GONDOLA GROUP LIMITED

Annual Report 2011

PIZZA EXPRESS Zizzi Ristorante ASK ITALIAN BYRON KETTNER'S

Outstanding brands

The Gondola Group is the market leader in the UK casual dining sector, operating PizzaExpress, Zizzi, ASK Italian, Milano (the PizzaExpress brand in Ireland), BYRON and Kettner's. The Group employs over 15,000 people, serving 43 million meals a year in over 650 restaurants.

Gondola's restaurants are positioned to offer a great eating out experience and exceptional value for money, with typical spend per head (including value added tax) ranging from £14 to £18. Gondola's distinct brands have broad 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.

Financial highlights

Restaurant sales
£556.5m
+4.2%

Total sales
£569.5m
+4.5%

EBITDA[2]
£114.5m
+1.9%

Net operating cash flow
£121.6m
+3.7%

Operational highlights

42

42 new restaurants opened, maintaining our pace of growth and increasing our presence across the UK and Ireland

10

Representation in 10 other countries following the acquisition of the PizzaExpress international franchise business

16

BYRON continuing its rapid growth, now with 16 restaurants at year end and a strong pipeline of new sites

Innovation

Exciting developments such as a 'world first' iPhone payment app from PizzaExpress keeping us at the forefront of industry developments

Trading history

Total sales
7.6% compound annual growth in sales in the last five years[1]

2010/11	569
2009/10	545
2008/09	509
2007/08	462
2006/07	431
2005/06	395

EBITDA £m
4.8% compound annual growth in EBITDA in the last five years[1,2]

2010/11	115
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 28

At a glance

PIZZA EXPRESS

With its roots in Soho, this iconic brand was founded by a passionate foodie in 1965, and has been pioneering pizza on the high street ever since.

Restaurants	397
New this year	23
Employees	9,700
Average spend per head	£14

Zizzi Ristorante

Zizzi stands out from the crowd with a Fresh Talent programme that's leading the way in casual dining.

Restaurants	118
New this year	9
Employees	2,600
Average spend per head	£18

ASK ITALIAN

Recently transformed with a fresh new look and outstanding Italian menu, ASK Italian is on a journey to bring Italy to life in all its restaurants.

Restaurants	124
New this year	3
Employees	2,400
Average spend per head	£17

BYRON

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

Restaurants	16
New this year	7
Employees	400
Average spend per head	£16

KETTNER'S

Home of drinking, dining and revelry in Soho since 1867.

Restaurants	1
Employees	100
Average spend per head	£34

Building value through outstanding brands

"Our ability to deliver memorable experiences at affordable prices has meant that our brands have continued to lead the way in casual dining, and is reflected in the Group's strong trading results for the year."

In a year where consumer confidence has continued to weaken, and adverse weather conditions in December made for a disappointing Christmas trading period, our outstanding brands have continued to demonstrate momentum as Gondola put in another strong performance despite these challenging conditions.

Our ability to deliver memorable experiences at affordable prices has meant that our brands have continued to lead the way in casual dining, and is reflected in the Group's strong trading results for the year.

A key ingredient to our success has been to innovate through these tough times, particularly in food, service and design, where we have constantly challenged ourselves on how to do things better. Our promotional and partnership strategy looks for new ways to engage customers, supported by the development of increasingly sophisticated marketing and early adoption of new technology.

We continued to open stylish new restaurants across the country, 42 in total. This level of investment, together with our extensive programme of refurbishments and transformations, reinforces our commitment to deliver a fantastic dining experience for our customers.

We expect the economic backdrop to remain challenging in the forthcoming year and the pressures on consumer spending will be a key feature of underlying trading conditions. However, we remain optimistic about the growth opportunities for each of our distinct brands, and continue to view the longer term prospects for the Group very positively. Our forward-thinking management teams have ambitious plans for each of the businesses and with the arrival of Steve Easterbrook as the new CEO of PizzaExpress this autumn, we look forward to another year of progress.

I would like to conclude by thanking our employees for their continuing contribution to our businesses. Their dedication, energy and enthusiasm are what the customer experience is all about and allow our brands to flourish.

Chris Woodhouse
Chairman

Our strategy

Gondola has always maintained a simple strategy to:

1. Deliver

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

2. Expand

Expand the estate through the roll-out of our key brands
– we have maintained strong momentum in our openings programme despite the economic backdrop

3. Develop

Develop other growth opportunities, including new concepts and other revenue streams
– the emerging BYRON business is a great example
– the acquisition of the PizzaExpress international franchise business has added a further dimension

PizzaExpress

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

www.pizzaexpress.com

Passionate about pizza

Creating beautiful settings to eat pizza in

Constantly innovating in the kitchen

Pizza in Style

Evolving the brand

PizzaExpress has been on a journey to reinvent itself for future generations to come. The journey started last autumn where we took one of our restaurants and tried out new ways of doing things. Inspired by our roots, we looked at just about every aspect of the restaurant experience from service to design and food to music. Thousands of people gave us feedback on what they liked and what they didn't like. We listened, took the elements that worked well and modified them, making them scalable. We have been busy trialling these elements in other PizzaExpress restaurants across the country to see how they perform.

Our people

Over the last twelve months a service revolution has taken place. So much so that we no longer use the word 'service' internally, replacing it with 'experience', as we aim to create 'memorable experiences' for our customers, rather than a systematic approach to serving. Julie MacDonald, our HR Director, has led the charge on this transformation. She threw out the rule book and focused on how best to unleash the restaurant teams' personalities, empowering them to create their own guidelines on how to deliver a great customer experience. Another key focus has been putting the pizzaiolo (pizza chef) back in the limelight, with dough tossing being a big part of the new pizzaiolo training. Programmes like this have helped us maintain our industry-leading retention figures by focusing on recruiting, training and developing individuals who are passionate about the brand and our customers.

Busy in the kitchen

For the first time, we used 'crowd-sourcing' to discover the nation's next top pizza. In July, we launched 'The Create Your Pizza Challenge', asking customers for their favourite pizza recipes, incentivised by the winner receiving £5,000 and a place on our menu. 53,000 people entered including teen sensation Nick Jonas, X-Factor singer Lucie Jones, entrepreneur Levi Roots and the Women's Institute. A judging panel, led by The Sunday Times food writer Lucas Hollweg and Francesco Mazzei of the acclaimed restaurant L'Anima, decided on a five-strong shortlist. 60,000 people then voted for their favourite, and the winner – 'Da Morire Pizza', meaning 'Pizza to die for', is now on the menu across all our restaurants. In tandem, we ran a similar competition internally for our 9,000 strong employees. The winning pizza, the Monte Bianco created by pizzaiolo Mariann at Stratford East, also went on the menu in January 2011.

Creating beautiful settings to eat pizza in

On design, we have been working with talented designers like award-winning Ab Rogers, who have helped us create a future look and feel. Always stylish and never a one-size-fits-all approach, the design creates beautiful settings to eat pizza in, celebrating the art of pizza-making. They all also tell a local story, just as our founder Peter Boizot wanted. For example, one of the newly transformed restaurants is on Charlotte Street in London. The inventor of the Morse Code lived close by and this is reflected in the design.

Marking a sea-change in retail payment methods

Our promotional and partnership strategy continued to pioneer new ways of engaging customers, supported by the development of increasingly sophisticated marketing and technological approaches. In April, we launched a market first in a new iPhone app that, amongst other things, gives customers the option to pay their bill automatically via their iPhone. The new app is ideal for diners with limited time; whether they are late for a meeting, the theatre or the train, or eating out with restless kids. We also rolled-out free WiFi across all our restaurants via The Cloud.

