Annual report 2010

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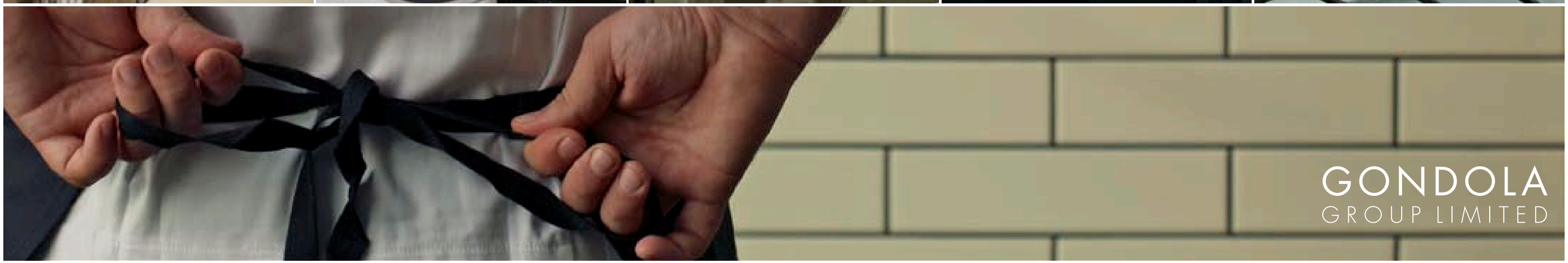
Outstanding brands



GONDOLA
GROUP LIMITED


PIZZA
EXPRESS


Zizzi
Ristorante
LONDON


ASK
ITALIAN


BYRON


KETTNER'S

Financial highlights

Restaurant sales
+7.0%
£533.9m

Total sales
+7.0%
£545.0m

EBITDA
+6.5%
£112.4m

Net operating cash flow
+15.1%
£117.3m

Operational highlights

28 new restaurants opened, increasing the national presence of our key brands

28

Continued momentum to accelerate our estate growth with an ambition to open more than 40 new restaurants in 2010/11

40

BYRON established as an emerging business in its own right, with nine restaurants at the year end and a clear plan to continue its expansion

9

Further advances in developing industry-leading customer relationship management techniques and increasingly sophisticated marketing capabilities

CRM

Trading history

Total sales £m

8.4% compound annual growth in Sales in the last 4 four years[1]

2009/10	**545**
2008/09	509
2007/08	462
2006/07	431
2005/06	395

EBITDA £m

5.6% compound annual growth in EBITDA in the last four years[1,2]

2009/10	**112**
2008/09	106
2007/08	103
2006/07	96
2005/06	91

1 References to 2005/06 and 2006/07 results or percentage changes derived from them are pro forma as these figures include trading which precedes the change of ownership of the business and its structure on 22 December 2006. In addition, 2005/06 results have been adjusted pro rata to a 52 week equivalent from a 53 week trading period.

2 EBITDA is defined as detailed on page 24.

The Gondola Group is the market leader in the UK casual dining sector, operating PizzaExpress, Zizzi and ASK, together with the smaller brands of Milano (PizzaExpress' brand in Ireland), BYRON and Kettner's. The Group employs approximately 14,000 people, serving almost 42 million meals a year in over 600 restaurants.

Gondola's restaurants are positioned to offer a great eating out experience which provides value for money, with typical spend per head (including value added tax) ranging from £13 to £17. Gondola's distinct brands have broad customer appeal and lend themselves to different occasions. Its estate of restaurants trade successfully in a variety of location types, from high street and local neighbourhoods, to shopping centres and retail and leisure parks.

PizzaExpress

With its roots in Soho and jazz, this iconic brand was founded by a passionate foodie way back in 1965, and has been pioneering casual dining on the high street ever since

+5.9%
Restaurant sales

376
Restaurants

+11
New this year

£13
Average spend per head

9,000
Employees

Zizzi

An Italian restaurant with strong personality, often a place for special occasions, and in the process of a transformation to an exciting new brand identity

+9.4%
Restaurant sales

109
Restaurants

+8
New this year

£17
Average spend per head

2,500
Employees

ASK

Established in 1993 as the first Italian restaurant brand in the UK, ASK offers customers a local, informal experience with a broad Italian menu

+5.3%
Restaurant sales

123
Restaurants

+5
New this year

£17
Average spend per head

2,500
Employees

BYRON

The emerging brand that is fanatical about its simple, superb quality hamburgers, 'the way they should be'

+60.7%
Restaurant sales

9
Restaurants

+4
New this year

£16
Average spend per head

300
Employees

Kettner's

Iconic Soho champagne bar and restaurant

+11.9%*
Restaurant sales

£33
Average spend per head (restaurant)

* excluding prior year closure

"Another excellent year of growth, all the more pleasing given the difficult economic backdrop"

Demonstrating the strength of our brands

The performance of the business this year has underlined the strength of our brands. The business has achieved strong growth in sales and profits despite continued weakness in the broader economy and resulting fragile consumer demand. To achieve 6.5% growth in EBITDA against this backdrop is, I believe, a very creditable achievement.

One of the key factors behind our success in recent years has been our significant investment in developing increasingly sophisticated marketing approaches. Prior to the recession, the UK restaurant industry had relatively limited direct knowledge of, and engagement with, its customers when compared to other retail and leisure sectors. In our businesses, although our staff interacted with customers every day, we did so on a more local and somewhat reactive basis.

In order to provide customers with compelling reasons to continue to eat out in our restaurants specifically, we have pioneered the development of promotional and partnership campaigns linked to our growing databases of customers who want to engage with our brands, using digital and social media as well as other forms of external communications. This has allowed us to generate a much stronger interaction with our customers and a deeper understanding of the way in which they use our restaurants.

Great food is naturally at the heart of everything we do and so throughout the year we have continued to innovate with food development across all of our brands. At the same time, we have maintained our focus on service standards, whilst on-going work to evolve our restaurant designs will ensure that the brands all remain fresh and relevant to customers.

Combining these elements, we believe we have taken market share during a difficult trading period.

At a time when many in the industry have scaled back their opening programmes, we have also continued to invest in new restaurants across all of our brands. The performance of the 28 restaurants opened this year has exceeded our internal targets and we intend to maintain our momentum, with even more ambitious plans for the number of new openings in the coming year. As our restaurants succeed in a variety of locations, we have the flexibility to seek opportunities for our brands in a wide range of places and we are targeting over 40 new openings in 2010/11.

As well as having achieved strong growth across our more established brands, this year has also seen the emergence of BYRON, our 'proper hamburgers' business. BYRON has now started to achieve critical mass and has an exciting future ahead.

We remain cautious about the outlook for consumer demand, in particular given the upcoming impacts of the public sector spending review, VAT increase and broader economic headwinds. That said, our brands continue to perform extremely well, our pipeline of new sites is strong and by maintaining our focus on providing customers with value for money, we remain confident of further growth in the coming year.

To achieve our ambitions, we will rely on the support of our employees and I would like to thank them for their contribution to this year's success. They are fundamental to delivering a great dining experience to our customers every day of the year. They bring our brands to life.

