

Restricted cash comprises cash deposits held as collateral against certain secured loan notes. Restricted cash is not treated as cash for the purposes of the cash flow statement.

Debt finance
All borrowings are initially stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on borrowings are charged to the profit and loss account over the term of the borrowing, or over a shorter period where it is more likely than not that the lender will require earlier repayment or where the borrower intends or is required to redeem early.

Rebates receivable from suppliers
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 accounts in the period in which they are earned.

2 Accounting policies (continued)

Financial instruments

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

The derivative instruments used by the Group to manage its interest rate risk are interest rate swaps.

Interest differentials under interest rate swap agreements are recognised in the profit and loss account by adjustment of interest expense over the life of the agreement.

Investments

Investments are held at cost less any provisions for impairment.

Share-based payments

The Group operates an equity-settled, share-based compensation plan, taking the form of ordinary C shares in the Company which may have beneficial terms on exit if certain valuation thresholds are met (see note 19). Employees subscribe for these shares at a value which is determined by the Remuneration Committee, a sub-committee of the Board of Directors. The fair value of the employee services received in exchange for any additional potential uplift in value of the shares on exit, specifically as a result of the valuation thresholds being achieved, is recognised as a cost. The total amount to be charged over the estimated period to exit is determined by reference to the potential uplift in value of the shares on exit, including the likelihood of any such thresholds being met.

3 Turnover

Business sector analysis

The Group has operated in one business sector in the period, being the sale of food and beverages.

Geographical sector analysis

Turnover by destination and by origin from countries other than the United Kingdom and Republic of Ireland in all financial periods was not material.

4 Operating profit

Group operating profit is stated after charging/(crediting):

	Notes	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Shown within cost of sales:			
Employee costs	6	**156.0**	70.7
Depreciation of owned tangible fixed assets	10		
– Plant, fixtures and motor vehicles		**8.3**	4.6
– Short leasehold premises		**10.5**	5.6
Impairment – short leasehold premises	10	**0.6**	–
Operating lease rentals:			
– Hire of plant and machinery		**0.3**	–
– Short leasehold premises		**39.5**	31.1
Rental income		**(1.7)**	(1.0)
Repairs and maintenance		**8.3**	4.6
Shown within administrative expenses:			
Employee costs	6	**14.6**	6.9
Amortisation of goodwill	9	**36.4**	19.0
Depreciation of owned tangible fixed assets	10		
– Plant, fixtures and motor vehicles		**0.7**	0.1
– Short and long leasehold premises		**0.1**	0.1
Operating lease rentals:			
– Short leasehold premises		**0.2**	0.2
Auditors' remuneration:			
– Statutory audit fees and expenses		**0.2**	0.2
– Tax compliance		**0.2**	0.1

5 Operating exceptional costs

	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Shown within operating exceptional costs:		
Exceptional costs		
– Relating to relocation of Group Bakery Facility	**–**	0.9
– Costs incurred in relation to the acquisition of Gondola Holdings plc	**0.1**	5.8
– Relating to management restructure on acquisition of Gondola Holdings plc	**–**	1.2
– Relating to Head Office consolidation	**1.1**	–
– Relating to ASK and Zizzi operational restructure	**0.7**	–
Total operating exceptional costs	**1.9**	7.9

During the period ended 29 June 2008, £0.1m of exceptional professional advisors fees were incurred in relation to the acquisition of Gondola Holdings plc in the prior year.

£1.1m exceptional costs arose from the office consolidation undertaken during the period. These costs related to the closure of the existing ASK and Gondola offices (principally onerous lease provisions), expenses incurred in opening the Group's new office in Marylebone, London and redundancy costs associated with the office relocations.

During the period ended 29 June 2008, the ASK and Zizzi businesses, which had previously been operated together, were divided into two separate operational teams. The redundancy costs and professional advisor fees incurred as a result of this restructure were £0.7m.

6 Employees and Directors

	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
a) Employee costs:		
Wages and salaries	**158.8**	71.4
Social security costs	**11.2**	5.8
Other pension costs	**0.6**	0.4
	170.6	77.6
Disclosed within:		
Cost of sales	**156.0**	70.7
Administrative expenses	**14.6**	6.9
	170.6	77.6
b) Employee numbers (including directors)		
The average number of persons employed by the Group during the period was:	**Number**	Number
Restaurants and distribution	**12,369**	11,740
Administration	**267**	199
	12,636	11,939

The Company has no employees (2007: nil).

