GONDOLA GROUP LIMITED
(formerly Paternoster TopCo Limited)

Annual Report

1 July 2007

REGISTRATION NUMBER: 5953163

GONDOLA GROUP LIMITED (formerly Paternoster TopCo Limited)

Annual report and financial statements for the period ended 1 July 2007

Directors	N Carter P Catterall Y Chotai C Miller-Jones H Smyth C Woodhouse
Secretary	N Carter
Registered Office	20 High Street, St Albans, Herts AL3 4EL
Company Number	5953163
Auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, First Point, Buckingham Gate, Gatwick, RH6 0PP

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Chairman's Statement

Gondola is the UK's leading casual dining group and its three main brands – PizzaExpress, ASK and Zizzi – represent the best of quality operations in their own sector of the market.

At the end of the financial year the group traded from 541 restaurants in the UK and Republic of Ireland.

During December of 2006, the Gondola business was acquired by Cinven and management. It was subsequently delisted from the London Stock Exchange. Following on from the acquisition, Harvey Smyth was appointed Group Chief Executive and has quickly set about building an outstanding management team with a wealth of experience in running restaurants as well as other consumer facing businesses.

Gondola was acquired in good shape, with strong trusted brands, an excellent restaurant portfolio, a loyal customer base and a committed team.

Initially we have focused on organising ourselves more effectively in line with our growth plans. We have centralised group functions where appropriate, but maintained competitive independence in key areas that allow each of our brands to further develop a differentiated offering to our customers. Financially, we have focused on using our capital more efficiently. We have reduced unnecessary overhead and lowered the cost of fitting out new restaurants – at the same time as continuing to improve and develop our menus.

Following on from this, we have undertaken a number of initiatives that are designed to optimise performance over the next few years. In addition, we have more clearly articulated the customer proposition for our three main brands and are at an advanced stage of implementing changes as a result.

Since the acquisition, the whole team have responded enthusiastically to the challenges set. Whilst the nature of our reporting period does not allow for comparative financial information, the performance of Gondola has been strong and in line with expectations. The continuing cash generative nature of the business has allowed us to confidently accelerate both our new site opening programme and refurbishment of existing restaurants.

The future for the business is very bright. We can see many ways to exploit trading and location opportunities for our unique offering of great food, delivered in stylish surroundings combined with outstanding service, all of which provides customers with an excellent experience. Our pipeline of new sites is strong, providing a platform for the further growth of our core brands, and we expect to open 30 new restaurants in the 07/08 financial year. We are also confident that we will be able to grow our brand portfolio through organic development as well as selective acquisition.

Chairman's Statement (continued)

We really value the contribution of all of our people and welcome on board those new employees who joined us during the year. We thank them for their continuing hard work and enthusiasm. We are committed in Gondola to build on a culture of total customer focus and individual responsibility that will provide a rewarding environment for career development.

Chris Woodhouse
Chairman

Directors' Report

The directors present their first annual report for Gondola Group Limited ("the Company") and its subsidiaries (together "the Group"), together with their audited financial statements for the period from incorporation on 2 October 2006 to 1 July 2007. The basis of preparation of the accounts is set out in note 1 on page 16.

Results and dividends

The results of the Group for the period are set out on page 11.

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

Principal activity, business review and future developments

On 2 October 2006, the Company was incorporated as an 'off-the-shelf' company, Paternoster TopCo Limited. During the period, the Company commenced activity as an investment company and on 22 December 2006 purchased the entire issued share capital of Gondola Holdings plc through its subsidiary, Gondola Acquisitions Limited. These accounts therefore do not present comparative information.

The principal activity of the Group is operating restaurants.

Acquisition of Gondola Holdings plc

On 22 December 2006, the Group acquired the entire share capital of Gondola Holdings plc by means of a Scheme of Arrangement, paying total consideration of £554.7m. This amount, together with the repayment of £355.0m of existing bank debt, was funded by means of a combination of senior and mezzanine debt together with equity and shareholder loans. The ultimate controlling shareholders of the Group are 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 and Fourth Cinven (MACIF) LP (together the "Cinven Funds"), being funds managed or advised by the European private equity firm, Cinven Limited. Further details of the acquisition are given in note 22 to the accounts.