Strong brand health

We have continued to build the brand through digital, social media and external communications. Activities like our Create Your Pizza Campaign and our weekly Italian Lessons on Twitter have helped substantially increase the number of followers by tens of thousands and keep positive word of mouth about the brand high.

We continued to build our marketing capacity, increasing our database to 3.6 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.

www.pizzaexpress.com

"In April we launched a market first in a new app that, amongst other things, gives customers the option to pay their bill automatically via their iPhone."

Beyond our restaurants
Our supermarket pizzas continued to go from strength to strength, driving nearly half of the total growth in the chilled pizza market. This year also marked our first move into Italian main meals outside pizza, with our fresh pastas and pestos successfully launching in Tesco.

Supporting our communities
In September, Fairbridge became our 'Charity of the Year'. Together we're supporting young disadvantaged people between the ages of 13-25 to develop the confidence, motivation and skills they need to turn their lives around. During our year together we have helped many young people through local fundraising events in our restaurants alongside donating 25p from every Etna pizza sold.

For our Christmas Charity Appeal we teamed up with Oxfam and raised £285,000, helping approximately 57,000 people around the world who are living in poverty. The multi award-winning six week fundraising campaign gave customers an opportunity to satisfy both the celebratory and the caring sides of Christmas in one go. It encouraged people to shop in Oxfam stores and on Oxfam online and rewarded people who spent £5 or more in Oxfam with a £5 PizzaExpress voucher. There was also a donation from sales of Christmas menus and the Padana pizza over the festive period. Designer and Queen of Colour, Zandra Rhodes, also supported the campaign by raising funds through sales of her exclusively designed, limited edition campaign t-shirt.

The brand continued its long-term support for Venice in Peril charity, which was set up to help the restoration of Venice. And the PizzaExpress School Programme, developed in association with Education Business Partnerships, continues to engage primary school children across the country.

We continued to make our menu as healthy as possible. We signed up to the Government's Responsibility Deal and continued to embed our Leggera range – our lighter pizzas – into our core menu. The Leggera range is available across all our restaurants and provides pizzas that are all lower in saturated fat, under 5g, and lighter in calories, around 500 calories per pizza. We also continued to focus on our environmental impact, changing the everyday habits of each of our restaurant teams to reduce our carbon footprint.

International
Since buying back the international franchise business in September 2010, we have been working closely with the franchisees to help them achieve their growth plans. We are increasingly excited about the ability of the brand to travel and create real value in a number of international markets, and look forward to maximising the opportunities that lie ahead.

Looking ahead
It is an exciting time for PizzaExpress. In October 2011, Steve Easterbrook joined PizzaExpress as its new CEO from McDonald's where he was President of McDonald's Europe. He takes over a business that is in great shape, with exciting prospects to grow in the UK as well as overseas. His experience of the food and hospitality sector, growing a UK market leader, developing a branded restaurant group on an international basis and working successfully with franchisees, bodes well for an exciting new chapter for PizzaExpress.

New openings
We've opened 23 beautiful new restaurants across the estate alongside our ongoing refurbishment programme.

Basingstoke
Bath
Bournemouth
Bramhall
Bury
Dublin (Ranelagh) (Milano)
Ennis (Milano)
Hull
Leeds
Leeds (Headingly)
Liverpool
London (Brent Cross)
London (Fenchurch Street)
London (Herne Hill)
Manchester
Newcastle
Plymouth
Poole
Portsmouth (Port Solent)
St Ives
Sheffield
Surbiton
Wakefield

www.pizzaexpress.com

"For our Christmas Charity Appeal we teamed up with Oxfam and raised £285k, helping approximately 57k people around the world."

Zizzi

serving up fresh talent

www.zizzi.co.uk

Transforming our menu

Our beautiful contemporary restaurant design

Doing things differently*

*Crunchy Polenta chips

Building momentum as a leader and trend-setter

Zizzi has continued to make good progress in a challenging environment. We opened nine new restaurants during the financial year and have a strengthening pipeline of locations for future openings. We have also continued our restaurant transformation programme with a further 22 refurbishments. These continue to perform well and deliver strong returns on investment.

Zizzi is a brand which is commanding attention. It is now a leader and trend-setter, no longer a follower, in food, innovation and restaurant design, and its credentials are being well and truly established.

Serving up fresh talent
Our Fresh Talent programme continues to differentiate Zizzi from the competition. The recent collaboration with Kitty Travers, an artisan ice cream maker, has led to our Gelato being the top selling dessert. National press coverage has followed and the start of a seasonal range of gelato specials launched at The Big Feastival event in London. The collective of artists who have worked with us to create the unique and local dining experience also contributed to our brand new menu design. We ran a competition, which was picked up by Design Week and this led to the discovery of three new graduate artists whose artworks now grace the cover of our main menu. Five artists are also showcasing their work on our new takeaway menus.

Our home grown fresh talent (our chefs), across Zizzi kitchens are also encouraged to express their creativity. The launch of Cucina, a programme led by Executive Chef, Angelo, gives Head Chefs the chance to create their own dishes and showcase their flair. The winning dishes will be included in the bank of local specials which have been running since February.

Our Menu
We offer a range of Italian classics but we also cater for the more adventurous and those looking for lighter options. With our seasonal, local specials and a new selection of wholesome salads, we provide choice across all price points. We also offer a range of organic soft drinks, a variety of hand-picked wines and a selection of our favourite Italian fizz, Prosecco. The Zizzi menu will continue to evolve inspired by the latest Italian trends and our fresh talent collective closer to home.

Our People
The Zizzi team remains strong and we're proud of our stability across our management population at restaurant level. We're committed to personal development and to promoting talent from within. Retention has improved dramatically in the past two years along with capability across all functions. Customers have benefited and we continue to attract an increasing number of compliments about our service and the Zizzi experience.

Supporting young people
It's been nearly a year since we partnered The Prince's Trust. During the first six months we raised over £20,000 and many Zizzi staff members engaged in activities, from sporting challenges, fancy dress days, and art auctions to food events in and around their restaurants. We also offered work placements to several young people supported by the Princes Trust to help build their skills and self-confidence to move into employment. In November, we launched Pennies, the electronic charity box, where customers are invited to donate 20p when paying by credit card. We initially tested in one restaurant, followed by a further three locations and due to positive feedback from both staff and customers, we decided to roll-out to the entire estate. We're now confident that The Prince's Trust will soon start to benefit from some really meaningful donations, helping them to change young lives for the better.

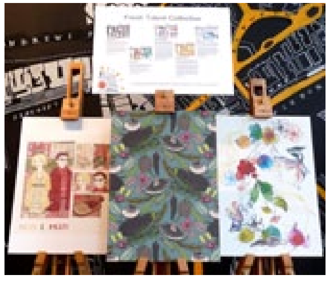
Looking ahead
A new concept for Italian sharing plates will launch nationally. On trend and an opportunity to target new customers, Cichetti will be a high street first for an Italian chain.

Zizzi will continue to innovate in the sector and we're proud to be working with so many talented people, both inside and outside our restaurants.

New openings
Durham
Glasgow (West End)
Inverness
Leeds
Lincoln
London (One New Change)
London (St Giles Plaza)
Pinner
Uxbridge

www.zizzi.co.uk

"Our fresh talent programme continues to differentiate us from the competition."



ASK Italian

fresh, bold, authentic Italian

www.askitalian.co.uk

Evolving our menu with contemporary and classic dishes

Milanese inspired restaurant design – fresh, contemporary and welcoming

It's all in the detail

Taking 'ASK Italian' to the nation

In July 2011, we rolled the new ASK Italian proposition out across all restaurants. At the heart of the new proposition is our new menu – a range of contemporary and classic dishes with an emphasis on really fresh authentic ingredients prepared with pride and passion. Throughout our menu, customers will find 100% Italian ingredients like our buffalo mozzarella, olive oil and tomato sauces. We have tweaked some of our favourite dishes to make them even better and also launched new dishes on our menu like Linguine alla Vongole and our new hand-stretched Prima Pizzas.