Total directors' remuneration in the period was as follows:

	52 weeks ended 29 June 2008 £000	Period from incorporation to 1 July 2007 £000
Aggregate emoluments	**890**	624
Social security costs	**82**	64
	972	688

Pension contributions of £84,710 (2007: £18,750) were paid into individual personal pension plans in relation to two directors.

6 Employees and Directors (continued)

Emoluments in respect of the highest paid director were as follows:

	52 weeks ended 29 June 2008 £000	Period from incorporation to 1 July 2007 £000
Aggregate emoluments	**273**	268
Pension contributions	**38**	19
	311	287

Messrs. Peter Catterall, Yagnish Chotai and Charles Miller-Jones, who represent Cinven Limited, received no remuneration from the Group in respect of their services as directors or in respect of any services to the Group. Cinven Limited was paid fees of £0.3m (2007: £0.1m) in respect of their services (see note 24), which is included in the aggregate emoluments disclosed above.

No director waived any emoluments in the period.

The Group does not operate a defined benefit pension scheme. Directors are responsible for their own pension arrangements and any contributions by the Group are made directly into these individuals' personal pension plans.

7 Net interest payable and similar charges

	Notes	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Interest payable on bank loans and overdrafts			
– Bank loans – Senior Facilities	18	**46.5**	23.4
– Bank loans – Mezzanine Facility	18	**8.5**	4.1
– Bank loans – other		**0.2**	1.3
Interest payable on secured loan notes	18	**0.9**	0.6
Interest payable on shareholder loans	18, 19	**40.0**	18.5
Amortisation of issue costs of bank and shareholder loans	18	**3.5**	1.9
Interest payable and similar charges		**99.6**	49.8
Interest receivable		**(3.3)**	(1.2)
Net interest payable and similar charges		**96.3**	48.6

Interest on the shareholder loans and on a portion of the mezzanine facility rolls up into the principal balance and is not due until the maturity or repayment of the respective loan.

8 Taxation on loss on ordinary activities

	Note	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
United Kingdom corporation taxation		**1.5**	(1.9)
Overseas corporation taxation		**0.5**	0.2
Overprovision in respect of prior years		**(0.4)**	–
Total current tax charge/(credit)		**1.6**	(1.7)
Deferred tax			
Origination and reversal of timing differences		**2.4**	1.0
Effect of change in rate of UK corporation tax		**0.1**	(1.2)
Underprovision in respect of prior years		**0.3**	–
Total deferred tax charge/(credit)	17	**2.8**	(0.2)
Tax charge/(credit) on loss on ordinary activities		**4.4**	(1.9)

The tax charge/(credit) for the period is lower than the standard rate of corporation tax in the UK of 29.5% (2007: 30%). The differences are explained below:

	52 weeks ended 29 June 2008 £m	Period from incorporation to 1 July 2007 £m
Loss on ordinary activities before tax	**(52.3)**	(35.0)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 29.5% (2007: 30%)	**(15.4)**	(10.5)
Effects of:		
Expenses not deductible for tax purposes	**20.5**	10.0
Income not taxable	**(0.2)**	–
Effect of overseas tax at lower rate	**(0.5)**	(0.2)
Accelerated capital allowances	**(2.4)**	(1.0)
Prior period adjustments	**(0.4)**	
Total current tax	**1.6**	(1.7)

9 Intangible assets – goodwill

	29 June 2008 £m	1 July 2007 £m
Cost:		
At 2 July 2007/on incorporation	**728.2**	–
Addition on acquisition of Gondola Holdings plc	**–**	727.5
Addition on acquisition of minority interest in PizzaExpress Limited	**–**	0.7
Closing balance	**728.2**	728.2
Amortisation:		
At 2 July 2007/on incorporation	**19.0**	–
Charge for the period	**36.4**	19.0
Closing balance	**55.4**	19.0
Net book value:		
Opening balance	**709.2**	–
Closing balance	**672.8**	709.2

Goodwill is being amortised over 20 years. The directors believe that this is appropriate based on a review of the expected future cash flows of the Group, that the PizzaExpress and ASK businesses are long standing operations and that the Group continues to have growth opportunities in the future.