Business review and future developments

As noted above, the reported statutory results for the Group only cover the trading period from 22 December 2006 to 1 July 2007 and do not allow for comparative figures. During this part year period, the trading results of the business were strong, with each of the group's three core brands – PizzaExpress, ASK and Zizzi – performing well, effectively continuing the momentum already established when these businesses formed part of Gondola Holdings plc. This is, in large part, due to the continuing dedication and enthusiasm of almost 12,000 employees who work for the Group.

Total sales for the part year period were £228.5m and EBITDA[1] was £49.9m, both in line with management's expectations. Cash generated from operations was £48.5m.

During the period under review, the Group opened a total of 10 new restaurants, taking the total (net of closures, disposals and transfers) to 541 as at 1 July 2007. Since opening, these restaurants have also been performing strongly and the Group is well positioned to continue its plans for further roll-out. The directors remain confident in the Group's future prospects.

Acquisition of minority interest in PizzaExpress Limited

On 3 April 2007, the Group acquired the remaining 0.4 per cent. issued share capital of PizzaExpress Limited, for cash consideration of £1.5m. Following this acquisition, the Group held 100 per cent. of the issued share capital of PizzaExpress Limited.

Change of Name

On 15 January 2007 the Company changed its name from Paternoster TopCo Limited to Gondola Group Limited.

Principal risks and uncertainties

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow risk and interest rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group under guidance by the Board of Directors (the "Board"). The Group identifies, evaluates and addresses financial risks in close co-operation with the Group's operating units.

(a) Foreign exchange risk

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

[1] EBITDA for the period is defined as operating profit (£12.6m) excluding exceptional costs (£7.9m), depreciation (£10.4m) and amortisation (£19.0m)

Foreign exchange risk may arise from future commercial transactions as the Group purchases certain goods from European suppliers. During the period ended 1 July 2007 the Group hedged these commitments naturally with cash generated from operations in Ireland. The finance function is responsible for managing the net position in each foreign currency.

(b) Credit risk
The Group has no significant concentrations of credit risk. The nature of the operations results in a large 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 pre-funding of cash flow, maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

(d) Cash flow and interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has entered into an interest rate swap to manage its interest rate risk. Further details of interest rate risk are given in note 18 to the financial statements.

Directors

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

Swift Incorporation Limited	(resigned 2 October 2006)
Instant Companies Limited	(resigned 2 October 2006)
P Catterall	(appointed 2 October 2006)
Y Chotai	(appointed 2 October 2006)
H Smyth	(appointed 5 April 2007)
C Woodhouse	(appointed 5 April 2007)
N Carter	(appointed 5 April 2007)
C Miller-Jones	(appointed 30 July 2007)

A brief summary of the experience of each director is provided below.

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

Peter Catterall
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
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 Retail, leisure and consumer sector team. He has been involved in a number of transactions including the acquisition of Gondola Holdings and the Smurfit Kappa merger.

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

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

Employees

The number of employees and their remuneration is set out in note 6.

Our employees are the Group's greatest asset and we believe in treating them as such; with respect, looking after their welfare and allowing them the freedom to be themselves and to flourish.

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

Our employees have a performance review at least once a year, which includes consideration of skills development and career prospects. We aim to keep, develop and promote our best staff, offering a variety of training courses and development opportunities.

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

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

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

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

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

Marketplace

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

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

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

Whilst we do everything in our power to ensure that our customers have a great experience, we also aim to be responsive to any problems that arise.

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

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

Environment

We are currently partnering with The Carbon Trust to evaluate our environmental impact with the aim of continuous improvement.

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

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

Directors' Report (continued)

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. Sales of our PizzaExpress Veneziana pizza raised £61,000 for 'Venice in Peril'. We have also recently launched an initiative with The Daily Telegraph for the month of September that will contribute to the Kids Company charity. No political donations were made in the period.

Creditors

The Group aims to settle invoices within agreed terms, provided the relevant services or goods have been received in accordance with the agreed terms and conditions. Trade creditors at the period end amounted to 53 days of purchases.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

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

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

Directors' indemnities

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

Provision of information to auditors

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

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
(2) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Independent auditors

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

By order of the Board

N Carter
Secretary
27 September 2007

Corporate Governance Report

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

The Board
The current board has been in place since early 2007, following the acquisition of Gondola Holdings plc by the Group in December 2006. The Board considers that it is of an appropriate size for the requirements of the business, and that it has the appropriate balance of skills, knowledge and experience.