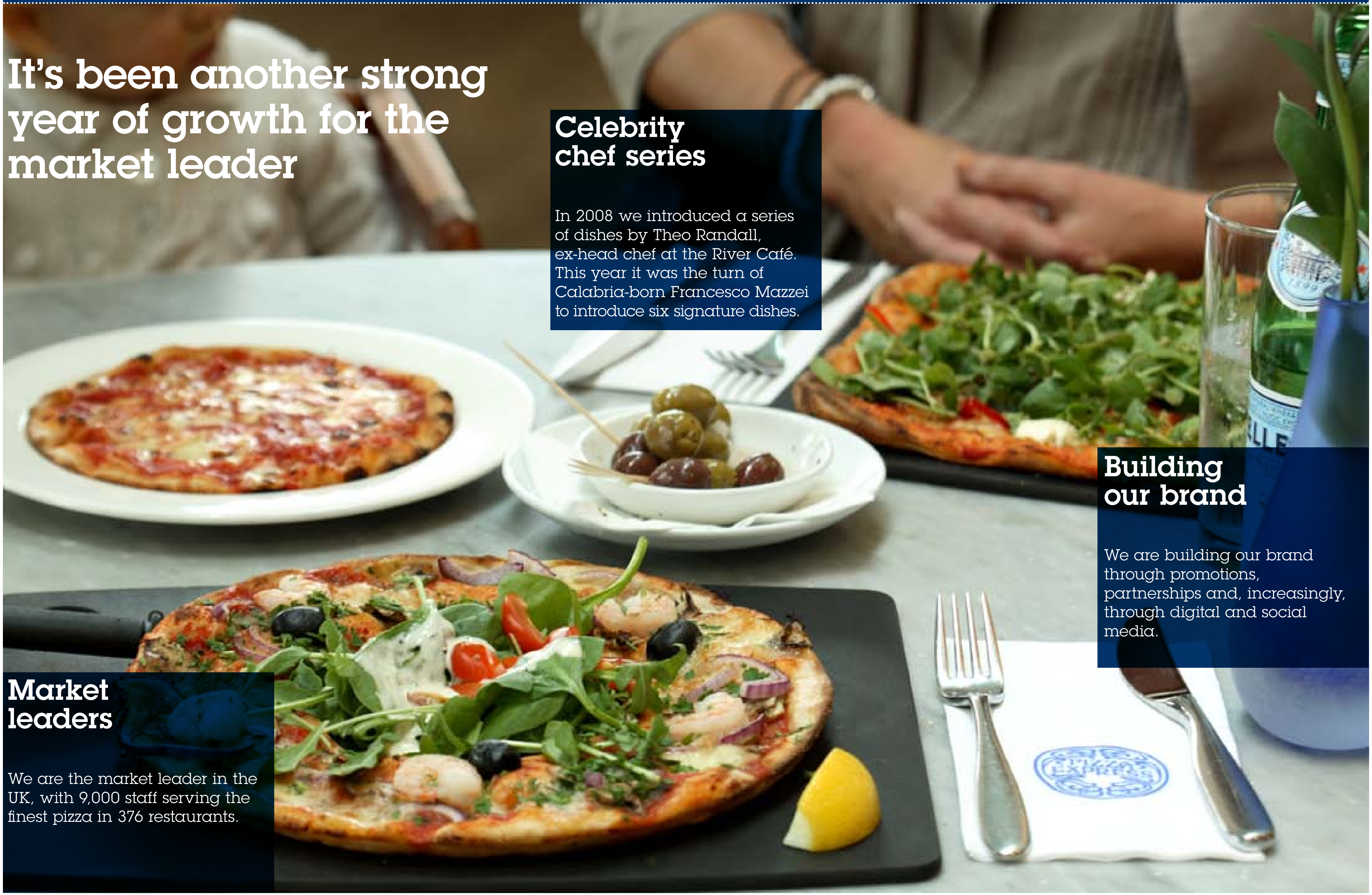
Chris Woodhouse
Chairman

Our strategy

Gondola has always maintained a simple strategy to:

- **deliver growth in profits from the existing estate**
  - we focus on 'restaurant basics' to deliver quality and value to our customers
  - we are using increasingly sophisticated marketing techniques to engage with our customers
  - we proactively manage our cost base and working capital to maintain or improve margins and maximise cash flow
- **expand the estate through the roll-out of our key brands**
  - we have maintained strong momentum in our openings programme despite the economic backdrop
- **develop other growth opportunities, including new concepts and other revenue streams**
  - this financial year has seen BYRON properly established as an emerging business in its own right
  - PizzaExpress' retail business has seen growth well in excess of the market average

PizzaExpress – the nation's favourite, pioneering pizza on the high street since 1965



It's been another strong year of growth for the market leader

Celebrity chef series

In 2008 we introduced a series of dishes by Theo Randall, ex-head chef at the River Café. This year it was the turn of Calabria-born Francesco Mazzei to introduce six signature dishes.

Building our brand

We are building our brand through promotions, partnerships and, increasingly, through digital and social media.

Market leaders

We are the market leader in the UK, with 9,000 staff serving the finest pizza in 376 restaurants.

Busy in the kitchen

We continued our Celebrity Chef Series, introducing exclusive dishes by Francesco Mazzei to the menu. Calabria-born Mazzei of the acclaimed London restaurant L'Anima, worked closely with Antonio Romani, Executive Development Chef of PizzaExpress, over a six month period developing six signature dishes. The range launched in February to critical acclaim and helped enhance our food credentials.

The Leggera range of lighter pizzas that launched in April 2009 continued to perform well. These pizzas, typically around 500 calories, are now a core part of the PizzaExpress menu. We developed the category, introducing several new pizza recipes, and extending it to wines, featuring two, both lower in calories and alcohol content.

Another new category that has proven popular is the Dolcetti, a coffee and small dessert combo.

Strong brand health, underpinned by our determination to be the best at pizza

We have continued to build the brand through digital, social media and external communications. Activities like our jazz celebration 'NeverEndingSong', our Election pizza stunt and a charitable tie up with Betty Jackson, has kept positive word of mouth about the brand high.

Customer relationship database
2.5m

During the first 18 months of the recession, we pioneered email promotions and partnerships, providing generous offers to help people to continue to eat out, even if they were worried about the recession. We continued to increase our marketing capacity, leveraging our database of 2.5 million customers.

Strong brand partnerships with the Sunday Times, Mumsnet, Tesco, Orange, Barclaycard Freedom and Weightwatchers also helped to target specific customers and occasions, and prompt coverage around the brand.

And it has been a good year for awards. PizzaExpress has won several accolades including Most Valuable Restaurant Brand – M&C top 20 Restaurant Brands 2010, Favourite High Street Restaurant – Good HouseKeeping 2010 & 2009, Best Restaurant Chain – Restaurant R150 Awards 2009, Voted Most Admired Brand by the Restaurant Industry – UK Restaurant Leader Report 2009.

Beyond our restaurants

Over the last year we have had strong growth in our retail business on the back of its relaunch in June 2009. We now sell as many pizzas in supermarket as we do in restaurants and have roughly as many customers who buy retail pizzas as visit the restaurants.

Event catering units

3

We've had a good start to our first year of event catering. We operate three event catering units and take them to events such as Royal Ascot and Bestival, helping us to reach a new demographic and extend our brand presence.

Developing our people

The business continues to be a people-strong culture, focused on recruiting and developing individuals who are passionate about the brand and our customers.

We introduced a leadership development programme called 'Future, Engage and Deliver' (FED). The programme started with the Board, and has since covered 100 other leaders within the business. The results have been significant.

We bedded down several programmes that aim to develop and retain our best people. This includes 'Evolution', a flexible development programme that gives successful restaurant managers the capability and confidence to evolve into highly effective leaders. This programme won CIPD Talent Management Award at the People Management Awards 2009.

Programmes like this have helped us maintain our industry leading retention figures. Eighty per cent of our senior leadership team started at restaurant level (including our current HR director who started as a waitress 15 years ago). We also have the lowest management turnover in the industry (20% versus 50%) and the lowest team turnover rates in the industry (51% versus averages of 80%-120%).

Locations

We have continued to successfully open new restaurants. In total we have opened 11 sites as well as continuing our regular programme of refurbishments, to ensure that the quality of our estate is maintained. A clear openings process and dedicated team resource have enabled us to consistently deliver strong returns which are sustained.

Our new additions were:

- Coventry (Belgrade Plaza)
- Cardiff (St Davids)
- Dudley
- London (Great Portland Street)
- Solihull
- Gloucester (Gloucester Quays)
- Rochester
- Basildon
- Milton Keynes
- Carmarthen
- Market Harborough

New openings

11

Our staff deliver every day

We have the lowest management and staff turnover rates in the industry.

Supporting our communities

Our restaurants are all part of local communities throughout the country and we endeavour to play a full and responsible role wherever we are.