10 Tangible fixed assets

	Assets under construction £m	Freehold properties £m	Short leaseholds £m	Plant, fixtures and motor vehicles £m	Total £m
Cost					
At 2 July 2007	5.6	0.1	193.8	34.5	234.0
Foreign exchange movement	–	–	0.3	0.1	0.4
Additions	19.8	–	12.2	7.7	39.7
Transfers	(17.4)	–	12.6	4.8	–
Disposals	(1.6)	–	(5.5)	(1.4)	(8.5)
At 29 June 2008	**6.4**	**0.1**	**213.4**	**45.7**	**265.6**
Accumulated depreciation					
At 2 July 2007	–	–	5.7	4.2	9.9
Charge for the period	–	–	10.6	9.0	19.6
Impairment charge	–	–	0.6	–	0.6
Disposals	–	–	(3.9)	(1.2)	(5.1)
At 29 June 2008	**–**	**–**	**13.0**	**12.0**	**25.0**
Net book value					
At 2 July 2007	5.6	0.1	188.1	30.3	224.1
At 29 June 2008	**6.4**	**0.1**	**200.4**	**33.7**	**240.6**

Capital expenditure contracted but not provided as at 29 June 2008 was £nil (2007: £1.3m), relating to new restaurants.

Company
The Company has no fixed assets.

11 Investments

Company

	Subsidiaries £m
Cost and Net Book Value	
At 2 July 2007	7.9
Acquisitions	–
At 29 June 2008	**7.9**

The directors believe the carrying value of the investment is supported by the underlying assets.

12 Stock

	Group	
	29 June 2008 £m	1 July 2007 £m
Raw materials and consumables	**10.5**	9.3

There is no material difference between the replacement cost and book value of stock.

13 Debtors

	Group		Company	
	29 June 2008 £m	1 July 2007 £m	**29 June 2008 £m**	1 July 2007 £m
Trade debtors	**0.5**	3.0	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**0.5**	–
Other debtors	**9.0**	4.6	**0.2**	–
Corporation tax	**1.0**	–	**–**	–
Prepayments and accrued income	**15.1**	11.6	**–**	–
	25.6	19.2	**0.7**	–

All of the debtors stated above are due within one year.

14 Cash at bank and in hand

	Group		Company	
	29 June 2008	1 July 2007	**29 June 2008**	1 July 2007
	£m	£m	**£m**	£m
Cash	**13.7**	12.9	**0.3**	0.2
Restricted cash	**1.3**	29.6	**–**	–
Short term deposits with bank	**29.0**	21.7	**–**	–
	44.0	64.2	**0.3**	0.2

The restricted cash relates to amounts held on deposit as security for secured loan notes as follows:

- £nil (2007: £0.4m) on deposit with The Royal Bank of Scotland as security for Riposte Limited secured loan notes; and
- £1.3m (2007: £29.2m) on deposit with The Bank of Scotland as security for Gondola Acquisitions Limited secured loan notes (see note 15).

The restricted cash and the short term deposits with banks do not meet the definition of cash as defined in FRS 1.

15 Creditors: amounts falling due within one year

	Group		Company	
	29 June 2008	1 July 2007	**29 June 2008**	1 July 2007
	£m	£m	**£m**	£m
Loan notes – secured	**1.3**	29.6	**–**	–
Amounts owing to subsidiary undertakings	**–**	–	**1.2**	0.2
Trade creditors	**23.4**	23.9	**–**	–
Other creditors	**11.5**	6.1	**–**	–
Corporation tax	**–**	2.6	**–**	–
Other taxation and social security	**16.1**	11.2	**–**	–
Accruals and deferred income	**40.1**	44.5	**–**	–
	92.4	117.9	**1.2**	0.2

Amounts owing to subsidiary undertakings are interest-free and are repayable on demand.

15 Creditors: amounts falling due within one year (continued)

Secured Loan Notes

Gondola Acquisitions Limited
On 22 December 2006 Gondola Acquisitions Limited (formerly Paternoster Acquisitions Limited) issued £28.4m of £1 par value secured loan notes as part of the consideration paid to shareholders on the acquisition of Gondola Holdings plc.

During the year, £27.1m loan notes were redeemed and interest of £0.9m accrued at 0.5% below LIBOR.

The payment of principal on the loan notes is guaranteed by Bank of Scotland plc and monies, including interest earned, totalling £1.3m (2007: £29.2m) were held on deposit which is included in cash at bank and in hand in the balance sheet as at 29 June 2008.