The Board comprises a chairman, three non-executive directors who represent Cinven Limited (as representatives of the ultimate parent undertakings, the Cinven Funds) and two executive directors.

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

The Board meets regularly throughout the year and, in addition to the routine reporting of financial and operational issues, reviews the performance of each of the brands in detail. There is a schedule of matters reserved for the Board and certain matters are delegated to the Board Committees and the executive directors. The schedule of reserved matters includes approval of annual budgets, strategic plans, senior management appointments, dividend policy and capital structure management, major contracts and major capital expenditure. Items delegated to the executive directors include the approval of capital or other expenditure below the limits required for board sign off, disposal of low value assets and approval of minor contracts or less senior appointments.

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

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

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

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

The executive directors are responsible for:

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

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

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

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

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

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

The Remuneration Committee is responsible for the following key areas:

- Determining the participation of directors and employees in the Gondola Investment Plan
- Agreeing the framework for the remuneration of the executive directors and other senior executives, and determining the total individual remuneration packages of each person, including pension arrangements
- Determining specific incentives for the executive directors and senior management to encourage enhanced performance by being rewarded in a fair manner for their individual contributions to the success of the Group
- Ensuring that contractual terms on termination and any payments made are fair to the individual and to the Group (and that failure is not rewarded)
- Evaluating the performance of the executive directors against objectives set.

Audit Committee

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

The Audit Committee is responsible for all matters relating to the regulatory and accounting requirements that may affect the Group, together with the financial reporting and internal control procedures adopted by the Group. In addition, the committee is responsible for ensuring that an objective and professional relationship is maintained with the external auditors.

Key areas for which the committee is responsible include:

- Reviewing the Group's financial statements prior to approval on behalf of the Board and reviewing the external auditors reports thereon
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately
- Reviewing internal controls to establish an internal audit plan to monitor the effectiveness of those controls
- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where different approaches are possible
- Assessing the independence and objectivity of the external auditors.

Independent auditors' report to the members of GONDOLA GROUP LIMITED (formerly Paternoster TopCo Limited)

We have audited the group and parent company financial statements (the ''financial statements'') of Gondola Group Limited for the period ended 1 July 2007 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 Shareholder's Deficit and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Directors' Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report to the members of GONDOLA GROUP LIMITED (formerly Paternoster TopCo Limited) (continued)

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

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

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 1 July 2007 and of the group's loss and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick
27 September 2007

Consolidated profit and loss account
for the period ended 1 July 2007

Continuing operations	Note	1 July 2007 £m
Turnover	3	228.5
Cost of sales		(181.4)
Gross profit		**47.1**
Administrative expenses (excluding exceptional costs)		(26.6)
Operating exceptional costs	5	(7.9)
Total administrative expenses		(34.5)
Operating profit	4	**12.6**
Profit on disposal of fixed assets		1.0
Profit on ordinary activities before interest and taxation		**13.6**
Net interest payable and similar charges	7	(48.6)
Loss on ordinary activities before taxation		**(35.0)**
Taxation on loss on ordinary activities	8	1.9
Loss on ordinary activities after taxation		**(33.1)**
Minority interests	20	-
Retained loss for the financial period	21	**(33.1)**

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

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

As permitted by Section 230 of the Companies Act 1985, a profit and loss account for Gondola Group Limited has not been presented in these Financial Statements. For the period from incorporation to 1 July 2007 the Company made a loss of £0.1 million.

The notes on pages 22 to 45 form part of these financial statements.

GONDOLA GROUP LIMITED (formerly Paternoster TopCo Limited)

Consolidated balance sheet as at 1 July 2007

	Note	1 July 2007 £m
Fixed assets		
Intangible assets – goodwill	9	709.2
Tangible assets	10	224.1
		933.3
Current assets		
Stock	12	9.3
Debtors	13	19.2
Cash at bank and in hand	14	64.2
		92.7
Creditors: amounts falling due within one year	15	(117.9)
Net current liabilities		**(25.2)**
Total assets less current liabilities		**908.1**
Creditors : amounts falling due after one year	16	(912.6)
Provisions for liabilities and charges	17	(20.6)
Net liabilities		**(25.1)**
Capital and reserves		
Called up share capital	19	8.0
Profit and loss account	21	(33.1)
Total shareholder's deficit		**(25.1)**

The financial statements were approved by the Directors on 27 September 2007.