Other key elements of the roll-out include new pieces of furniture and smallwares inspired by the design style of Milan – clean white table tops, stylish wine glasses, colourful teapots and our own 100% Italian Olive Oil which now sits on every table. The staff uniform has been updated to jeans and branded t-shirts to reflect our bold, fresh and contemporary new look.

The menu roll-out included an upgrade to our kids offer with a healthier starter, bespoke mini prima pizzas and a choice of desserts priced at £5.95 reflecting our desire to offer great quality food that is still affordable to our customers. The offering has also been upgraded to include playful origami and colouring activities which can now be displayed on picture galleries featured in every restaurant.

Evolving the proposition

Our journey to bring to life our Italian Lovers vision continues through numerous streams of work across the business. We are extending the trials of our new coffee offer and our all-Italian wine list as well as developing the next stage of our food offer. We are also increasing our focus on seasonal specials to build credibility and bring depth to our menu. We are proud to be working with some of the leading experts in Italian food and wine to help bring the best of Italy to our restaurants. In our pursuit to find the best ingredients, we work closely with Luca and Giuseppe Esposito from Puglia in southern Italy to develop our olive oil and with Giorgio and Gilberto Greci on their farm harvesting the best tomatoes for our passata di pomodoro.

Driving our core business

As we continue to transform our estate we have a strong programme of local marketing support to drive brand awareness and re-appraisal as each site re-opens. We have a cover driving programme to support our core estate in challenging trading conditions. We have been actively seeking new channels to engage new customers with ASK Italian – this includes recent partnerships with major partners such as o2, Fitness First and Lastminute.com as well as trial activity with Tesco Clubcard.

Driving brand awareness

We have re-launched our website www.askitalian.co.uk to reflect our new proposition and provide customers with a quick, easy and engaging tool to discover our brand, book a table and find out more about our menu.

Building our culture and our teams

To begin to create a culture that will support our passion for Italy, we have introduced an 'Italian Education' programme which focuses on building a real knowledge of Italian food and lifestyle. It is based on a philosophy of sharing and involves everyone in every role within the business.

We brought the 'Italian Education' to life for all our Restaurant Managers at our interactive Roadshow held in Syon Park in July. We are now in the process of cascading this message to each and every one of our team members through our Italian Lovers Immersion sessions which we are running in every restaurant across the estate.

Growing the family

Bringing the ASK Italian brand to new customers and new areas of the country is an important part of our growth plan and we are looking to open five new sites in the 2011/12 financial year and transform a minimum of 25 restaurants, taking the completely transformed ASK Italian estate to 45 sites.

Looking ahead

The year ahead is an important and exciting one for ASK Italian. We will continue on our journey to become Italian Lovers – transforming more restaurants, evolving our menu offer and engaging with customers through our restaurant teams to bring our vision to life.

New openings
Bolton Middlebrook
Dorking
Solihull

www.askitalian.co.uk

"At the heart of the new proposition is our new menu."


BYRON
the way a hamburger
restaurant should be
www.byronhamburgers.com

Serving up the perfect hamburger

A unique look and feel

Continuing our pioneering approach

BYRON has continued to grow rapidly this financial year as it continues its quest to convert Britain into a nation of 'proper' hamburger lovers.

Since launching our first restaurant in Kensington in 2007, we have blossomed into a brand with an ever-growing army of loyal followers.

New openings
London (Earl's Court Road)
London (Charing Cross Road)
London (Haymarket)
London (Old Brompton Road)
London (One New Change)
London (Putney)
London (Shoreditch)

Our pioneering approach to design, whereby we eschew formulaic execution in favour of an individually tailored approach, continues to attract widespread acclaim. Each BYRON has its own unique look and feel suited to the building, the locality and the customer audience whilst retaining an overall aesthetic consistent with the brand personality.

Our marketing capability gathered real momentum this year as we invested significantly in raising awareness and developing the brand personality. Highlights included an evolved identity and website, a fund-raising partnership with moustache-growing charity Movember that raised over £23,000, and a continued innovative use of social media, especially to promote new restaurant launches. Our mobile hamburger restaurant ('The BYRON Shack') toured major festivals such as Glastonbury as well as several 'pop-up' and private events.

The BYRON menu is refreshingly simple. With just six choices, our aim is to produce the best hamburgers in the land through obsessive attention to detail. Menu innovation is achieved through the introduction of periodic specials which support the brand personality. This year we ran four specials including Big D (an 8oz hamburger sourced from renowned Knightsbridge butcher O'Shea's), Mighty Mo (to support Movember), a lamb burger (coinciding with National Butcher's week) and a Royal Wedding celebration burger (the 'Royale with Cheese'). In addition to our specials, we continually evolve and refine our core menu to ensure we maintain and enhance our reputation for food quality.

Our most precious assets are our people. As we have grown, we have built a highly motivated and gifted team of individuals in our operational, marketing and support functions, all of whom share a common vision to do things 'properly'. Our employees feel proud to work for a young, ambitious and innovative company with an enviable track record and excellent career prospects. The team we now have in place will form the backbone of our future success.

www.byronhamburgers.com

"BYRON has continued to grow rapidly this financial year as it continues its quest to convert Britain into a nation of 'proper' hamburger lovers."

Kettner's

a home of drinking, dining and revelry in Soho since 1867

www.kettners.com

The legendary Cocktail and Champagne Bar

An old favourite attracts new friends

"Kettner's has lived. It has outlived four Kings and one Queen, survived the blitz and witnessed riots, dusted off several booms and more than a few busts, defied austerity and celebrated prosperity, greeted Hollywood stars and Romilly Street's finest, served aristocrats and fuelled radicals."

www.kettners.com

Kettner's is a Soho institution – home to one of Soho's most loved restaurants and a host of colourful personalities – past and present. It combines three businesses – Bar, Brasserie and Event spaces. With a history stretching from 1867, the stories are legendary and it is certainly known for hosting incredible parties.

The Cocktail and Champagne Bar is a fun place to start and end your night (and some stay in between). The new cocktail list has been the subject of extensive tasting and debate, but is driving sales and attracting a new audience. Kettner's is still one of London's best destinations for champagne lovers – with an extensive list of over one hundred champagnes with eleven served by the glass.

Kettner's elegant Brasserie achieved 'top diner rated' status on Toptable this year. Modern European dishes are served all day with a range of menus to suit all occasions and budgets from a casual lunch to a special occasion. Live music on a white grand piano sets the evening ambience.

Kettner's seven private rooms include two showcase spaces; The Apartment and The Salle De Fête as well a variety of smaller rooms which are perfect for meetings and private dining. Kettner's events areas are attracting more repeat custom as awareness is growing. The variety of rooms on offer has a broad appeal and attracts corporate functions for media, beauty and professional services companies, together with private parties. Kettner's is a fantastic venue for a London wedding and is popular for big weddings using multiple rooms as well as more intimate civil ceremonies.

A focus this year has been strengthening the management team ready for ambitious growth plans. A team of real industry professionals are now in place and concentrated on the guest experience and delivering genuine hospitality. Kettner's is now ready to be promoted and driven forward, with a fresh lease of life injected into this legendary Soho venue.

14,000

litres of champagne were sold in our champagne bar last year

Overview

The reported statutory results cover the 52 week period to 26 June 2011 and comparatives for the previous 52 weeks ended 27 June 2010.