Over the last twelve months, we have been focusing on our environmental impact. Various initiatives are in hand addressing energy saving and recycling. Our biggest energy uses are in air conditioning units and ovens, but our energy saving measures have covered everything from installation of new, more efficient, Dyson hand driers to changing our digital music systems to run off our office PCs rather than dedicated systems. New dry mix and glass recycling arrangements are being rolled out and should be operating across the entire estate by the end of 2010.

Dress for Success

£86,000 raised

Over the Christmas period we teamed up with UK Fashion designer Betty Jackson to support the charity 'Dress for Success' which helps disadvantaged women get back to work. Our 9,000 waiters and waitresses donned specially designed t-shirts to raise awareness across all our restaurants. A donation of 25p from every La Reine pizza sold and 50p from every Christmas set menu went to the charity. More than £86,000 was raised, enough to fund the charity for 18 months.

In 2008, Lawrence Dallaglio joined PizzaExpress in a 930 km cycle ride across the Pyrenees to raise money for charity. In February, we supported Lawrence as he cycled 2,800 km across the Six Nations. For a limited time, PizzaExpress renamed Lawrence's favourite Diavolo pizza, the 'Dallaglio Diavolo' and raised over £36,000 for the Dallaglio Cycle Slam, which went to Sports Relief and the Dallaglio Foundation.

The PizzaExpress School Programme, developed in association with Education Business Partnerships, continued to engage with primary schoolchildren across the country. This year the programme gave over 45,000 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.

We continued our long-term support of the 'Venice in Peril' charity, which was set up to help with the restoration of Venice. A 25p contribution from every Veneziana pizza sold goes to this fund which has raised over £1.9 million since it was set up in the 1970s■

Zizzi – the Italian restaurant with real personality, making every occasion feel special

A transformation well under way

Developing our menu

Our menu has dramatically improved. Favourites are joined by more adventurous signature dishes and seasonal Specials.

Building momentum

Zizzi had another exciting year and continued to deliver strong growth. Having successfully trialled a wide range of important changes to almost every aspect of the customer proposition last year, from menu development through to restaurant design and branding, we have now moved into an implementation phase. In the last 12 months we opened eight stunning new restaurants and transformed over 20 from the old style Zizzi to our new identity. As a result, our brand is now much more prominent on the high street and our team and customers are responding really enthusiastically to the new Zizzi environment. Our estate now comprises 109 restaurants operating successfully across high street, neighbourhood, worker and shopping centre locations.

This year's openings were:

- Winchester
- Didsbury
- Manchester (Trafford Centre)
- Chelmsford
- Gateshead (Metro Centre)
- London's Bankside
- Aberdeen
- Tower Hill in London

Our financial performance has benefited considerably, with our new openings performing well and a significant uplift in sales being achieved for each transformation. Consequently, we are exceeding our internal targets for the return on capital invested.

It's all in the detail

Our beautiful, contemporary restaurant design is combined with great Italian food and attentive service, delivered through charismatic teams. And, in addition to our signature elements of open kitchens, wood-stone ovens and log walls, each new restaurant now has unique features, inspired by its location. These include illustrations, created by young graduate artists, which adorn the walls providing local character and personality. It's these surprising and distinctive elements which make each Zizzi restaurant feel so individual and special.

New openings
8

Introducing the new Zizzi

Over 20 restaurants have been transformed to our new brand identity.

Old favourites, adventurous new friends

Our menu also improved dramatically. We still offer a good selection of freshly prepared Zizzi favourites but the menu now combines signature dishes, like our exceptional Rustica Pizza and a range of Specials. These more adventurous dishes change every couple of months and our customers have enjoyed sampling a more varied and seasonal menu. We also introduced some intriguing new wines, hand-picked by our Master of Wine to complement our Specials dishes as well as a selection of guest beers and a Zizzi exclusive Italian cider.

Working together

Social responsibility was elevated with a plan to address our environmental impact through energy saving initiatives and improved recycling at restaurant level. Our work with talented young artists has been incredibly rewarding so we made the decision to forge partnerships with other organisations supporting youth enterprise schemes.

Zizzi is committed to driving standards, quality and service across the business. Restaurant and head office teams were strengthened and development opportunities and talent management programmes introduced. Last year we reviewed all restaurant pay scales to ensure we reward our staff and remain competitive within the sector. We also instituted quarterly and annual awards for great performance and standards across the business. Team working and recognition remains a key focus and we will continue to encourage and reward outstanding performance.

Our people are really engaged and excited about the future. The revitalisation of Zizzi has been so much more significant than a simple restaurant makeover. Every aspect of the Zizzi offer and experience has been addressed and we're now well placed to accelerate growth and achieve our ambition to transform Zizzi into a highly successful and famous restaurant brand ■

Every new restaurant is unique

There are some signature features in our contemporary new design, but all our new restaurants feature unique illustrations commissioned from young graduate artists.

ASK – a local, informal experience with a broad Italian menu

A transformation in development

Engaging our customers

We have grown our database of customers to almost 1 million people and are developing partnerships with like-minded brands such as O_2.

Refreshing our menu

All our dishes are freshly prepared. In October 2009 we launched a new menu, extending our range and offering even greater choice.

The evolution of the ASK brand continued this year, with further significant developments of our menu and good progress in trialling some exciting changes to the presentation of the brand and overall offer to customers which are in the pipeline.

Refreshing the menu

A new menu was launched in October 2009 which extended the range of dishes and incorporated a number of new elements. With all of our dishes freshly prepared, additional investment in new kitchen equipment allowed us to bring some new categories onto the menu and offer even greater choice. Whilst our range of classic pizzas and pasta remain ever popular, we introduced a number of contemporary main dishes to add variety.

Knowing our customers

With a focus on providing value for customers, particularly in these more difficult economic times, we ran a number of successful promotional campaigns throughout the year under review. Increasingly, these campaigns have been email based, and we have been able to engage much more frequently with customers, developing a database of almost 1 million people.

Our marketing campaigns have often been partnered with other organisations and we saw an opportunity to extend this approach to connect even more strongly with one of the charitable causes that we had supported in the past. In March 2010 we launched a 12 month campaign to support Great Ormond Street Hospital Children's Charity. We developed a book of Celebrity Pasta Dishes which brought together contributions from the worlds of film, music, television, comedy, exploration, literature, cooking, fashion and entertainment – including Sir Terry Wogan, Davina McCall, Dame Judi Dench, Michael Palin, Sir Chris Bonnington and a host of others – with 40 delicious pasta recipes for customers to try whilst donating to a great cause through the purchase of the book.

Alongside this, we have been running Celebrity Pasta promotions on a rolling calendar of special dishes for sale in our restaurants, with a discretionary 20p from each dish also being donated to the charity.

The campaign has been very successful, with over £80,000 raised in the first four months towards the cost of a new ward kitchen which is urgently needed at the hospital. It has also been a great way for us to connect with our customers with a really positive message linked to a successful marketing approach.

Celebrity Pasta

Supported by famous faces like Sir Terry Wogan and Dame Judi Dench.

Great Ormond Street Hospital Children's Charity

£80,000 raised in the first four months of a 12 month commitment.

Growing the family

ASK expanded its presence with the opening of a further five restaurants during the financial year. Spanning the country, the new additions to the family were:

- Faversham
- Aberdeen
- Beverley
- Southport
- Rayleigh

and they reflected the diverse nature of the existing ASK estate, from the historic Old Brewmaster's building in Faversham to the bustling new Union Square shopping centre in Aberdeen.

Our people

We place a great deal of importance on having motivated teams in our restaurants. During the year we completed a major review of our pay structures for restaurant teams, including the way in which tips given by customers are shared amongst the waiting and kitchen teams to ensure that teamwork and great service are rewarded.