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H Smyth
Director

N Carter
Director

The notes on pages 22 to 45 form part of these financial statements.

Company balance sheet as at 1 July 2007

	Note	1 July 2007 £m
Fixed assets		
Investments	11	7.9
		7.9
Current assets		
Cash at bank and in hand	14	0.2
		0.2
Creditors: amounts falling due within one year	15	(0.2)
Net current assets		**-**
Net assets		**7.9**
Capital and reserves		
Called up share capital	19	8.0
Profit and loss account	21	(0.1)
Total shareholder's funds		**7.9**

The financial statements were approved by the Directors on 27 September 2007.

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H Smyth
Director

N Carter
Director

The notes on pages 22 to 45 form part of these financial statements.

Consolidated cash flow statement for the period ended 1 July 2007

	Note	**1 July 2007 £m**
Net cash inflow from operating activities	23 (a)	**48.5**
Returns on investments and servicing of finance		
Interest received		1.3
Interest paid		(10.1)
Issue costs of debt finance		(22.3)
Net cash outflow from returns on investments and servicing of finance		**(31.1)**
Taxation paid		**(3.2)**
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(17.9)
Sale of tangible fixed assets		1.6
Net cash outflow from capital expenditure and financial investment		**(16.3)**
Acquisitions and disposals		
Acquisition of Gondola Holdings plc	22 (a)	(554.7)
Cash acquired on acquisition of Gondola Holdings plc	22 (a)	27.4
Acquisition of minority interests	22 (b)	(1.5)
Net cash outflow from acquisitions and disposals		**(528.8)**
Net cash outflow before use of liquid resource and financing		**(530.9)**
Management of liquid resources		
Increase on short term deposits with banks		(21.7)
Net cash outflow from management of liquid resources		**(21.7)**
Financing		
Issue of share capital	19	8.0
Transfers to restricted bank accounts	14	(29.2)
Banks loans received		610.0
Shareholder loans received		303.3
Loans repaid		(355.0)
Issue of loan notes		29.2
Redemption of loan notes		(0.8)
Net cash inflow from financing		**565.5**
Increase in cash	23 (b), (c)	**12.9**

The notes on pages 22 to 45 form part of these financial statements.

Consolidated reconciliation of movements in shareholders' deficit as at 1 July 2007

	1 July 2007 £m
Loss for the financial period	(33.1)
Retained loss for the financial period	(33.1)
New share capital subscribed	8.0
Net decrease in shareholders' deficit	**(25.1)**
Opening shareholders' funds	-
Closing shareholders' deficit	**(25.1)**

The notes on pages 22 to 45 form part of these financial statements

1 Basis of preparation

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

The consolidated financial information presented is in respect of the underlying businesses of PizzaExpress Limited ("PizzaExpress") and ASK Central Limited ("ASK") together with the holding companies described in note 28 since the date of their acquisition by the Group on 22 December 2006.

The Group and Company financial information presented is for the period from incorporation on 2 October 2006 to 1 July 2007. Consequently no comparative information is presented.

The Gondola Holdings plc acquisition has been accounted for under the acquisition method. All assets and liabilities that existed at the date of the acquisition have been recorded at their fair values, reflecting their condition at that date.

2 Accounting policies

The financial information has been prepared on a going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the Companies Act 1985. The most significant accounting policies are described below.

Going concern
The directors have prepared the accounts on a going concern basis. Whilst the Group has net current liabilities of £25.2m at 1 July 2007, 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 for the foreseeable future. In addition, the Group has a committed revolving credit facility of £20.0m which management do not currently expect to utilise.

Basis of Consolidation
The consolidated balance sheets include all the assets and liabilities of the subsidiaries including those acquired during the period. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

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

All transactions between the Group's businesses have been eliminated in the preparation of the consolidated financial information.

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

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

Tangible fixed assets
Tangible fixed assets are stated at historic cost less accumulated depreciation.
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 life on a straight-line basis:

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

2 Accounting policies (continued)

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

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

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

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

Impairment of fixed assets
The carrying values of fixed assets are reviewed for impairment 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.

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 tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

Investments
Investments are held at cost less any provisions for impairment.