The loan notes are redeemable at par at the holder's option on any interest payment date, which is set at 31 December and 30 June in any year. Unless previously redeemed, the loan notes will be redeemed by Gondola Acquisitions Limited on 31 December 2010.

There were no costs associated with the issue of these loan notes.

Riposte Limited
On 6 May 2004 Riposte Limited, a subsidiary of Gondola Holdings plc, issued £5.6m of £1 par value secured loan notes as part of the consideration paid to shareholders on the ASK acquisition.

As at 29 June 2008, all of these loan notes had been redeemed. As at 1 July 2007, £0.4m were unredeemed.

The payment of principal on the loan notes in the prior year was guaranteed by The Royal Bank of Scotland plc and monies totalling £0.4m were held on deposit which was included in cash at bank and in hand in the balance sheet as at 1 July 2007. As at 29 June 2008 this balance was £nil.

These loan notes bore interest at a rate of 0.5% below LIBOR for six-month sterling deposits.

There were no costs associated with the issue of these loan notes.

16 Creditors: amounts falling due after more than one year

	Notes	Group 29 June 2008 £m	Group 1 July 2007 £m	Company 29 June 2008 £m	Company 1 July 2007 £m
Bank loans – Senior Facilities	18	**537.2**	534.4	**–**	–
Bank loans – Mezzanine Facilities	18	**62.0**	59.4	**–**	–
Unsecured shareholder Loan Notes		**359.0**	318.8	**–**	–
		958.2	912.6	**–**	–

Senior Debt

On 22 December 2006 the Group entered into borrowing arrangements to finance the purchase of Gondola Holdings plc.

The loans were syndicated, with The Bank of Scotland plc as lead agent and carry interest at varying rates above LIBOR, interest being payable in arrears at time periods of one, three or six months as agreed in advance.

Of the £550.0m senior debt, £525.0m is repayable in full in December 2012, carrying interest at a weighted average rate of 2.625% above LIBOR. The remaining £25.0m is repayable in full in June 2013, carrying interest at 4.25% above LIBOR.

The initial issue costs of the senior debt totalled £17.1m, which are being amortised over the period from drawdown of the loan to the maturity dates. At 29 June 2008, the unamortised cost was £12.8m (2007: £15.6m).

The senior debt is secured by way of floating charges over the assets of certain operating companies of the Group, details of which are given in note 23.

Mezzanine Debt

On 22 December 2006 the Group entered into a Mezzanine Facility agreement with The Bank of Scotland plc to borrow £60.0m. Interest accrues at 7.75% over LIBOR.

Interest accruing at 3.75% is payable on maturity. The agreement deems that this interest is capitalised and becomes part of the principal outstanding at the end of the interest periods applying to the cash interest payments. The remaining interest, being 4.0% over LIBOR is payable in arrears over periods of one, three or six months at the option of the Group. The maturity date of the loan is December 2013.

Interest capitalised into the principal of the loan at 29 June 2008 was £3.5m (2007: £1.1m).

The Mezzanine debt is secured by way of floating charges over the assets of certain operating companies of the Group, details of which are given in note 23.

16 Creditors: amounts falling due after more than one year (continued)

The initial issue costs of the mezzanine debt totalled £1.9m, which are being amortised over the period from drawdown of the loan to the maturity dates. At 29 June 2008, the unamortised cost was £1.5m (2007: £1.7m).

Unsecured Shareholder Loan Notes

Gondola Finance 1 Limited, a subsidiary of the Company has in issue 296,461,166 £1 A loan notes, 6,593,341 £1 B loan notes and 520,648 £1 C loan notes at cost. The C loan notes are held by the Company. During the year 163,877 B loan notes and 11,497 C loan notes were issued.

The maturity date of the loan notes is December 2014. The loan notes accrue interest at a compound rate of 12.5% per annum. Interest capitalised into the principal of the loan notes and accrued interest at 29 June 2008 totalled £58.5m (2007: £18.5m).

The initial issue costs of the Shareholder Loan notes totalled £3.3m, which are being amortised over the period from drawdown of the loan to the maturity dates. At 29 June 2008, the unamortised cost was £2.6m (2007: £3.1m).

17 Provisions for liabilities and charges

	Deferred taxation £m	Onerous leases £m	Total £m
At July 2007	18.9	1.7	**20.6**
Movement in period	2.8	0.7	**3.5**
At 29 June 2008	**21.7**	**2.4**	**24.1**

The onerous lease provision represents operating leases on properties no longer in use, until the end of their leases or until the Directors estimate the properties can be sublet. It has been discounted at 5% per annum.