Refreshing the brand

In terms of brand evolution, alongside developing the menu, we have been trialling changes to the brand logo and the look and feel of our restaurant design. These changes are aimed at maintaining the relaxed and welcoming environment to which our customers are accustomed, whilst also keeping the style of our restaurants fresh and contemporary in feel. We are bringing a number of elements together in one of our refurbishments in the early part of the new financial year and we expect to develop this as an approach for further conversions and the new openings already in the pipeline for 2010/11, in a similar way to the transformation process which is already under way with Zizzi ■

New openings

5

Changes to the brand

Inspired by our roots, we are trialling a new look and feel for our restaurants: everything from menus to the music is being considered.

BYRON – the way a hamburger restaurant should be

Continuing our mission to convert Britain into a nation of 'proper hamburger' lovers

Hamburger fanatics

Serving simple, superb quality hamburgers, the way they should be, since 2007.

Ready for further growth

In less than three years we have grown to nine successful restaurants in London.

BYRON has developed rapidly during this financial year, continuing its mission to convert Britain into a nation of 'proper hamburger' lovers.

Our first restaurant in Kensington, London opened in December 2007. Less than three years later we have flourished into a brand with nine successful restaurants, each attracting growing numbers of loyal followers. This financial year, we have opened four restaurants in the following prime London locations:

- Wardour Street, Soho
- Upper Street, Islington
- Wellington Street, Covent Garden
- Canary Wharf

Our restaurant design philosophy has been to treat each restaurant individually whilst retaining some signature elements in each which reflect the BYRON identity. This approach has attracted significant attention from press and bloggers and has given the brand a real edge over its competitors.

Bringing 'proper hamburgers' to the people

We have also started to develop our marketing capability with particular emphasis on raising brand awareness and developing our personality. Our recently launched mobile 'Burger Shack' has toured the country attending festivals and major events, delivering restaurant standard hamburgers with great success.

We also have a high profile social media presence via Twitter, have hosted 'Medium Rare' cabaret shows at our Covent Garden restaurant and successfully launched our Canary Wharf restaurant with some innovative local marketing.

Our menu is simple, focusing on delivering the perfect hamburger through obsessive attention to detail. We have developed our operational processes to ensure our very high standards continue to be met as we move from a start-up to a genuine multi-site operation. By way of innovation we introduced a special hamburger 'the Big D', with Knightsbridge butcher O'Sheas for a limited period, to critical and popular acclaim. In addition to our core menu, we also pride ourselves on the quality of our home-made salads, desserts and side dishes which we continuously evaluate and develop.

Hamburger fanatics

As we have grown our business, we have built a highly motivated and skilled team of hamburger fanatics in our operational, marketing and support teams. We believe that our employees are proud to work for BYRON; a young, energetic and ambitious brand – demonstrated by our very low restaurant manager turnover. The team we now have in place will underpin our future growth ambitions ■

New openings
4

Burger Shack

Our recently launched 'Burger Shack' has toured the country attending festivals and major events, delivering restaurant standard hamburgers with great success.

A 'Grande Dame' of Soho dining

Kettner's has been a house of aristocratic indulgences of all kinds since 1867 and now we can all enjoy its unique offering. It combines three businesses – champagne bar, brasserie and function rooms.

The champagne bar offers a glamorous, intimate setting together with an extensive champagne list. The brasserie serves fresh, contemporary food and the different rooms and menus are versatile enough to suit all occasions and tastes from a casual lunch to pre-theatre meal or a special occasion.

Having relaunched in the prior year, the business focused this year on marketing activities to develop its growing following, refining the food offer in the brasserie and ensuring that operational processes are made more efficient.

The extensive refurbishment significantly enhanced the private dining and events spaces of the building and this area of the business is moving from strength to strength. The variety of rooms and spaces on offer has broad appeal and has attracted corporate functions for media, beauty and professional services companies, together with private parties and wedding receptions ■

15,000

Litres of champagne were sold in our champagne bar last year. Cheers!

Summary

	2009/10 52 weeks Reported £m	2008/09 52 weeks Reported £m	52 weeks Change %
Restaurant sales	533.9	498.8	*7.0%*
Retail and other	11.1	10.5	*5.7%*
Total sales	545.0	509.3	*7.0%*
EBITDA[1]	112.4	105.5	*6.5%*
Margin	20.6%	20.7%	
Depreciation and amortisation	(23.3)	(21.7)	*7.4%*
EBITA[2]	89.1	83.8	*6.3%*
Margin	16.3%	16.5%	
Goodwill amortisation	(36.4)	(36.4)	–
EBIT[3]	52.7	47.4	*11.2%*
Exceptional items[4]	(1.0)	(1.7)	
Operating profit	51.7	45.7	*13.1%*

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 £728 million was established following the acquisition of the business in December 2006 and this is being amortised over 20 years
3 EBIT is defined as operating profit excluding exceptional costs
4 Exceptional items for 2009/10 comprised £1.0 million of costs primarily relating to senior management and operational restructures and brand closure costs

Overview

The reported statutory results cover the 52 week period to 27 June 2010 and comparatives for the previous 52 weeks ended 28 June 2009.

The Group produced another year of strong growth with total sales of £545.0 million, up 7.0%. The majority of this growth was generated by a 7.0% increase in restaurant sales, combining growth from existing restaurants with the benefit of 28 new openings added to the estate. This was a robust performance in light of the economic environment in general, together with the adverse impact of the World Cup in the last few weeks of the financial year. In addition, retail and other sales increased by 5.7% as this extension of our core restaurant business continued to build momentum whilst also extending brand presence.

Given the consumer context, we continued our focus on customer value for money, with an investment of operating margin to support targeted promotional discounts to drive sales. Continued weakness in Sterling against Euro-denominated input costs provided some additional pressure earlier in the financial year, although this started to ease in the second half. In addition, we made incremental investments in labour costs to support customer service in restaurants (following pay strategy reviews in some brands) and also to provide adequate office-based resources to support our continued growth.

Notwithstanding these factors, given the level of sales growth achieved, we maintained conversion at a similar level, with EBITDA margin at 20.6% (down 0.1%). As a result, we achieved EBITDA growth of 6.5% to £112.4 million. Depreciation increased by 7.4% as we continued to invest in our estate, both in terms of new restaurants opened and also ensuring that our existing estate is well maintained. EBITA (ie before goodwill amortisation) therefore increased at a slightly lower rate of 6.3% to £89.1 million. With a static goodwill charge, EBIT increased by 11.2% to £52.7 million.

Cash flow

Net cash flow from operations in the period was £117.3 million, up 15.1%. This increase was largely due to the strong trading performance, coupled with an improvement in net working capital for the year.

The cash generated was used to fund:

- net cash interest and other costs associated with the Group's financing structure of £40.0 million;
- taxation paid during the year of £6.2 million comprising £5.9 million in the United Kingdom and £0.3 million in the Republic of Ireland; and
- net investment totalling £36.9 million in new restaurants and the maintenance of our existing restaurant estate, together with associated IT and other infrastructure.

We have a strong focus on cash generation, including efficient management of working capital and particularly the returns generated for capital invested, with regular reviews of our performance against the financial targets set for each major investment. The allocation of capital across the Group's brands is managed by reference to the returns generated.

After another year of strong cash generation, with resulting increased cash reserves, we made a voluntary prepayment of £35.0 million of our external bank debt after the year end, as detailed in note 27 to the financial statements. This reflected our confidence in the Group's ongoing operational performance and the strength of its financial position.

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; and
- 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 27 June 2010, the Group's net external debt was £544.0 million (2009: £576.8 million), a reduction of £32.8 million on the prior year. Including shareholder loans, total net debt was £991.7 million (2009: £970.3 million). 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 million.

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 the period under review and we expect to comfortably comply with the requirements for the foreseeable future.

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

Chris Woodhouse (49)

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 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 (51)

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 retired as a Partner with Cinven at the end of June 2009. He was involved in a number of Cinven 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 (41)

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 Group, Amadeus and Frans Bonhomme.

Charles Miller-Jones (29)

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 in addition to Gondola, including Gala Coral Group and Smurfit Kappa.