Summary	**2010/11 52 weeks £m**	2009/10 52 weeks £m	*52 weeks Change %*
Restaurant sales	556.5	533.9	*4.2%*
Retail and other	13.0	11.1	*17.1%*
Total sales	569.5	545.0	*4.5%*
EBITDA[1]	114.5	112.4	*1.9%*
Margin	20.1%	20.6%	
Depreciation (including impairment)	(26.6)	(23.3)	*14.2%*
EBITA[2]	87.9	89.1	*(1.3)%*
Margin	15.4%	16.3%	
Goodwill amortisation	(36.6)	(36.4)	*0.5%*
EBIT[3]	51.3	52.7	*(2.7)%*
Exceptional items[4]	(3.6)	(1.0)	
Operating profit	47.7	51.7	*(7.7)%*
Loss for the financial period	(41.2)	(53.8)	*23.4%*

1 EBITDA is defined as EBITA plus depreciation (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. In addition a further £3.9 million of goodwill was recognised on the acquisition of PizzaExpress (Franchises) Limited during the period which is also being amortised over a period of 20 years
3 EBIT is defined as operating profit excluding exceptional costs
4 Exceptional items for 2010/11 comprised a £1.5 million one-off crockery and uniform stock replacement relating to rebranding in PizzaExpress and ASK, £1.0 million primarily relating to senior management and operational restructures, £1.1 million of professional fees relating to a corporate restructure and a new Advanced Thin Capitalisation Agreement ("ATCA") with HM Revenue and Customs

Overview continued

Total Group sales grew by 4.5% over the prior year. Restaurant sales grew by £22.6 million (4.2%), reflecting an acceleration in our site opening programme from 28 new restaurants in the prior year to 42 in 2010/11. With a tough economic environment and consumer spending depressed, together with severe weather conditions during the key Christmas trading period, the growth achieved in the year is further evidence of the resilience of our brands. Retail and other sales grew by 17.1%, demonstrating the strength of our grocery business and the addition of international franchise income following the acquisition of the PizzaExpress international business in September 2010.

During the year, we continued to deliver value to our customers by investing in promotional and partnering campaigns. We have made further investments in our marketing teams and in the development of more sophisticated marketing techniques and strategies. There was also an adverse margin impact from accelerating our site opening programme, as new restaurants do not tend to contribute significantly to EBITDA in their first year of operation. As a result of these factors, EBITDA margin declined in the year from 20.6% to 20.1%, while EBITDA grew by 1.9% from £112.4 million to £114.5 million. Depreciation grew by 14.2% to £26.6 million as a result of our accelerated roll-out programme, together with on-going investment in our existing estate during the year.

Operating profit of £47.7 million was 7.7% lower than the prior year due to a combination of the increased depreciation charge and the impact of exceptional costs of £3.6 million incurred during the year. These items are explained further in note 5 to the financial statements.

The loss for the financial period of £41.2 million is stated after total interest (including non-cash interest) and after tax. This was an improvement of 23.4% on the prior year, primarily due to the tax benefit in the year as outlined below.

Cash flow

Net cash flow from operations in the period was £121.6 million, an increase of 3.7%. This increase was due to the 1.9% EBITDA growth generated, together with a net benefit from management of working capital.

The cash generated was used to fund:

- net cash interest and other costs associated with the Group's financing structure of £36.5 million,
- taxation paid during the year of £4.8 million, comprising £4.5 million in the United Kingdom and £0.3 million in the Republic of Ireland, and
- net investment totalling £59.9 million in new restaurants and the maintenance of our existing restaurant estate, together with associated IT and other infrastructure. This also included £4.1 million associated with the acquisition of the PizzaExpress international franchise business in September 2010.

Since the acquisition of Gondola by Cinven in December 2006, the Group has consistently generated surplus cash. This allowed a £39.4 million repayment of senior bank debt to be made in September 2010 (of which £35.0 million was a voluntary repayment and £4.4 million was a mandatory repayment in accordance with the terms of our banking arrangements).

Financing

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

- external bank debt
- shareholder loan notes
- shareholder equity.

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

As at 26 June 2011, the Group's net external debt, including accrued interest, was £521.1 million (2010: £544.0 million), a reduction of £22.9 million on the prior year. A fixed interest rate swap was in place over £250.0 million (2010: £330.0 million) of this external debt at a rate of 1.4925% (2010: 5.742%). Including shareholder loans, total net debt was £1,029.3 million (2010: £991.7 million). Subsequent to the year end, the Group completed an amendment to the terms of its existing senior and mezzanine banking facilities. The £25.0 million second lien facility was voluntarily repaid and the maturity dates for almost all of the remaining debt facilities were extended to July 2015 or later (in return for an increase in interest rate margins). Further details on this amendment and the Group's borrowings are provided in notes 16, 18 and 28 to the financial statements. Note 28 also details a new interest rate swap which was entered into. In addition to the external debt facilities, the Group has an undrawn revolving credit facility of £20.0 million (the term of which was also extended to July 2015).

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.

Taxation

Subsequent to the year end, we entered into a new Advance Thin Capitalisation Agreement ("ATCA") with HM Revenue & Customs. This ATCA determines the amount of the unsecured shareholder loan notes referred to above (and detailed in note 16) that will be treated as deductible for tax purposes. The new ATCA applies retrospectively from 1 January 2010 and resulted in a prior year adjustment for 2009/10, a significant reduction in our UK Corporation Tax charge for 2010/11 and is likely to significantly reduce our future tax liabilities. Further details are provided in note 28.

1 Funds managed and advised by Cinven Limited as detailed in note 26 to the financial statements

Chris Woodhouse (50)

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 (52)

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 (42)

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 (30)

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 (43)

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 (44)

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.

Directors' report

The directors present their Annual Report for Gondola Group Limited ("Gondola", "the Company" and "the Parent Company") and its subsidiaries (together, "the Group"), together with their audited consolidated financial statements for the 52 week period ended 26 June 2011. The comparative information presented relates to the 52 week period to 27 June 2010. The basis of preparation of the accounts is set out in note 2 on page 42.

Results and dividends
The results of the Group for the period are set out on page 37.

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 its 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 Business review, which form part of this report on pages 5 to 29.

Post balance sheet events
A number of events have taken place subsequent to the balance sheet date. Further details are given in note 28 to the financial statements.

Principal business risks and uncertainties
The Board of Directors ("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
- competition from existing restaurant operators and new market entrants
- sourcing of fresh ingredients and maintenance of high standards of food safety
- cost pressures associated with food supplies, labour, lease rentals, utilities and other inputs
- securing of suitable new sites to achieve roll-out plans
- failure or interruption of information technology systems.

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
- investing in updates to brand positioning (in terms of customer offer, product range, restaurant design and brand visual identity) as well as customer service
- use of promotional and partnership campaigns to demonstrate value for money
- 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
- a dedicated property acquisitions department which is highly experienced and which has strong relationships with key players in the market
- on-going investment in IT systems and personnel, together with design and testing of back-up and disaster recovery systems and processes.

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. The Group identifies, evaluates and addresses financial risks in close co-operation with the Group's operating units.

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

Foreign exchange risk may also arise from commercial transactions as the Group purchases certain goods from European suppliers. The Group partly hedges 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' report continued

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 30.

Employees

Serving almost 43 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 and a weekly feedback process for operational issues.

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 Business review set out on pages 5 to 29. In addition to these major initiatives, the Group made other charitable donations in the period of £21,000 (2010: £49,000). No political donations were made in the period (2010: £nil).

Policy and practice on payment of creditors

The Company'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 Company 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 26 June 2011, the Group had 58 days (2010: 38 days) purchases outstanding in trade creditors. The Company had no trade creditors.