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

As at 29 June 2008, the Group has unrecognised deferred tax assets of £1.7m (2007: £0.7m) arising from brought forward tax losses. The directors believe that it is more likely than not that insufficient suitable profits will arise in future years to utilise these assets.

18 Financial instruments

Policy
The Group does not use complex derivative financial instruments.

The Group has one small investment in a foreign currency denominated overseas operation and, as a result, the Group's balance sheet can be affected by movements in this countries' exchange rates. These currency exposures are not material as at the date of this report. Currency exposures are reviewed regularly.

The Group had a small amount of purchases of certain goods from European suppliers during the period ended 29 June 2008 which do not exceed income received in Euros and hence there is minimal unhedged Euro exposure. The ongoing exposure to Euro purchases is minimal, however the Group's policy will continue to be to hedge any significant currency exposure.

The Group has bank borrowings at variable rates. The Group aims to minimise the effect of interest rate fluctuation, however the Group does not have a definitive stance on the balance between fixed and floating rate debt. As set out below, approximately 79.5% (September 2007: 76.5%) of the financial instruments carried interest at a fixed rate as at 29 June 2008.

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 profile of the Group's financial liabilities, after taking account of the interest rate swap contract used to manage the interest and currency profile, was as follows:

	Group		**Company**	
Sterling – Borrowings	**29 June 2008 £m**	1 July 2007 £m	**29 June 2008 £m**	1 July 2007 £m
Fixed rate	**776.6**	736.9	**–**	–
Floating rate	**198.5**	225.7	**–**	–
	975.1	962.6	**–**	–

All the Group'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 £415.0m of sterling borrowings in the above table as fixed rate.

18 Financial instruments (continued)

Interest rate risk of financial assets

	Group		Company	
Sterling – cash at bank and in hand	**29 June 2008 £m**	1 July 2007 £m	**29 June 2008 £m**	1 July 2007 £m
Fixed rate	**14.9**	7.5	**–**	–
Fixed rate – restricted cash	**1.3**	29.6	**–**	–
Floating rate	**14.1**	14.2	**–**	–
No interest	**13.7**	12.9	**0.3**	0.2
	44.0	64.2	**0.3**	0.2

The Group has no financial assets, excluding short-term debtors, other than sterling cash deposits, restricted cash deposits and cash in hand amounting to £44.0m (2007: £64.2m) which are part of the financing arrangements of the Group. The fixed rate cash deposits in sterling are placed with banks on a three day rolling basis and earn interest at 5.45% (2007: 5.5%). 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. The restricted cash deposits comprise £nil (2007: £0.4m) on six-month deposit at an interest rate of 5.18% and £1.3m (2007: £29.2m) on six-month deposit at an interest rate of 6.17% (2007: 6.13%).

Currency exposures

At 29 June 2008 the Group had Euro denominated current assets, that were not denominated in Sterling, being the functional currency of the relevant Group company of £0.8m (2007: liabilities of £0.5m). Other than these 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, as at 29 June 2008.

Borrowing facilities

The Group had an undrawn committed revolving facility of £20.0m at 29 June 2008 and at 1 July 2007 in respect of which all conditions precedent had been met. The facility is tied to the Senior banking facilities which are due to expire in 2012. The facility, if utilised, would carry interest at LIBOR plus 2.25%. The unused facility incurs commitment fees of 0.75%.

18 Financial instruments (continued)

Maturity of financial liabilities

The Senior Facilities of £550.0m (2007: £550.0m), the Mezzanine Facility of £63.5m (2007: £61.1m) and the Shareholder Loan notes of £361.6m (2007: £321.9m) are all due in five years or more. Further details of their maturity dates are given in note 16.

The secured loan notes of £1.3m (2007: £29.6m) are due in one year or less. Further details of their maturity dates are given in note 15.

The Company has no borrowings.

Hedges

The Group's policy is to hedge a significant portion of interest rate risk using interest swaps. At 9 February 2007 the Group had committed to an interest rate swap to commence from 26 September 2007. This swap fixes the interest rate for £415.0m of the senior debt at a rate of 5.742% until September 2008. The swap matures in March 2011.

As at 29 June 2008, the fair value of the interest rate swap was £3.3m (2007: £7.6m), which is an unrecognised gain at period end.