Harvey Smyth (42)

Harvey joined PizzaExpress in October 2003 as its Chief Executive Officer, and became Chief Executive Officer of the Gondola Group 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 (43)

Nick was appointed Finance Director of the Group in April 2007. Prior to this he was Finance Director at Halfords 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.

The directors present their annual report for Gondola Group Limited ('the Company') and its subsidiaries (together 'the Group'), together with their audited consolidated financial statements for the 52 week period ended 27 June 2010. The comparative information presented relates to the 52 week period to 28 June 2009. The basis of preparation of the accounts is set out in note 1 on page 38.

Results and dividends
The results of the Group for the period are set out on page 33.

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 25.

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, nutritional content 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; and
- securing of suitable new sites to achieve roll-out plans.

The above risks are partly mitigated by the following key measures:

- detailed review of sales by restaurant and by region to quickly identify trends;
- conducting regular independent brand and market research;
- rigorous quality and safety procedures including regular supplier and restaurant audits, detailed food safety manuals and training, together with incentivisation of restaurant managers to maintain the highest standards;
- where possible and commercially attractive, longer-term fixed price contracts are entered into to reduce price variability, managed by a dedicated central supply chain team; and
- a dedicated property acquisitions department which is highly experienced and which has strong relationships with key players in the market.

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 the Euro exchange rate. This currency exposure is not material as at the date of this report. Currency exposures are reviewed regularly.

Foreign exchange risk may also arise from commercial transactions as the Group purchases certain goods from European suppliers. During the period ended 27 June 2010 the Group partly hedged these commitments naturally with cash generated from its operations in Ireland. The finance function is responsible for managing the net position in each foreign currency (primarily Euros).

(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 financial statements 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 26.

Employees

Serving almost 42 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 retain, develop and promote our best staff, offering a variety of training courses and development opportunities.

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

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.

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 in the Operational Review set out on pages 6 to 23. In addition to these initiatives, the Group made charitable donations in the period of £49,000 (2009: £12,000). No political donations were made in the period (2009: £nil).

Policy and practice on payment of creditors

The Group's policy is to agree the terms of payments with its suppliers as and when a trading relationship is established, working to our standard terms wherever possible. The Group ensures that the terms of payment are clear and its policy is to abide by the agreed terms, provided the supplier meets its obligations. At 27 June 2010, the Group had 38 days (2009: 51 days) purchases outstanding in trade creditors. The Company had no trade creditors.

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 prepared the Group and Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

Statement of Directors' responsibilities continued

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' indemnities

Qualifying third party indemnity provisions as defined by the Companies Act 2006 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 s418(2) of the Companies Act 2006.

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
21 October 2010

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 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's 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; and
- 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; and
- 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.

The three non-executive directors are appointed by 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 28.

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. The Chief Executive is not present when his own remuneration package is determined;
- 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); and
- 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 and establishing 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; and
- assessing the independence and objectivity of the external auditors.

We have audited the Group and parent company financial statements (the 'financial statements') of Gondola Group Limited for the 52 week period ended 27 June 2010 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 28 and 29 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 27 June 2010 and of the Group's loss and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Rosemary Shapland
(Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

21 October 2010

for the period ended 27 June 2010

Continuing operations	Note	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Turnover	3	545.0	509.3
Cost of sales		(423.9)	(396.6)
Gross profit		121.1	112.7
Administrative expenses (excluding exceptional costs)		(68.4)	(65.3)
Operating exceptional costs	5	(1.0)	(1.7)
Total administrative expenses		(69.4)	(67.0)
Operating profit	4	51.7	45.7
Loss on disposal of fixed assets		(1.4)	(0.2)
Profit on ordinary activities before interest and taxation		50.3	45.5
Net interest payable and similar charges	7	(95.6)	(97.9)
Loss on ordinary activities before taxation		(45.3)	(52.4)
Taxation on loss on ordinary activities	8	(8.5)	(2.6)
Loss for the financial period	20	(53.8)	(55.0)

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 408 of the Companies Act 2006, a profit and loss account for Gondola Group Limited has not been presented in these Financial Statements. For the 52 weeks ended 27 June 2010 the Company made a loss of £0.2 million (2009: £0.1 million).

as at 27 June 2010

	Note	27 June 2010 £m	28 June 2009 £m
Fixed assets			
Intangible assets – goodwill	9	600.0	636.4
Tangible assets	10	279.0	266.2
		879.0	902.6
Current assets			
Stock	12	13.1	11.6
Debtors	13	23.7	25.2
Cash at bank and in hand	14	82.3	48.2
		119.1	85.0
Creditors: amounts falling due within one year	15	(94.5)	(88.7)
Net current assets/(liabilities)		24.6	(3.7)
Total assets less current liabilities		903.6	898.9
Creditors: amounts falling due after more than one year	16	(1,066.5)	(1,009.9)
Provisions for liabilities and charges	17	(26.9)	(24.6)
Net liabilities		(189.8)	(135.6)
Capital and reserves			
Called up share capital	19	8.0	8.0
Profit and loss account	20	(197.8)	(143.6)
Total shareholders' deficit		(189.8)	(135.6)

The financial statements on pages 33 to 61 were approved by the Board of Directors on 21 October 2010.

H Smyth
Director

N Carter
Director

as at 27 June 2010

	Note	27 June 2010 £m	28 June 2009 £m
Fixed assets			
Investments	11	7.9	7.9
		7.9	7.9
Current assets			
Debtors	13	1.3	0.9
Cash at bank and in hand	14	0.3	0.1
		1.6	1.0
Creditors: amounts falling due within one year	15	(2.1)	(1.3)
Net current liabilities		(0.5)	(0.3)
Net assets		7.4	7.6
Capital and reserves			
Called up share capital	19	8.0	8.0
Profit and loss account	20	(0.6)	(0.4)
Total shareholders' funds		7.4	7.6

The financial statements on pages 33 to 61 were approved by the Board of Directors on 21 October 2010.

H Smyth
Director

N Carter
Director

Consolidated cash flow statement

for the period ended 27 June 2010

	Note	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Net cash inflow from operating activities	21	117.3	101.9
Returns on investments and servicing of finance			
Interest received		0.2	0.8
Interest paid		(40.2)	(53.7)
Net cash outflow from returns on investments and servicing of finance		(40.0)	(52.9)
Taxation (paid)/received		(6.2)	1.8
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(37.2)	(47.5)
Sale of tangible fixed assets		0.3	0.4
Net cash outflow from capital expenditure and financial investment		(36.9)	(47.1)
Net cash inflow before use of liquid resources and financing		34.2	3.7
Management of liquid resources			
Decrease on short term deposits with banks		–	29.0
Net cash inflow from management of liquid resources	14	–	29.0
Financing			
Transfers to restricted bank accounts	14	(0.2)	–
Redemption of loan notes		(0.1)	–
Finance lease capital raised	21	–	0.5
Net cash (outflow)/inflow from financing		(0.3)	0.5
Increase in cash	14, 21(b)(c)	33.9	33.2

Consolidated reconciliation of movements in shareholders' deficit

as at 27 June 2010

	27 June 2010 £m	28 June 2009 £m
Loss for the financial period	(53.8)	(55.0)
Foreign exchange	(0.4)	0.6
Net increase in shareholders' deficit	(54.2)	(54.4)
Opening shareholders' deficit	(135.6)	(81.2)
Closing shareholders' deficit	(189.8)	(135.6)

Consolidated statement of total recognised gains and losses

for the 52 weeks ended 27 June 2010

	27 June 2010 £m	28 June 2009 £m
Loss for the financial period	(53.8)	(55.0)
Exchange (losses)/gains offset in reserves	(0.4)	0.6
Total recognised losses since last financial period	(54.2)	(54.4)

1 Basis of preparation

The principal activity of Gondola Group Limited ('Gondola' and the 'Company') 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 52 week period ended 28 June 2009.

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 2006. 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 liabilities of £189.8 million at 27 June 2010, 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.

Basis of Consolidation

The consolidated balance sheet includes 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.

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. Royalties from retail sales are recognised in turnover on product delivery or when due under the terms of the relevant retail sales agreements.