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

3 Segmental analysis

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 Group operating profit

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

	1 July 2007 £m
Shown within cost of sales :	
Employee costs (note 6)	70.7
Depreciation of owned tangible fixed assets (note 10):	
-Plant, fixtures and motor vehicles	4.6
-Short and long leasehold premises	5.6
Operating lease rentals:	
- Hire of plant and machinery	-
- Short leasehold premises	31.1
Rental income	(1.0)
Repairs and maintenance	4.6
Shown within administrative expenses :	
Employee costs (note 6)	6.9
Amortisation of goodwill (note 9)	19.0
Depreciation of owned tangible fixed assets (note 10):	
-Plant, fixtures and motor vehicles	0.1
-Short and long leasehold premises	0.1
Operating lease rentals:	
- Short leasehold premises	0.2
Auditors' remuneration:	
- Statutory audit fees and expenses	0.2
- Tax compliance	0.1

5 Exceptional Costs

Shown within operating exceptional costs :	**1 July 2007 £m**
Exceptional costs	
- Relating to relocation of Group Bakery Facility	0.9
- Costs incurred in relation to the acquisition of Gondola Holdings plc	5.8
- Relating to management restructure on acquisition of Gondola Holdings plc	1.2
Total operating exceptional costs	**7.9**

During the period ended 1 July 2007, the Group took the decision to relocate the Group Bakery Facility, in order to increase its capacity to ensure sufficient dough is provided to the Group's operating companies for the foreseeable future. Costs of £0.9m were incurred in transitioning to the new Bakery.

During the period ended 1 July 2007, £5.8m of exceptional operating costs were incurred in relation to the acquisition of Gondola Holdings plc. These costs comprised professional advisors fees, including bank loan arrangement fees amounting to £5.3m payable to Cinven Limited (see note 26).

Following the acquisition, the Group underwent a senior management restructure, resulting in costs amounting to £1.2m, principally in respect of payments in compensation for loss of office.

6 Employees and Directors

	1 July 2007 £m
a) Employee costs:	
Wages and salaries	71.4
Social security costs	5.8
Other pension costs	0.4
	77.6
Disclosed within :	
Cost of sales	70.7
Administrative expenses	6.9
	77.6
b) Employee numbers	
The average number of persons employed by the Group during the period was:	Number
Restaurants and distribution	11,740
Administration	199
	11,939

The Company has no employees.

Notes to the financial statements (continued)

Total directors' remuneration in the period was as follows:

	1 July 2007 £m
Aggregate emoluments	0.6
Social security costs	0.1
	0.7

Pension contributions of £18,750 were paid into individual personal pension plans in relation to two directors.

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

	1 July 2007 £m
Aggregate emoluments	0.3
Pension contributions	-
	0.3

Mssrs. Peter Caterall, 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 £0.1m in respect of their services (see note 26), which is included in the aggregate emoluments disclosed above.

No director waived any emoluments in the period.

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

7 Net interest payable

	Note	1 July 2007 £m
Interest payable on bank loans and overdrafts		
- Bank loans – Senior Facilities	18	23.4
- Bank loans – Mezzanine Facility	18	4.1
- Bank loans – revolver commitment fees		1.3
Interest payable on Loan notes – Secured	18	0.6
Interest payable on shareholder loans	18, 19	18.5
Amortisation of issue costs of bank and shareholder loans	18	1.9
Group interest and similar charges payable		**49.8**
Interest receivable		(1.2)
Net interest payable and similar charges		**48.6**

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

8 Taxation

	1 July 2007
	£m
United Kingdom corporation taxation	(1.9)
Overseas corporation taxation	0.2
Total current tax	**(1.7)**
Deferred tax	
Origination and reversal of timing differences	1.0
Effect of change in rate of UK corporation tax	(1.2)
Total deferred tax (Note 17)	**(0.2)**
Tax on loss on ordinary activities	**(1.9)**

The tax credit for the period is lower than the standard rate of corporation tax in the UK of 30 per cent. The differences are explained below:

	1 July 2007
	£m
Loss on ordinary activities before tax	**(35.0)**
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent.	(10.5)
Effects of:	
Expenses not deductible for tax purposes	10.0
Effect of overseas tax at lower rate	(0.2)
Accelerated capital allowances	(1.0)
Total current tax	**(1.7)**

Subsequent to the year end, the standard rate of corporation tax in the UK was reduced to 28 per cent. Deferred tax liabilities (see note 17) have been stated at the reduced tax rate.