In addition, the Group has committed to a basis swap for the total senior debt of £550.0m which commenced on 5 March 2008 and matures on 5 March 2009. The basis swap hedges short term LIBOR rates and fixes the floating interest rate at a longer term rate. As at 29 June 2008, the fair value of the basis swap was £7.6m, which is an unrecognised loss at period end.

The Company has no unrecognised gains or losses.

19 Called up share capital

Gondola Group Limited	29 June 2008 £m	1 July 2007 £m
Authorised		
Equity		
13,695,412 ordinary A shares of £1 each	**13.7**	13.7
304,588 ordinary B shares of £1 each	**0.3**	0.3
2,000,000 ordinary C shares of £1 each	**2.0**	2.0
	16.0	16.0
Allotted, issued and fully paid		
Equity		
6,847,706 (2007: 6,847,706) ordinary A shares of £1 each	**6.8**	6.8
152,294 (2007: 148,781) ordinary B shares of £1 each	**0.2**	0.2
978,769 (2007: 968,160) ordinary C shares of £1 each	**1.0**	1.0
	8.0	8.0

- Ordinary A shares carry the sole voting rights and they carry the right to receive notice of meetings and rights to appoint directors. Ordinary B and C shares and Deferred Shares (see below) carry none of these rights.

- On sale, winding up or initial public offering (“IPO”), if certain valuation thresholds are met the Ordinary A and B shares convert into Deferred Shares at rates defined by the articles of association. As Deferred Shares are not entitled to participate in distributions below £1bn (as outlined below), Ordinary C shares have greater participation rights in the event of such conversion.

- For distributions and on winding up, the articles of association allow for the income and assets to be allocated equally between Ordinary A, B and C shares, to the extent that the surplus assets after all liabilities have been settled amount to £1bn. Distributions over and above this amount are then allocated equally between Ordinary A, B, C and Deferred shares.

19 Called up share capital (continued)

The following share capital was issued during the period:

- On 5 July 2007, 380 B shares and 3,187 C shares were issued at par. The equity subscription was settled by means of a redemption of loan notes held in the Company's subsidiary, Gondola Acquisitions Limited (see note 15).
- On 21 August 2007, 169 B shares and 2,475 C shares were issued at par. The equity subscription was settled by means of a redemption of loan notes held in the Company's subsidiary, Gondola Acquisitions Limited (see note 15).
- On 11 September 2007, 339 B shares and 4,947 C shares were issued at par. The equity subscription was settled by means of a redemption of loan notes held in the Company's subsidiary, Gondola Acquisitions Limited (see note 15).
- On 24 September 2007, 2,625 B shares were issued at par to the Employee Benefit Trust. The equity subscription was settled by means of an increase in the loan to the Employee Benefit Trust.

20 Profit and loss

Group	Profit and loss account £m
At 2 July 2007	**(33.1)**
Loss for the financial period	(56.7)
Foreign exchange	0.6
At 29 June 2008	**(89.2)**

Company	Profit and loss account £m
At 2 July 2007	**(0.1)**
Loss for the financial period	(0.2)
At 29 June 2008	**(0.3)**

21 Notes to cash flow statement

a) Reconciliation of operating profit to operating cash flows

	52 weeks ended 29 June 2008 £m	Period ended 1 July 2007 £m
Group operating profit	**44.5**	12.6
Depreciation and impairment of tangible fixed assets	**20.2**	10.4
Amortisation of goodwill	**36.4**	19.0
(Increase)/decrease in stocks	**(1.2)**	0.7
(Increase)/decrease in debtors	**(5.4)**	5.0
Increase in creditors	**10.6**	0.8
Net cash inflow from operating activities	**105.1**	48.5

b) Reconciliation of net cash flow to movement in net debt

	Notes	52 weeks ended 29 June 2008 £m	Period ended 1 July 2007 £m
Increase in cash	14	**0.8**	12.9
Cash inflow from movement in debt – Loan notes		**(28.3)**	(29.2)
Cash inflow from movement in debt – Bank debt and other borrowings		**–**	(558.3)
Cash outflow from movement in restricted cash		**28.3**	29.2
Cash outflow from movement in short term deposit at bank	14	**7.3**	21.7
Net debt acquired		**–**	(355.0)
Bank fees		**–**	22.3
Other non cash changes		**(41.2)**	(39.5)
Change in net debt resulting from cash flows		**(33.1)**	(895.9)
Net debt at beginning of period		**(895.9)**	–
Net debt at end of period		**(929.0)**	(895.9)