Allocation of costs

Cost of sales includes all direct costs incurred in restaurants. Administrative expenses include 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. It is netted off against rental costs and is recognised within cost of sales or administrative expenses.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost 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 straightline 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 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 short leaseholds, plant and fixtures 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.

Onerous lease provisions

Onerous lease provisions are recognised when the Group 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.

2 Accounting policies continued

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.

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 and amounts held as letters of credit for potential insurance liabilities. 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

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.

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 the 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, the 'Gondola Investment Plan' which includes:

- Ordinary C shares in the Company which may have beneficial terms on exit if certain valuation thresholds are met (see note 19); and
- units in a partnership, Gondola Investments Limited Partnership Incorporated (the 'Partnership'), which the Partnership issues to correspond to its holding of Ordinary F shares in the Company and which may have beneficial terms on exit if certain valuation thresholds are met. Some of these Partnership units issued to employees receive a share of exit proceeds at a lower valuation threshold than the Ordinary shares of the Company.

Employees subscribe for these shares and partnership units 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 or units on exit, specifically as a result of the respective valuation thresholds being achieved, is recognised as a cost where it represents a material charge to the profit and loss account. 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 or units 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):

	Note	**52 weeks ended 27 June 2010 £m**	52 weeks ended 28 June 2009 £m
Shown within cost of sales:			
Employee costs	6	169.8	157.1
Depreciation of owned tangible fixed assets:	10		
– Plant, fixtures, IT equipment and motor vehicles		10.0	8.5
– Short leasehold premises		11.2	11.2
Impairment – short leasehold premises	10	1.5	0.8
Impairment – plant and machinery	10	–	0.3
Operating lease rentals:			
– Hire of plant and machinery		–	0.1
– Short leasehold premises		48.5	44.2
Rental income		(1.5)	(1.8)
Repairs and maintenance		9.0	8.6

	Note	**52 weeks ended 27 June 2010 £m**	52 weeks ended 28 June 2009 £m *Restated*
Shown within administrative expenses:			
Employee costs	6	17.9	15.7
Amortisation of goodwill	9	36.4	36.4
Depreciation of owned tangible fixed assets:	10		
– Plant, fixtures, IT equipment and motor vehicles		0.4	0.7
– Short and long leasehold premises		0.2	0.2
Operating lease rentals:			
– Hire of plant and machinery		0.2	0.2
– Short leasehold premises		0.8	0.7
Rental income		(1.0)	(1.0)
Auditors' remuneration:			
– Statutory audit fees and expenses		0.2	0.2
– Tax compliance		0.1	0.1

5 Operating exceptional costs

Shown within operating exceptional costs:	**52 weeks ended 27 June 2010 £m**	52 weeks ended 28 June 2009 £m
Exceptional costs		
– Brand closure costs	0.2	0.8
– Central restructuring costs	–	0.9
– Relating to management and operational restructure	0.8	–
Total operating exceptional costs	1.0	1.7

During the period ended 27 June 2010, £0.8 million was incurred in relation to restructuring senior and operational management across the Group. These costs were principally redundancy and associated costs. £0.2 million of exceptional costs were also incurred in closing down a redundant brand.

During the prior period ended 28 June 2009, £0.8 million of exceptional costs were incurred in closing down two redundant brands. Of these costs, £0.6 million were asset write-offs and £0.2 million related to an onerous lease provision. In addition, £0.9 million was incurred in relation to restructuring certain central departments across the Group. These costs were principally redundancy and associated costs.

6 Employees and Directors

	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
a) Employee costs:		
Wages and salaries	173.9	159.8
Social security costs	13.1	12.4
Other pension costs	0.7	0.6
	187.7	172.8
Disclosed within:		
Cost of sales	169.8	157.1
Administrative expenses	17.9	15.7
	187.7	172.8
b) Employee numbers (including directors)		
The average number of persons employed by the Group during the period was:	**Number**	Number *Restated*
Restaurants and distribution	13,688	12,978
Administration	378	360
	14,066	13,338

The Company has no employees (2009: nil).

6 Employees and Directors continued

Total directors' remuneration in the period was as follows:

	52 weeks ended 27 June 2010 £'000	52 weeks ended 28 June 2009 £'000
Aggregate emoluments	1,460	1,106
Social security costs	155	99
	1,615	1,205

Pension contributions of £72,000 (2009: £70,800) were paid into individual personal pension plans in relation to two directors.

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

	52 weeks ended 27 June 2010 £'000	52 weeks ended 28 June 2009 £'000
Aggregate emoluments	553	354
Pension contributions	40	38
	593	392

Mssrs. 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 £0.3 million (2009: £0.3 million) 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 (2009: nil).

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

	Note	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Interest payable on bank loans and overdrafts			
– Bank loans – Senior Facilities	18	35.4	42.0
– Bank loans – Mezzanine Facility	18	5.6	7.8
– Bank loans – other		0.5	0.4
Interest payable on shareholder loans	18	50.7	45.2
Amortisation of issue costs of bank and shareholder loans	18	3.5	3.5
Interest payable and similar charges		95.7	98.9
Interest receivable		(0.1)	(1.0)
Net interest payable and similar charges		95.6	97.9

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 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Current tax			
United Kingdom corporation taxation		6.3	3.0
Overseas corporation taxation		0.4	0.3
Overprovision in respect of prior years		(0.8)	(1.2)
Total current tax charge		5.9	2.1
Deferred tax			
Origination and reversal of timing differences		2.1	2.4
Under/(over)provision in respect of prior years		0.5	(1.9)
Total deferred tax charge	17	2.6	0.5
Tax charge on loss on ordinary activities		8.5	2.6

The tax charge for the period is different to the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Loss on ordinary activities before tax	(45.3)	(52.4)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	(12.7)	(14.6)
Effects of:		
Expenses not deductible for tax purposes	22.3	21.1
Effect of overseas tax at lower rate	(0.8)	(0.8)
Accelerated capital allowances	(2.1)	(2.4)
Prior period adjustments	(0.8)	(1.2)
Total current tax	5.9	2.1

9 Intangible assets – goodwill

	£m
Cost:	
At 29 June 2009 and 27 June 2010	728.2
Amortisation:	
At 29 June 2009	91.8
Charge for the period	36.4
At 27 June 2010	128.2
Net book value:	
At 28 June 2009	636.4
At 27 June 2010	600.0

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, the fact 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

Group	Assets under construction £m	Freehold properties £m	Short leaseholds £m	Plant, fixtures, IT equipment and motor vehicles £m	Total £m
Cost					
At 29 June 2009	3.1	0.1	238.1	66.6	307.9
Foreign exchange movement	–	–	(0.3)	(0.1)	(0.4)
Additions	17.0	–	10.4	10.8	38.2
Transfers	(14.9)	–	9.7	5.2	-
Disposals	–	–	(4.1)	(1.7)	(5.8)
At 27 June 2010	5.2	0.1	253.8	80.8	339.9
Accumulated depreciation					
At 29 June 2009	–	–	21.6	20.1	41.7
Foreign exchange movement	–	–	(0.1)	-	(0.1)
Charge for the period	–	–	11.4	10.4	21.8
Impairment charge	–	–	1.5	-	1.5
Disposals	–	–	(2.9)	(1.1)	(4.0)
At 27 June 2010	–	–	31.5	29.4	60.9
Net book value					
At 28 June 2009	3.1	0.1	216.5	46.5	266.2
At 27 June 2010	5.2	0.1	222.3	51.4	279.0

The directors have reviewed the carrying value of certain restaurants for impairment as at 27 June 2010. The carrying value of the assets in relation to those restaurants were compared to the future cash flows expected to be generated by those assets, discounted at the Group's estimated weighted average cost of capital of 8.8%. The resulting impairment charge for the period was £1.5 million (2009: £1.1 million).

Capital expenditure contracted but not provided as at 27 June 2010 was £nil (2009: £nil), relating to new restaurants.

Company
The Company has no fixed assets.