Directors' responsibilities statement

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 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:

- 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
- 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' report continued

Going concern
The Group's financial performance and position is described in the Financial review on pages 28 and 29. The directors have reviewed cash flow forecasts for a three year period from the year end date which indicate the Group will be able to meet all its liabilities when they fall due for the foreseeable future. In addition, as detailed in note 28 to the financial statements, the Group has extended the maturity dates for almost all of its banking arrangements to July 2015 and later. The directors have therefore continued to adopt the going concern basis in preparing the financial statements.

Directors' indemnities
Qualifying third party indemnity provisions as defined by the Companies Act 2006 are in force for the benefit of directors.

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.

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
Company Secretary
24 October 2011

Corporate Governance report

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

The Board
The current board has been in place since early 2007, following the acquisition of Gondola Holdings plc 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
- facilitation of the effective contribution of non-executive directors, and ensuring constructive relations between them and the executive directors.

The executive directors are responsible for:
- setting the strategic direction of the Group
- preparing annual budgets and medium term projections for the Group and monitoring performance against plans and budgets
- overseeing the day-to-day management of the Group
- effective communication with shareholders
- preparing the annual financial statements.

The Company Secretary acts as secretary to the Board and its committees. He is responsible for ensuring that the directors receive appropriate information prior to meetings, and for ensuring that governance requirements are considered and implemented.

The Remuneration Committee has undertaken a review of the effectiveness of the executive directors during the year, reporting to the Chairman. Executive directors are included in the annual performance evaluation of all senior management, which includes a review of performance against a range of specific objectives.

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

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 32.

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)
- evaluating the performance of the executive directors against objectives set.

Corporate Governance report continued

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
- assessing the independence and objectivity of the external auditors.

Independent auditors' report to the members of Gondola Group Limited

We have audited the Group and Parent Company financial statements (the "financial statements") of Gondola Group Limited for the 52 week period ended 26 June 2011 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 Company Reconciliation of Movements in Shareholders' Funds, the Consolidated Statement of Total Recognised Gains and Losses, the Accounting Policies 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 statement of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 32, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 26 June 2011 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
24 October 2011

Consolidated profit and loss account

for the period ended 26 June 2011

	Note	**52 weeks ended 26 June 2011 £m**	52 weeks ended 27 June 2010 £m
Turnover	3	569.5	545.0
Cost of sales		(446.4)	(423.9)
Gross profit		123.1	121.1
Administrative expenses (excluding exceptional costs)		(71.8)	(68.4)
Operating exceptional costs	5	(3.6)	(1.0)
Total administrative expenses		(75.4)	(69.4)
Operating profit	4	47.7	51.7
Loss on disposal of tangible fixed assets		(0.3)	(1.4)
Profit on ordinary activities before interest and taxation		47.4	50.3
Net interest payable and similar charges	7	(94.4)	(95.6)
Loss on ordinary activities before taxation		(47.0)	(45.3)
Taxation on loss on ordinary activities	8	5.8	(8.5)
Loss for the financial period	20	(41.2)	(53.8)

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 26 June 2011 the Company made a loss of £0.1 million (2010: £0.2 million).

Consolidated balance sheet

as at 26 June 2011

	Note	**26 June 2011 £m**	27 June 2010 £m
Fixed assets			
Intangible assets – goodwill	9	567.3	600.0
Tangible assets	10	307.6	279.0
		874.9	879.0
Current assets			
Stock	12	13.0	13.1
Debtors	13	32.2	23.7
Cash at bank and in hand	14	61.9	82.3
		107.1	119.1
Creditors: amounts falling due within one year	15	(96.9)	(94.5)
Net current assets		10.2	24.6
Total assets less current liabilities		885.1	903.6
Creditors: amounts falling due after more than one year	16	(1,089.7)	(1,066.5)
Provisions for liabilities	17	(25.8)	(26.9)
Net liabilities		(230.4)	(189.8)
Capital and reserves			
Called up share capital	19	8.0	8.0
Profit and loss account	20	(238.4)	(197.8)
Total shareholders' deficit		(230.4)	(189.8)

The financial statements on pages 37 to 68 were approved by the Board of Directors on 24 October 2011.

H Smyth
Director

N Carter
Director

Company registration number: 05953163

Company balance sheet
as at 26 June 2011

	Note	**26 June 2011 £m**	27 June 2010 £m
Fixed assets			
Investments	11	7.9	7.9
		7.9	7.9
Current assets			
Debtors	13	0.7	1.3
Cash at bank and in hand	14	0.5	0.3
		1.2	1.6
Creditors: amounts falling due within one year	15	(1.8)	(2.1)
Net current liabilities		(0.6)	(0.5)
Net assets		7.3	7.4
Capital and reserves			
Called up share capital	19	8.0	8.0
Profit and loss account	20	(0.7)	(0.6)
Total shareholders' funds		7.3	7.4

The financial statements on pages 37 to 68 were approved by the Board of Directors on 24 October 2011.

H Smyth
Director

N Carter
Director

Company registration number: 05953163

Consolidated cash flow statement

for the period ended 26 June 2011

	Note	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Net cash inflow from operating activities	21	121.6	117.3
Returns on investments and servicing of finance			
Interest received		0.3	0.2
Interest paid		(36.8)	(40.2)
Net cash outflow from returns on investments and servicing of finance		(36.5)	(40.0)
Taxation paid		(4.8)	(6.2)
Capital expenditure and financial investment			
Purchase of subsidiary undertakings	22	(4.1)	–
Purchase of tangible fixed assets		(57.6)	(37.2)
Sale of tangible fixed assets		1.8	0.3
Net cash outflow from capital expenditure and financial investment		(59.9)	(36.9)
Net cash inflow before use of liquid resources and financing		20.4	34.2
Financing			
Repayment of bank debt	16	(39.4)	–
Transfers from/(to) restricted bank accounts	14	1.0	(0.2)
Redemption of loan notes	21	(1.2)	(0.1)
Finance lease capital repaid	21	(0.2)	–
Net cash outflow from financing		(39.8)	(0.3)
(Decrease)/increase in cash	14, 21 (b), (c)	(19.4)	33.9

Consolidated reconciliation of movements in shareholders' deficit

for the 52 weeks ended 26 June 2011

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Loss for the financial period	(41.2)	(53.8)
Foreign exchange gains/(losses)	0.6	(0.4)
Net increase in shareholders' deficit	(40.6)	(54.2)
Opening shareholders' deficit	(189.8)	(135.6)
Closing shareholders' deficit	(230.4)	(189.8)

Company reconciliation of movements in shareholders' funds

for the 52 weeks ended 26 June 2011

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Loss for the financial period	(0.1)	(0.2)
Opening shareholders' funds	7.4	7.6
Closing shareholders' funds	7.3	7.4

Consolidated statement of total recognised gains and losses

for the 52 weeks ended 26 June 2011

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Loss for the financial period	(41.2)	(53.8)
Exchange gains/(losses) offset in reserves	0.6	(0.4)
Total recognised losses since last financial period	(40.6)	(54.2)

1 General information

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

The consolidated financial information presented is in respect of the underlying businesses of PizzaExpress Holdings Limited ("PizzaExpress"), ASK Central Limited ("ASK") and Byron Hamburgers Limited ("BYRON") together with the Group holding companies described in note 27. The comparative Group and Company financial information presented is for the 52 week period ended 27 June 2010.

2 Accounting policies

Basis of preparation

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 £230.8 million at 26 June 2011, management have prepared cash flow forecasts for a three year period from the year end date which indicate that the Group will be able to meet its liabilities when they fall due for the foreseeable future. In addition, as detailed in note 28, the Group has extended the maturity dates for almost all of its banking arrangements to July 2015 and later.