9 Intangible assets – Goodwill

	1 July 2007 £m
Cost:	
On incorporation	-
Addition on acquisition of Gondola Holdings plc	727.5
Addition on acquisition of minority interest in PizzaExpress Limited	0.7
Closing balance	**728.2**
Amortisation:	
On incorporation	-
Charge for the period	19.0
Closing balance	**19.0**
Net book value:	
Opening balance	**-**
Closing balance	**709.2**

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

10 Fixed assets

Group	Assets under construction £m	Freehold properties £m	Long leaseholds £m	Short leaseholds £m	Plant, fixtures and motor vehicles £m	Total £m
Cost						
On incorporation	-	-	-	-	-	-
Acquired	5.9	0.9	-	179.6	29.6	216.0
Additions	8.1	-	-	7.9	5.0	21.0
Transfers	(8.4)	-	-	7.6	0.8	-
Disposals	-	(0.8)	-	(1.3)	(0.9)	(3.0)
At 1 July 2007	**5.6**	**0.1**	**-**	**193.8**	**34.5**	**234.0**
Accumulated depreciation						
On incorporation	-	-	-	-	-	-
Charge for the period	-	-	-	5.7	4.7	10.4
Disposals	-	-	-	-	(0.5)	(0.5)
At 1 July 2007	**-**	**-**	**-**	**5.7**	**4.2**	**9.9**
Net book value						
On incorporation	-	-	-	-	-	-
At 1 July 2007	**5.6**	**0.1**	**-**	**188.1**	**30.3**	**224.1**

Capital expenditure contracted but not provided as at 1 July 2007 was £1.3m million, relating to new restaurants.

Company

The Company has no fixed assets.

11 Investments

Company

	Subsidiaries £m
Cost and Net Book Value	
On incorporation	-
Acquisitions	7.9
At 1 July 2007	**7.9**

On 5 January 2007, the Company acquired the entire issued share capital of Gondola Finance 1 Limited (formerly Paternoster Finance 1 Limited) for cash consideration of £7.9m.

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

12 Stock

	Group 1 July 2007 £m
Raw materials and consumables	**9.3**

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

13 Debtors

	Group 1 July 2007 £m
Trade debtors	3.0
Other debtors	4.6
Prepayments and accrued income	11.6
	19.2

All of the debtors stated above are due within year.

14 Cash at bank and in hand

	Group 1 July 2007 £m	Company 1 July 2007 £m
Cash	12.9	0.2
Restricted cash	29.6	-
Short term deposits with bank	21.7	-
	64.2	**0.2**

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

£0.4 million on deposit with The Royal Bank of Scotland as security for Riposte Limited secured loan notes and £29.2 million on deposit with The Bank of Scotland as security for Gondola Acquisitions Limited secured loan notes (see note 15).

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

15 Creditors: amounts falling due within one year

	Group	Company
	1 July 2007	**1 July 2007**
	£m	**£m**
Loan notes – Secured	29.6	-
Amounts owing to subsidiary undertakings	-	0.2
Trade creditors	23.9	-
Other creditors	6.1	-
Corporation tax	2.6	-
Other taxation and social security	11.2	-
Accruals and deferred income	44.5	-
	117.9	**0.2**

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

Secured Loan Notes

Gondola Acquisitions Limited
On 22 December 2006 Gondola Acquisitions Limited (formerly Paternoster Acquisitions Limited) issued £29.2 million of £1 par value secured loan notes as part of the consideration paid to shareholders on the acquisition of Gondola Holdings plc (see note 22).

The payment of principal on the loan notes is guaranteed by Bank of Scotland plc and monies totalling £29.2 million were held on deposit which is included in cash at bank and in hand in the balance sheet as at 1 July 2007.

These loan notes bear interest at a rate of 0.5 per cent. below LIBOR for six-month sterling deposits.

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

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

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

As at 1 July 2007 £0.4 million of these loan notes were unredeemed.

The payment of principal on the loan notes is guaranteed by The Royal Bank of Scotland plc and monies totalling £0.4 million were held on deposit which is included in cash at bank and in hand in the balance sheet as at 1 July 2007.