11 Investments

	Subsidiaries £m
Cost and Net Book Value:	
At 29 June 2009 and 27 June 2010	7.9

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

A list of the principal subsidiary companies is provided in note 26.

12 Stock

	Group	
	27 June 2010 £m	28 June 2009 £m
Raw materials and consumables	13.1	11.6

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

The Company holds no stock.

13 Debtors

	Group		Company	
	27 June 2010 £m	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Trade debtors	1.3	1.0	–	–
Amounts due from subsidiary undertakings	–	–	0.7	0.7
Other debtors	9.2	7.8	0.6	0.2
Prepayments and accrued income	13.2	16.4	–	–
	23.7	25.2	1.3	0.9

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

Amounts due from subsidiary undertakings are interest-free and are repayable on demand.

14 Cash at bank and in hand

	Group		Company	
	27 June 2010 £m	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Cash	80.8	46.9	0.3	0.1
Restricted cash	1.5	1.3	–	–
	82.3	48.2	0.3	0.1

The restricted cash relates to £1.2 million (2009: £1.3 million) on deposit with The Bank of Scotland as security for Gondola Acquisitions Limited secured loan notes (see note 15) and a £0.3 million (2009: £nil) letter of credit deposit with Barclays in relation to potential insurance liabilities.

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	
	27 June 2010 £m	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Loan notes – Secured	1.2	1.3	–	–
Amounts owing to subsidiary undertakings	–	–	2.1	1.3
Trade creditors	19.0	24.6	–	–
Other creditors	11.3	9.7	–	–
Corporation tax	2.9	3.3	–	–
Other taxation and social security	18.7	16.0	–	–
Accruals and deferred income	41.4	33.8	–	–
	94.5	88.7	2.1	1.3

Secured Loan Notes

On 22 December 2006 Gondola Acquisitions Limited (formerly Paternoster Acquisitions Limited) issued £28.4 million of £1 par value secured loan notes as part of the consideration paid to shareholders on the acquisition of Gondola Holdings plc. As at 27 June 2010, £1.2 million (2009: £1.3 million) of these loan notes were outstanding.

During the year £nil interest accrued (2009: £nil) 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 £1.2 million (2009: £1.3 million) were held on deposit which is included in cash at bank and in hand in the balance sheet as at 27 June 2010.

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.

16 Creditors: amounts falling due after more than one year

		Group		Company	
	Note	**27 June 2010 £m**	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Bank loans – Senior Facilities	18	542.9	540.1	–	–
Bank loans – Mezzanine Facilities	18	67.4	64.7	–	–
Unsecured shareholder loan notes		455.7	404.6	–	–
Finance lease creditor		0.5	0.5	–	–
		1,066.5	1,009.9	–	–

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 £550.0 million Senior Debt, £525.0 million is repayable in full in January 2013, carrying interest at a weighted average rate of 2.625% above LIBOR. The remaining £25.0 million is repayable in full in June 2013, carrying interest at 4.25% above LIBOR.

The initial issue costs of the Senior Debt totalled £17.1 million, which are being amortised over the period from drawdown of the loan to the maturity dates. At 27 June 2010, the unamortised cost was £7.1 million (2009: £10.0 million).

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 £60.0 million. 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 January 2014.

Interest capitalised into the principal of the loan at 27 June 2010 was £8.3 million (2009: £5.9 million).

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.

The initial issue costs of the Mezzanine Debt totalled £1.9 million, which are being amortised over the period from drawdown of the loan to the maturity dates. At 27 June 2010, the unamortised cost was £0.9 million (2009: £1.2 million).

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

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 509,151 £1 C loan notes at cost. The C loan notes are held by the Company.

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 at 27 June 2010 was £154.4 million (2009: £103.7 million).

The initial issue costs of the Shareholder Loan notes totalled £3.3 million, which are being amortised over the period from drawdown of the loan to the maturity dates. At 27 June 2010, the unamortised cost was £1.7 million (2009: £2.2 million).

17 Provisions for liabilities and charges

	Deferred taxation £m	Onerous leases £m	Total £m
At 29 June 2009	22.2	2.4	24.6
Charged/(utilised) in period	2.6	(0.3)	2.3
At 27 June 2010	24.8	2.1	26.9

Onerous leases

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 the Group's weighted average cost of capital of 8.8%.

Deferred taxation

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 27 June 2010, the Group has unrecognised deferred tax assets of £1.5 million (2009: £1.7 million) 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.

A number of changes to the UK Corporation Tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

If it had been enacted at the balance sheet date, the effect of the changes enacted in the Finance (No 2) Act 2010 would be to both reduce the deferred tax liability provided at 27 June 2010 and increase retained profit for the period by approximately £0.9 million. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 28% to 27% with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance at 27 June 2010, would be to reduce the deferred tax liability by approximately £2.4 million (being £0.9 million recognised in 2012, £0.8 million recognised in 2013 and £0.7 million recognised in 2014).

18 Financial instruments

Policy

The Group does not use complex derivative financial instruments. Further information on the Group's policy and risks in respect of financial instruments is given in the Directors' report on pages 27 to 28.

The Group has bank borrowings at variable rates. The Group aims to minimise the effect of interest rate fluctuations by balancing the ratio of fixed or hedged debt to floating rate debt. The Group does not have a set view on the balance to be maintained, but reviews this on an ongoing basis and uses interest rate swaps to hedge a significant portion of its interest rate risk. As set out below, approximately 73.2% (2009: 79.5%) of the financial instruments carried interest at a fixed rate as at 27 June 2010.

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 interest rate risk, was as follows:

	Group		Company	
Sterling – Borrowings	**27 June 2010 £m**	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Fixed rate	787.5	813.7	–	–
Floating rate	288.8	209.4	–	–
	1,076.3	1,023.1	–	–

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

The effect of the Group's interest rate swaps is to classify £330.0 million (2009: £407.0 million) of sterling borrowings in the above table as fixed rate.

Interest rate risk of financial assets

	Group		Company	
Sterling – cash at bank and in hand	**27 June 2010 £m**	28 June 2009 £m	**27 June 2010 £m**	28 June 2009 £m
Fixed rate – restricted cash	1.5	1.3	–	–
Floating rate	73.3	38.8	0.3	–
No interest	7.5	8.1	–	0.1
	82.3	48.2	0.3	0.1

18 Financial instruments continued

The Group has no financial assets, excluding short-term debtors, other than sterling cash deposits, restricted cash deposits and cash in hand amounting to £82.3 million (2009: £48.2 million) which are part of the financing arrangements of the Group.

Floating rate cash earns interest based on LIBOR and is available on demand. Cash deposits earning no interest comprise cash in hand and in transit and are available on demand.

The restricted cash deposits of £1.5 million (2009: £1.3 million) is on six-month deposit at an interest rate of 0.8% 2009: 1.4%).

Currency exposures

At 27 June 2010 the Group had Euro denominated current assets, being the functional currency of the relevant Group company of £1.6 million (2009: £1.2 million). 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 27 June 2010.

Borrowing facilities

The Group had an undrawn committed revolving facility of £20.0 million at 27 June 2010 and at 28 June 2009 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 2013. The facility, if utilised, would carry interest at LIBOR plus 2.25%. The unused facility incurs commitment fees of 0.75%.

Maturity of financial liabilities

The secured loan notes of £1.2 million (2009: £1.3 million) are due in one year or less. Further details of their maturity dates are given in note 15.

The Senior Facilities of £550.0 million (2009: £550.0 million), the Mezzanine Facility of £68.3 million (2009: £65.9 million), the finance lease creditor of £0.5 million (2009: £0.5 million) and the Shareholder Loan notes of £457.5 million (2009: £406.8 million) fall due between two and five years.

Further details of their maturity dates are given in note 16.

The Company has no borrowings.

Hedges

The Group's policy is to hedge a significant portion of interest rate risk using interest rate swaps. At 9 February 2007, the Group had committed to an interest rate swap to commence from 26 September 2007 (with a small amendment in March 2008). This swap fixes the interest rate for £330.0 million (2009: £407.0 million) of the Senior Debt at a rate of 5.742% (excluding bank margin) until September 2010. The swap matures in March 2011.