Basis of consolidation

The consolidated financial statements includes all results, cash flows and the assets and liabilities of all subsidiaries. Subsidiaries acquired during the period are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

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, royalties from retail sales and franchise fees, all 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. Franchise fees arising outside the United Kingdom are recognised when they fall due under the terms of the relevant franchise 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 straight-line basis:

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

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

The cost of freehold and 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.

2 Accounting policies continued

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.

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.

2 Accounting policies continued

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 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):

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Shown within cost of sales:		
Employee costs (note 6)	179.9	169.8
Depreciation of owned tangible fixed assets (note 10):		
– Plant, fixtures, IT equipment and motor vehicles	11.7	10.0
– Short leasehold properties	12.2	11.2
Impairment – short leasehold properties (note 10)	0.8	1.5
Operating lease rentals:		
– Hire of plant and machinery	0.1	–
– Short leasehold properties	52.2	48.5
Rental income	(2.0)	(1.5)
Repairs and maintenance	8.9	9.0

Shown within administrative expenses:		
Employee costs (note 6)	17.6	17.9
Amortisation of goodwill (note 9)	36.6	36.4
Depreciation of owned tangible fixed assets (note 10):		
– Plant, fixtures, IT equipment and motor vehicles	1.8	0.4
– Short and long leasehold properties	0.1	0.2
Operating lease rentals:		
– Hire of plant and machinery	–	0.2
– Short leasehold properties	1.7	0.8
Rental income	(1.0)	(1.0)
Auditors' remuneration:		
– Statutory audit fees and expenses	0.2	0.2
– Tax compliance	–	0.1
– Advisory fees	0.2	–

5 Operating exceptional costs:	**52 weeks ended 26 June 2011 £m**	52 weeks ended 27 June 2010 £m
Shown within operating exceptional costs:		
Exceptional costs		
– Obsolete stock write-off	1.5	–
– One-off professional advisory fees	1.1	–
– Brand closure costs	–	0.2
– Management and operational restructure	1.0	0.8
Total operating exceptional costs	3.6	1.0

During the period ended 26 June 2011, £3.6 million of exceptional costs were incurred as follows:

- PizzaExpress and ASK replaced stock (principally tableware and uniforms) as part of rebranding exercises. As a result, existing stock amounting to £1.5 million was no longer being used and was written off accordingly
- The Gondola Group corporate structure was simplified during the year to align the legal entity structure more closely with the Group's operational structure. In addition, as detailed in note 28, the Group entered into a new ATCA with HM Revenue & Customs subsequent to the year end. Professional fees of £1.1 million were incurred in relation to these processes
- A senior and operational management restructure took place across the Group resulting in redundancy and associated costs of £1.0 million

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

6 Employees and Directors

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
a) Employee costs:		
Wages and salaries	183.7	173.9
Social security costs	13.0	13.1
Other pension costs	0.8	0.7
	197.5	187.7
Disclosed within:		
Cost of sales	179.9	169.8
Administrative expenses	17.6	17.9
	197.5	187.7
b) Employee numbers (including directors)		
The average number of persons employed by the Group during the period was:	**Number**	Number
Restaurants and distribution	14,497	13,688
Administration	454	378
	14,951	14,066

The Company has no employees (2010: nil).

6 Employees and Directors continued

Total directors' remuneration in the period was as follows:

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Aggregate emoluments	1,106	1,460

Pension contributions of £72,000 (2010: £72,000) 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 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Aggregate emoluments	357	553
Pension contributions	41	40
	398	593

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 (2010: £0.3 million) in respect of their services (see note 25), which is included in the aggregate emoluments disclosed above.

No director waived any emoluments in the period (2010: 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 26 June 2011 £m**	52 weeks ended 27 June 2010 £m
Interest payable on bank loans			
Bank loans – Senior Facilities	18	28.1	35.4
Bank loans – Mezzanine Facility	18	5.8	5.6
Bank loans – other		0.3	0.5
Interest payable on shareholder loans	18	57.0	50.7
Amortisation of issue costs of bank and shareholder loans		3.5	3.5
Interest payable and similar charges		94.7	95.7
Interest receivable		(0.3)	(0.1)
Net interest payable and similar charges		94.4	95.6

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

8 Taxation on loss on ordinary activities	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Current tax		
United Kingdom corporation taxation	–	6.3
Overseas corporation taxation	0.3	0.4
Overprovision of United Kingdom corporation tax in respect of prior years	(5.5)	(0.8)
Total current tax (credit)/charge	(5.2)	5.9
Deferred tax		
Origination and reversal of timing differences	1.0	2.1
Effect of change in rate of taxation	(1.6)	
Under provision in respect of prior years	–	0.5
Total deferred tax charge (note 17)	(0.6)	2.6
Tax (credit)/charge on loss on ordinary activities	(5.8)	8.5

The tax charge for the period is different to the average standard rate of corporation tax in the UK for the period of 27.5% (2010: 28.0%). The differences are explained below:

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Loss on ordinary activities before tax	(47.0)	(45.3)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 27.5% (2010: 28.0%)	(12.9)	(12.7)
Effects of:		
Expenses not deductible for tax purposes	15.1	22.3
Effect of overseas tax at lower rate	(0.8)	(0.8)
Accelerated capital allowances	(1.0)	(2.1)
Utilisation of brought forward tax losses	(0.1)	–
Overprovision in respect of prior years	(5.5)	(0.8)
Total current tax	(5.2)	5.9

9 Intangible assets – goodwill

	Note	£m
Cost:		
At 28 June 2010		728.2
Acquisitions	22	3.9
At 26 June 2011		732.1
Amortisation:		
At 28 June 2010		128.2
Charge for the period		36.6
At 26 June 2011		164.8
Net book value:		
At 27 June 2010		600.0
At 26 June 2011		567.3

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.

Goodwill arising on the acquisition of PizzaExpress (Franchises) Limited in the year (see note 22) is also being amortised over a period of 20 years on the basis of the strength of the brand and the long-term international growth opportunities.

10 Tangible fixed assets

Group	Assets under construction £m	Freehold properties £m	Short leasehold properties £m	Plant, fixtures, IT equipment and motor vehicles £m	**Total £m**
Cost					
At 28 June 2010	5.2	0.1	253.8	80.8	339.9
Foreign exchange movement	–	–	0.8	0.3	1.1
Additions	47.9	1.5	1.2	5.9	56.5
Transfers	(48.7)	–	31.7	17.0	–
Disposals	–	(1.5)	(1.3)	(1.7)	(4.5)
At 26 June 2011	4.4	0.1	286.2	102.3	393.0
Accumulated depreciation					
At 28 June 2010	–	–	31.5	29.4	60.9
Foreign exchange movement	–	–	0.2	0.1	0.3
Transfers	–	–	0.6	(0.6)	–
Charge for the period	–	–	12.3	13.5	25.8
Impairment charge	–	–	0.8	–	0.8
Disposals	–	–	(1.1)	(1.3)	(2.4)
At 26 June 2011	–	–	44.3	41.1	85.4
Net book value					
At 27 June 2010	5.2	0.1	222.3	51.4	279.0
At 26 June 2011	4.4	0.1	241.9	61.2	307.6

Included above are assets held under finance lease with a net book value of £0.9 million (2010: £1.2 million).

The directors have reviewed the carrying value of certain restaurants for impairment as at 26 June 2011. 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 7.3%. The resulting impairment charge for the period was £0.8 million (2010: £1.5 million).

Capital expenditure contracted but not provided as at 26 June 2011 was £nil (2010: £nil), relating to new restaurants.

Company
The Company has no tangible fixed assets.

11 Investments

Company	**Subsidiaries £m**
Cost and Net Book Value	
At 27 June 2010 and 26 June 2011	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 27.

12 Stock

	Group	
	26 June 2011 £m	27 June 2010 £m
Raw materials and consumables	13.0	13.1

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

The Company holds no stock.