21 Notes to cash flow statement (continued)

c) Analysis of changes in net debt

	Cash at bank and in hand £m	Debt due within one year – Loan notes £m	Bank debt and other borrowings £m	Cash on short term deposit £m	Restricted cash £m	Total £m
At 2 July 2007	12.9	(29.6)	(930.5)	21.7	29.6	(895.9)
Acquisition	–	–	–	–	–	–
Cash flow	0.8	28.3	–	7.3	(28.3)	8.1
Non cash changes	–	–	(41.2)	–	–	(41.2)
At 29 June 2008	**13.7**	**(1.3)**	**(971.7)**	**29.0**	**1.3**	**(929.0)**

The figures for restricted cash and cash on short term deposit are included in the figure for cash on the balance sheet.

22 Operating lease commitments

The Group has annual commitments under non-cancellable operating leases which expire as follows:

	29 June 2008 £m	1 July 2007 £m
Land and buildings		
Within one year	**0.9**	0.4
In the second to fifth years inclusive	**1.9**	2.7
Over five years	**39.1**	36.5
	41.9	39.6
Other		
Within one year	**0.1**	0.1
In the second to fifth years inclusive	**0.2**	0.2
	0.3	0.3

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 profit and loss account are different to the financial commitment at the year-end.

23 Contingent liabilities

On 22 December 2006, certain of the Company's subsidiaries (together the "Senior and Mezzanine Guarantors") became guarantors to a Senior Credit Facilities Agreement and a Mezzanine Facility Agreement (together the "Agreements") between Gondola Acquisitions Limited, Gondola Finance 2 Limited and The Governor and Company of the Bank of Scotland.

The amounts outstanding at the balance sheet dates for these loans were £561.1m (2007: £565.0m) under the Senior Facilities and £65.9m (2007: £63.4m) under the Mezzanine facility, including accrued interest.

Each Senior and Mezzanine Guarantor irrevocably and unconditionally jointly and severally:

- Guarantees to each finance party the punctual performance of each borrower, guarantor and charger (each an obligor) of all such obligor's obligations under the Agreements;

- Undertakes with each finance party that whenever an obligor does not pay any amount when due under or in connection with any Senior Finance Document, that the guarantor shall immediately on demand pay that amount as if it was the principal obligor; and

- Indemnifies each finance party immediately on demand against any cost, loss or liability suffered by that finance party as a result of the guarantee being unenforceable, invalid or illegal.

The same companies have also provided security for all indebtedness, liabilities and obligations of any member of the Group under the Agreements. The security comprises floating charges over all assets and undertakings of the Senior and Mezzanine Guarantors.

24 Related party transactions

No separate disclosure has been made of transactions and balances between companies in the Group that have been eliminated in the preparation of these financial reports, as is permitted by FRS 8 "Related Party transactions". All other transactions and balances with related parties of the Group have been detailed below.

Transactions with Cinven

In the prior year a fee of £8.0m was paid to Cinven Limited, the ultimate controlling party of the Group (see note 25), in respect of equity and bank and shareholder loan arrangement fees in relation to the Gondola Holdings plc acquisition. There was no amount outstanding as at the balance sheet date.

Expenses totalling £0.3m (2007: £0.1m) have been reimbursed to Cinven Limited in respect of services provided to the Group (see note 6).

Gondola Holdings Partnership Plan loans to and from directors

Under the terms of the Gondola Holdings Partnership Plan scheme, loans were granted to participants to purchase C ordinary shares in Gondola Holdings Limited. These loans bear interest at 5% and are repayable on demand. The following loans were owed by directors and were outstanding as at 29 June 2008:

	29 June 2008 £	1 July 2007 £
Harvey Smyth	**304,018**	290,877

Gondola Acquisitions Limited A Loan Notes

On acquisition by Gondola Acquisitions Limited, shareholders of Gondola Holdings plc were able to take part or all consideration in the form of Gondola Acquisitions Limited A Loan notes.

Loan notes were redeemable at six month intervals from 31 December 2007 to 31 December 2010 and those held by directors were redeemed in full during the year. They earned interest at 0.5% below LIBOR.