As at 27 June 2010, the fair value of the interest rate swap was £15.7 million (2009: £27.9 million), which is an unrecognised loss at period end.

The Company has no unrecognised gains or losses.

19 Called up share capital
Gondola Group Limited

	27 June 2010 £m	28 June 2009 £m
Authorised		
Equity		
13,695,412 (2009: 13,695,412) ordinary A shares of £1 each	13.7	13.7
304,588 (2009: 304,588) ordinary B shares of £1 each	0.3	0.3
2,000,000 (2009: 2,000,000) ordinary C shares of £1 each	2.0	2.0
333,333 (2009: nil) ordinary F shares of 10p each	–	–
	16.0	16.0
Allotted, issued and fully paid		
Equity		
6,847,706 (2009: 6,847,706) ordinary A shares of £1 each	6.8	6.8
152,294 (2009: 152,294) ordinary B shares of £1 each	0.2	0.2
978,769 (2009: 978,769) ordinary C shares of £1 each	1.0	1.0
326,949 (2009: nil) ordinary F shares of 10p each	–	–
	8.0	8.0

- On 20 November 2009, pursuant to a reorganisation of the capital structure of the Company, revised articles of association were adopted, a new class of Ordinary F shares was established and 326,949 Ordinary F shares of £0.10 nominal value each were issued, with no premium paid.
- 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, C and F 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, B and F shares convert into Deferred Shares at rates defined by the articles of association. As Deferred Shares are not entitled to participate in distributions below £1 billion (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 up to a value of £1 billion to be allocated equally between Ordinary A, B, C and F shares, after all liabilities have been settled. Distributions over and above this amount are then allocated equally between Ordinary A, B, C, F and Deferred shares.

20 Reserves

Group

	Profit and loss £m
At 29 June 2009	(143.6)
Loss for the financial period	(53.8)
Foreign exchange	(0.4)
At 27 June 2010	(197.8)

Company

	Profit and loss £m
At 29 June 2009	(0.4)
Loss for the financial period	(0.2)
At 27 June 2010	(0.6)

21 Notes to cash flow statement

a) Reconciliation of operating profit to operating cash flows

	52 weeks ended 27 June 2010 £m	52 weeks ended 28 June 2009 £m
Group operating profit	51.7	45.7
Depreciation and impairment of tangible fixed assets	23.3	21.7
Amortisation of goodwill	36.4	36.4
Increase in stock	(1.6)	(1.1)
Decrease in debtors	1.4	0.3
Increase/(decrease) in creditors	6.3	(1.3)
Foreign exchange (losses)/gains	(0.2)	0.2
Net cash inflow from operating activities	117.3	101.9

21 Notes to cash flow statement continued

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

	Note	**52 weeks ended 27 June 2010 £m**	52 weeks ended 28 June 2009 £m
Increase in cash	14	33.9	33.2
Cash outflow from movement in restricted cash		0.3	–
Cash inflow from movement in finance lease creditor		–	(0.5)
Cash inflow from movement in short-term deposit at bank	14	–	(29.0)
Other non-cash changes		(55.5)	(45.1)
Change in net debt resulting from cash flows		(21.3)	(41.4)
Net debt at beginning of period		(970.4)	(929.0)
Net debt at end of period		(991.7)	(970.4)

Other non-cash changes comprise capitalised interest, movement in accrued interest and amortisation of loan issue costs.

c) Analysis of changes in net debt

	At 29 June 2009 £m	Cash flow £m	Non-cash changes £m	**At 27 June 2010 £m**
Cash at bank and in hand	46.9	33.9	–	80.8
Restricted cash	1.3	0.2	–	1.5
Debt due within one year – Loan notes	(1.3)	0.1	–	(1.2)
Bank debt and other borrowings	(1,016.8)	–	(55.5)	(1,072.3)
Debt due in more than one year – Finance lease	(0.5)	–	–	(0.5)
Total net debt	(970.4)	34.2	(55.5)	(991.7)

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

Other non-cash changes comprise capitalised interest, movement in accrued interest and amortisation of loan issue costs.

22 Operating lease commitments

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

	27 June 2010 £m	28 June 2009 £m
Land and buildings		
Within one year	0.6	0.8
In the second to fifth years inclusive	3.5	2.1
Over five years	46.4	43.8
	50.5	46.7
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 Bank of Scotland plc.

The amounts outstanding at the balance sheet dates for these loans were £556.2 million (2009: £555.9 million) under the Senior Facilities and £68.5 million (2009: £67.5 million) 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

Fees totalling £0.3 million (2009: £0.3 million) have been paid 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 27 June 2010.

	27 June 2010 £	28 June 2009 £
Harvey Smyth	335,180	319,219

Gondola Finance 1 Limited A Loan Notes and 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 A Loan notes and 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 20 November 2009, all Gondola Finance 1 A Loan Notes and B Loan notes (principal of £296,461,166 and £6,593,341 respectively together with accrued interest) were transferred to Gondola Investments Limited Partnership Incorporated ('the Partnership'), an entity registered in Guernsey, in exchange for units in the Partnership. The Partnership holdings of loan notes as at 27 June 2010 were unchanged from the amounts transferred in November 2009. The individual holdings of Partnership units were issued in proportion to the number of loan notes previously held, therefore the indirect beneficial interests in the underlying principal of loan notes following this transaction were effectively unchanged and are as follows:

Gondola Finance 1 A Loan Note holdings	**27 June 2010 £**	28 June 2009 £
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 the Cinven Funds such that their indirect interests in Gondola Finance 1 A Loan notes are as follows:

	27 June 2010 £	28 June 2009 £
Y Chotai	136,320	136,320
P Catterall	102,240	102,240
C Miller-Jones	1,200	1,200

24 Related party transactions continued

Gondola Finance 1 B Loan Note holdings

	27 June 2010 £	28 June 2009 £ *Restated*
The Cinven Funds	1,270,650	1,270,650
Harvey Smyth	2,658,591	2,658,591
Chris Woodhouse	166,162	166,162
Nick Carter	676,211	676,211

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:

	27 June 2010 £	28 June 2009 £
Y Chotai	627	627
P Catterall	470	470
C Miller-Jones	6	6

25 Ultimate parent undertakings

At 27 June 2010 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.

Cinven is a leading European buyout firm that acquires companies that require an equity investment of €100 million or more. Cinven was founded in 1977 and has been responsible for many buyout industry 'firsts', including the first €1 billion-plus buyouts in France, the Netherlands, Spain and the UK.

Cinven focuses on six sectors across Europe: business services; consumer; financial services; healthcare; industrials; and TMT (technology, media and telecoms) and has offices in London, Paris, Frankfurt, Milan and Hong Kong.

Cinven acquires successful, high-quality companies, working closely with them to help them grow and develop, using its proven value creation strategies. Typically, Cinven holds its investments for between three and five years and it takes a responsible approach towards its portfolio companies, their employees, suppliers and local communities, the environment and society as a whole.

26 Principal subsidiary undertakings

The principal subsidiary undertakings of the Group for the period ended 27 June 2010 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%

27 Post Balance Sheet Events

On 22 July 2010, the Group entered into a new interest rate swap with a forward start date of 7 March 2011, to coincide with the maturity of its existing hedge detailed in note 18. This new swap fixes the interest rate for £250.0 million of the senior debt at a rate of 1.4925% (excluding bank margin) until September 2012. The swap matures in December 2012.

On 16 September 2010, the Group made a voluntary debt prepayment of £35.0 million to reduce the external Senior Facilities set out in notes 16 to 18.

On 16 September 2010, the Group completed the acquisition of 100% of the share capital of PizzaExpress (Franchises) Limited, a UK registered company which operates an international franchise business in a number of territories overseas using intellectual property rights previously licensed by an existing Group subsidiary. This represents a small acquisition which will not have a material financial impact on the Group.

Corporate directory

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H Smyth
C Woodhouse

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N Carter

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