13 Debtors

	Group		Company	
	26 June 2011 £m	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Trade debtors	0.8	1.3	–	–
Amounts owed by subsidiary undertakings	–	–	0.2	0.7
Corporation tax	6.9	–	–	–
Other debtors	7.7	9.2	0.5	0.6
Prepayments and accrued income	16.8	13.2	–	–
	32.2	23.7	0.7	1.3

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	
	26 June 2011 £m	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Cash	61.4	80.8	0.5	0.3
Restricted cash	0.5	1.5	–	–
	61.9	82.3	0.5	0.3

The restricted cash relates to a £0.5 million (2010: £0.3 million) letter of credit deposited with Barclays in relation to potential insurance liabilities. In the prior year, a further £1.2 million was on deposit with Bank of Scotland as security for Gondola Acquisitions Limited secured loan notes which were fully redeemed on 31 December 2010 (see note 15).

The restricted cash does not meet the definition of cash as defined in FRS 1.

15 Creditors: amounts falling due within one year

	Group		Company	
	26 June 2011 £m	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Loan notes – Secured	–	1.2	–	–
Trade creditors	30.8	19.0	–	–
Amounts owed to subsidiary undertakings	–	–	1.8	2.1
Finance lease creditor	0.3	–	–	–
Other creditors	14.4	11.3	–	–
Corporation tax	–	2.9	–	–
Other taxation and social security	18.0	18.7	–	–
Accruals and deferred income	33.4	41.4	–	–
	96.9	94.5	1.8	2.1

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

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 26 June 2011, these loan notes were redeemed in full (2010: £1.2 million outstanding).

During the year £nil interest accrued (2010: £nil) at 0.5% below LIBOR.

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

16 Creditors: amounts falling due after more than one year

	Group		Company	
	26 June 2011 £m	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Bank loans – Senior Facilities (note 18)	506.4	542.9	–	–
Bank loans – Mezzanine Facilities (note 18)	70.2	67.4	–	–
Unsecured shareholder loan notes	513.1	455.7	–	–
Finance lease creditor	–	0.5	–	–
	1,089.7	1,066.5	–	–

Senior Debt

On 22 December 2006, the Group entered into borrowing arrangements to finance the purchase of Gondola Holdings plc. The loans were syndicated to a range of institutions 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.

During the year, senior debt of £39.4 million was repaid from surplus cash held by the Group. The amount outstanding at 26 June 2011 was £510.6 million (2010: £550.0 million).

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 26 June 2011, the unamortised cost was £4.2 million (2010: £7.1 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 24.

Mezzanine Debt

On 22 December 2006, the Group entered into a Mezzanine Facility agreement to borrow £60.0 million.

Interest capitalised into the principal of the loan at 26 June 2011 was £10.9 million (2010: £8.3 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 24.

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 26 June 2011, the unamortised cost was £0.7 million (2010: £0.9 million).

Banking facilities amendments

Subsequent to the year end, the Group's banking arrangements were amended resulting in a change to the interest rate profile of the senior and mezzanine debt and an extension to the maturities of the debt.

Further details are given in note 28.

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 January 2036. The loan notes accrue interest at a compound rate of 12.5% per annum. Interest capitalised into the principal of the loan notes at 26 June 2011 was £211.4 million (2010: £154.4 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 26 June 2011, the unamortised cost was £1.3 million (2010: £1.7 million).

17 Provisions for liabilities

	Deferred taxation £m	Onerous leases £m	Total £m
At 27 June 2010	24.8	2.1	26.9
Utilised in period	(0.6)	(0.5)	(1.1)
At 26 June 2011	24.2	1.6	25.8

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 7.3% (2010: 8.8%).

Deferred taxation

As at 26 June 2011, the Group has unrecognised deferred tax assets of £nil (2010: £1.5 million) arising from brought forward tax losses. The deferred tax liability of £24.2 million (2010: £24.8 million) relates to accelerated capital allowances.

In addition to the changes in rates of Corporation Tax disclosed in note 8, a number of further changes to the UK Corporation Tax system were announced in the March 2011 UK Budget statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011 and legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was substantively enacted on 5 July 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% 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.

The effect of the changes enacted on 5 July 2011 would be to both reduce the deferred tax liability provided at 26 June 2011 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 26% to 25% with effect from 1 April 2012.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at 26 June 2011 would be to reduce the deferred tax liability by approximately £1.6 million (being £0.9 million recognised in 2013 and £0.7 million recognised in 2014).

18 Financial instruments

Policy

Further information on the Group's policy and risks in respect of financial instruments is given in the Directors' report on page 31.

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 on-going basis and uses interest rate swaps to hedge a significant portion of its interest rate risk. As set out below, approximately 69.7% (2010: 73.2%) of the financial instruments carried interest at a fixed rate as at 26 June 2011.

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	**26 June 2011 £m**	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Fixed rate	764.4	787.5	–	–
Floating rate	331.8	288.8	–	–
	1,096.2	1,076.3	–	–

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 £250.0 million (2010: £330.0 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	**26 June 2011 £m**	27 June 2010 £m	**26 June 2011 £m**	27 June 2010 £m
Fixed rate – restricted cash	0.5	1.5	–	–
Floating rate	53.1	73.3	0.5	0.3
No interest	8.3	7.5	–	–
	61.9	82.3	0.5	0.3

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 £61.9 million (2010: £82.3 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 £0.5 million (2010: £1.5 million) are on six-month deposit at an interest rate of 0.8% (2010: 0.8%).

Currency exposures

At 26 June 2011 the Group had Euro denominated current assets, being the local currency of the relevant Group company of £0.9 million (2010: £1.6 million). Other than these, the Group had no material net foreign currency monetary assets and liabilities as at 26 June 2011.

Borrowing facilities

The Group had an undrawn committed revolving facility of £20.0 million at 26 June 2011 and 27 June 2010 in respect of which all conditions precedent had been met. The facility is tied to the Senior banking facilities which, as at the balance sheet date, were due to expire in 2013 (the maturity date of these facilities was extended subsequent to the year end as detailed below and in note 28). The facility, if utilised, would carry interest at LIBOR plus 4.0%. The unused facility incurs commitment fees of 1.2%.

Maturity of financial liabilities

Subsequent to the period end, the Group's banking arrangements were amended, including an extension of the facilities to June 2015 and later. Further details are given in note 28.

The Company has no borrowings.

Hedges

The Group's policy is to hedge a significant portion of interest rate risk using interest swaps. The current swap, effective March 2011, fixes the interest rate for £250.0 million (2010: £330.0 million) of the senior debt at a rate of 1.4925% (2010: 5.742%) (excluding bank margin) until December 2012. Subsequent to the year end, the Group entered into an additional swap for an extended maturity date. Further details are given in note 28.