Loan Notes held by directors were:

	29 June 2008 £	1 July 2007 £
Harvey Smyth	**–**	3,778,885

24 Related party transactions (continued)

Gondola Finance 1 Limited A Loan Notes

On acquisition of Gondola Holdings plc, the Group introduced the "Gondola Investment Plan" for eligible employees and directors, in addition to the principal investment made by and on behalf of the Cinven Funds. Shareholders and directors purchased Gondola Finance 1 A Loan notes at cost. As detailed in note 16, interest accrues at 12.5% and is capitalised into the principal on an annual basis on 3 January each year. The holdings of related parties at cost were:

	29 June 2008 £	1 July 2007 £
CB Luxembourg V S.a.r.l., a company owned by the Cinven Funds	**276,912,699**	276,912,699

Y Chotai, P Catterall and C Miller-Jones, directors of the Company, have a beneficial interest in CB Luxembourg V S.a.r.l., such that their indirect interests in Gondola Finance 1 A Loan notes at cost are as follows:

	29 June 2008 £	1 July 2007 £
Y Chotai	**136,320**	135,979
P Catterall	**102,240**	101,975
C Miller-Jones	**1,200**	1,203

Gondola Finance 1 Limited B Loan Notes

On acquisition of Gondola Holdings plc, the Group introduced the "Gondola Investment Plan" for eligible employees and directors, in addition to the principal investment made by and on behalf of the Cinven Funds. Shareholders and directors purchased Gondola Finance 1 B Loan notes at cost. As detailed in note 16, interest accrues at 12.5% and is capitalised into the principal on an annual basis on 3 January each year. The holdings of related parties at cost were:

	29 June 2008 £	1 July 2007 £
The Cinven Funds	**1,466,135**	1,466,135
Harvey Smyth	**2,658,591**	2,658,591
Chris Woodhouse	**166,162**	166,162
Nick Carter	**676,211**	676,211

24 Related party transactions (continued)

Y Chotai, P Catterall and C Miller-Jones, directors of the Company, have a beneficial interest in Fourth Cinven Co-Investment Partnership, one of the Cinven Funds, such that their indirect interests in Gondola Finance 1 B Loan notes at cost are as follows:

	29 June 2008 **£**	1 July 2007 £
Y Chotai	**627**	723
P Catterall	**470**	543
C Miller-Jones	**6**	6

25 Ultimate parent undertakings

At 29 June 2008 the Group's immediate and ultimate parent undertakings were Fourth Cinven Fund (No.1) LP, Fourth Cinven Fund (No.2) LP, Fourth Cinven Fund (No.3 – VCOC) LP, Fourth Cinven Fund (No.4) LP, Fourth Cinven Fund (UBTI) LP, Fourth Cinven Fund Co-Investment Partnership, Fourth Cinven (MACIF) Partnership and Fourth Cinven Fund FCPR (together the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales.

Accordingly, the directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and advisor to the Cinven Funds.

26 Principal subsidiary undertakings

The principal subsidiary undertakings of the Group for the 52 weeks ended 29 June 2008 were as follows:

	Principal activity	Country of incorporation	Proportion of ordinary voting shares held and interest in allotted capital
PizzaExpress Limited	Holding Company	UK	100%
PizzaExpress (Restaurants) Limited	Restaurants	UK	100%
Bookcash Trading Limited	Restaurants	UK	100%
PizzaExpress (Wholesale) Limited	Distribution	UK	100%
Agenbite Limited	Restaurants	Ireland	100%
PizzaExpress Merchandising Limited	Branded Sales	UK	100%
PizzaExpress (Jersey) Limited	Restaurants	Jersey	100%
Al Rollo Limited	Restaurants	UK	100%
ASK Central Limited	Holding Company	UK	100%
ASK Restaurants Limited	Restaurants	UK	100%
Gondola Finance 1 Limited	Holding Company	UK	100%
Gondola Finance 2 Limited	Holding Company	UK	100%
Gondola Acquisitions Limited	Holding Company	UK	100%
Gondola Holdings Limited	Holding Company	UK	100%
Gondola Investments Limited	Holding Company	UK	100%
Gondola Finance Limited	Holding Company	UK	100%
Riposte Limited	Holding Company	UK	100%

corporate directory

Directors	N Carter P Catterall Y Chotai C Miller-Jones H Smyth C Woodhouse
Secretary	N Carter
Registered Office	5th Floor 2 Balcombe Street London NW1 6NW
Company Number	5953163
Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors First Point, Buckingham Gate, Gatwick RH6 0PP

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