As at 26 June 2011, the fair value of the interest rate swap was £1.8 million (2010: £15.7 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

	26 June 2011 £m	27 June 2010 £m
Authorised		
Equity		
13,695,412 (2010: 13,695,412) ordinary A shares of £1 each	13.7	13.7
304,588 (2010: 304,588) ordinary B shares of £1 each	0.3	0.3
2,000,000 (2010: 2,000,000) ordinary C shares of £1	2.0	2.0
333,333 (2010: 333,333) ordinary F shares of 10p each	–	–
	16.0	16.0
Allotted, issued and fully paid		
Equity		
6,847,706 (2010: 6,847,706) ordinary A shares of £1 each	6.8	6.8
152,294 (2010: 152,294) ordinary B shares of £1 each	0.2	0.2
978,769 (2010: 978,769) ordinary C shares of £1 each	1.0	1.0
326,949 (2010: 326,949) ordinary F shares of 10p each	–	–
	8.0	8.0

- Ordinary A shares carry the sole voting rights and they carry the right to receive notice of meetings and rights to appoint directors. Ordinary B, 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 upto 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 account £m
At 27 June 2010	(197.8)
Loss for the financial period	(41.2)
Foreign exchange	0.6
At 26 June 2011	(238.4)

Company	Profit and loss account £m
At 27 June 2010	(0.6)
Loss for the financial period	(0.1)
At 26 June 2011	(0.7)

21 Notes to cash flow statement

a) Reconciliation of operating profit to operating cash flows

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
Group operating profit	47.7	51.7
Depreciation and impairment of tangible fixed assets	26.6	23.3
Amortisation of goodwill	36.6	36.4
Decrease/(increase) in stock	0.1	(1.6)
(Increase)/decrease in debtors	(1.1)	1.4
Increase in creditors	11.8	6.3
Foreign exchange losses	(0.1)	(0.2)
Net cash inflow from operating activities	121.6	117.3

21 Notes to cash flow statement continued

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

	52 weeks ended 26 June 2011 £m	52 weeks ended 27 June 2010 £m
(Decrease)/increase in cash (note 14)	(19.4)	33.9
Cash (inflow)/outflow from movement in restricted cash	(1.0)	0.2
Cash outflow from movement in finance lease creditor	0.2	–
Cash outflow from redemption of loan notes	1.2	0.1
Repayment of bank debt	39.4	–
Change in net debt resulting from cash flows	20.4	34.2
Other non-cash changes	(58.0)	(55.5)
Net debt at beginning of period	(991.7)	(970.4)
Net debt at end of period	(1,029.3)	(991.7)

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

c) Analysis of changes in net debt	28 June 2010 £m	Cash flow £m	Non-cash charges £m	**At 26 June 2011 £m**
Cash at bank and in hand	80.8	(19.4)	–	61.4
Restricted cash	1.5	(1.0)	–	0.5
Debt due within one year – loan notes	(1.2)	1.2	–	–
Debt due within one year – Finance lease	–	–	(0.3)	(0.3)
Debt due in more than one year – Finance lease	(0.5)	0.2	0.3	–
Bank debt and other borrowings	(1,072.3)	39.4	(58.0)	(1,090.9)
Total net debt	(991.7)	20.4	(58.0)	(1,029.3)

22 Acquisitions

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. The acquisition was made for a cash consideration of £4.0 million together with fees of £0.1 million.
The following net assets were acquired:

	Book value and fair value £m
Debtors	0.4
Creditors	(0.2)
Net assets acquired	0.2
Goodwill	3.9
Consideration	4.1

Since the date of acquisition, PizzaExpress (Franchises) Limited contributed turnover of £0.8 million and operating profit of £0.7 million to the results of the Group for the period ended 26 June 2011.

23 Operating lease commitments

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

	26 June 2011 £m	27 June 2010 £m
Land and buildings		
Within one year	1.3	0.6
In the second to fifth years inclusive	3.8	3.5
Over five years	49.8	46.4
	54.9	50.5
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 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 may be different to the financial commitment at the year-end.

24 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 £511.6 million (2010: £556.2 million) under the Senior Facilities and £71.1 million (2010: £68.5 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.

25 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 (2010: £0.3 million) have been paid to Cinven Limited, the manager and advisor to the ultimate parent undertakings, in respect of services provided to the Group (see note 6). As at 26 June 2011 £0.1 million (2010: £0.1 million) was outstanding.

Transactions with directors

During the period, advisory fees and incidental expenses of £9,674 were paid to Yagnish Chotai, a director of the Company, in respect of services provided to the Group. The amount was outstanding at 26 June 2011.

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 26 June 2011:

	26 June 2011 £	27 June 2010 £
Harvey Smyth	351,939	335,180

25 Related party transactions continued

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, certain 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 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

	26 June 2011 £	27 June 2010 £
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:

	26 June 2011 £	27 June 2010 £
Y Chotai	136,320	136,320
P Catterall	102,240	102,240
C Miller-Jones	1,200	1,200

25 Related party transactions continued

Gondola Finance 1 B loan note holdings

	26 June 2011 **£**	27 June 2010 £
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:

	26 June 2011 **£**	27 June 2010 £
Y Chotai	627	627
P Catterall	470	470
C Miller-Jones	6	6

26 Ultimate parent undertakings

At 26 June 2011 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 four and six years and it takes a responsible approach towards its portfolio companies, their employees, suppliers and local communities, the environment and society as a whole.

27 Principal subsidiary undertakings

The principal subsidiary undertakings of the Group for the period ended 26 June 2011 were as follows:

	Principal activity	Country of incorporation	Proportion of ordinary voting shares held and interest in allotted capital
PizzaExpress Holdings Limited	Holding Company	UK	100%
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%
PizzaExpress (Franchises) Limited	International Franchised Restaurants	UK	100%
Al Rollo Limited	Restaurants	UK	100%
ASK Central Limited	Holding Company	UK	100%
ASK Restaurants Limited	Restaurants	UK	100%
Byron Hamburgers 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%

28 Post Balance Sheet Events

Appointment of new PizzaExpress Chief Executive

On 16 August 2011, PizzaExpress announced the appointment of Steve Easterbrook, formerly President of McDonald's Europe, as its new Chief Executive. Steve worked at McDonald's for over 18 years, holding the positions of Chief Brand Officer and UK Chief Executive during his time and has a strong track record of delivering success. Steve joined PizzaExpress on 3 October 2011 at an exciting time for the brand as it embarks on its next phase of growth, pursuing opportunities both in the UK and overseas.

Amendment to banking arrangements

On 6 September 2011, the Group completed an amendment to the terms of its existing senior and mezzanine banking facilities. The £25.0 million second lien facility was repaid in full on this date and the maturity dates of the remaining debt facilities were extended (in return for an increase in interest rate margins). The impact of the amendment is summarised in the tables below:

Before amendment and as at 26 June 2011	Principal loan amount	Weighted average interest rate above LIBOR	Maturity date
Senior debt	£505.6m	2.48%	January 2013
Senior debt – second lien	£25.0m	4.25%	June 2013
Mezzanine debt	£70.9m	7.75%	January 2014

After amendment	Principal loan amount	Weighted average interest rate above LIBOR	Maturity date
Senior debt – extended	£483.6m	4.48%	July 2015
Senior debt – not extended	£22.0m	2.48%	January 2013
Senior debt – second lien	–	–	–
Mezzanine debt	£70.9m	10.25%	July 2016

In addition, the terms of the amendment allow for further extensions of maturity by holders of senior debt to occur up to 31 December 2011, so the above amounts may change up to that date.

Following completion of the amendment, the Group has extended its interest rate swap cover through a forward start swap which is effective from March 2012. This fixes the interest rate for £250.0 million of the senior debt at a rate of 0.9425%. This swap matures in January 2014.

28 Post Balance Sheet Events continued

Advance Thin Capitalisation Agreement

On 5 October 2011, the Group entered into a new Advance Thin Capitalisation Agreement ("ATCA") with HM Revenue & Customs. This ATCA determines the amount of the unsecured shareholder loan notes issued by Gondola Finance 1 Limited (as set out in note 16) that will be treated as deductible for tax purposes. The new ATCA applies retrospectively from 1 January 2010 and consequently, the tax charges set out in note 8 for the two years ended 27 June 2010 and 26 June 2011 have been amended to reflect the agreed position.

Indian Joint Venture

On 22 October 2011, PizzaExpress signed a joint venture agreement with Gourmet Investments Private Limited, promoted by the Bharti Family Office and led by Ramit Bharti Mittal, to take the PizzaExpress brand to India.

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