These loan notes bear interest at a rate of 0.5 per cent. below LIBOR for six-month sterling deposits.

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

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

16 Creditors : amounts falling due after one year

	Group	Company
	1 July 2007	**1 July 2007**
	£m	**£m**
Bank loans – Senior Facilities (note 18)	534.4	-
Bank loans – Mezzanine Facilities (note 18)	59.4	-
Unsecured shareholder Loan Notes	318.8	-
	912.6	-

Senior Debt

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

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

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

The initial issue costs of the senior debt totalled £17.1 million, which are being amortised over the period from drawdown of the loan to the maturity dates. At 1 July 2007, the unamortised cost was £15.6 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 25.

Mezzanine Debt

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

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

Interest capitalised into the principal of the loan at 1 July 2007 was £1.1 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 25.

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 1 July 2007, the unamortised cost was £1.7 million.

Unsecured Shareholder Loan Notes

Between January and April 2007 Gondola Finance 1 Limited issued 296,461,166 £1 A loan notes, 6,429,464 £1 B loan notes and 509,151 £1 C loan notes at cost. The maturity date of the loan notes is December 2014. The loan notes accrue interest at a compound rate of 12.5 per cent. per annum.

Interest capitalised into the principal of the loan notes at 1 July 2007 was £18.5 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 1 July 2007, the unamortised cost was £3.1 million.

17 Provisions for liabilities and charges

	Deferred taxation	Onerous leases	Total
	£m	£m	£m
On incorporation	-	-	-
Acquired on acquisition of Gondola Holdings plc	19.1	1.7	20.8
Movement in period	(0.2)	-	(0.2)
At 1 July 2007	**18.9**	**1.7**	**20.6**

The onerous lease provision represents operating leases on properties no longer in use, until the end of their leases. It has been discounted at a rate of 5 per cent. per annum.

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

As at 1 July 2007, the Group has unrecognised deferred tax assets of £0.7m arising from brought forward tax losses. The directors believe that it is more likely than not that insufficient suitable profits will arise in future years to utilise these assets.

18 Financial Instruments

Policy

The Group does not use complex derivative financial instruments.

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

The Group had a small amount of purchases of certain goods from European suppliers during the period ended 1 July 2007 which do not exceed income received in Euros and hence there is minimal unhedged Euro exposure. The ongoing exposure to Euro purchases is minimal, however the Group's policy will continue to be to hedge any significant currency exposure.

The Group has bank borrowings at variable rates. The Group aims to minimise the effect of interest rate fluctuation, however the Group does not have a definitive stance on the balance between fixed and floating rate debt. As set out below, approximately 76.5 per cent. of the financial instruments will carry interest at a fixed rate as at 26 September 2007.

The Group manages its exposure to liquidity risk through pre funding of cash flow, maintaining a diversity of funding sources and spreading interest and debt repayments over a range of maturities.

18 Financial Instruments (continued)

Short term debtors and creditors

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

Interest rate risk profile of financial liabilities

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

	Group	Company
Sterling – Borrowings	**1 July 2007**	**1 July 2007**
	£m	**£m**
Fixed rate	736.9	-
Floating rate	225.7	-
	962.6	**-**

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

The effect of the Group's interest rate swaps (which become effective as at 26 September 2007) is to classify £415.0 million of sterling borrowings in the above table as fixed rate. At the period end, this debt was accruing interest at a floating rate.

Interest rate risk of financial assets

	Group	Company
Sterling – cash at bank and in hand	**1 July 2007 £m**	**1 July 2007 £m**
Fixed rate	7.5	-
Fixed rate – restricted cash	29.6	
Floating rate	14.2	-
No interest	12.9	-
	64.2	**-**

The Group has no financial assets, excluding short-term debtors, other than sterling cash deposits, restricted cash deposits and cash in hand amounting to £64.2 million which are part of the financing arrangements of the group. The fixed rate cash deposits in sterling are placed with banks on a 3 day rolling basis and earn interest at 5.5 per cent. Floating rate cash earns interest based on LIBOR and is available on demand. Cash deposits earning no interest comprise cash in hand and is available on demand. The restricted cash deposits comprise £0.4m on six-month deposit at an interest rate of 5.18 per cent. and £29.2m on six-month deposit at an interest rate of 6.13 per cent.

Notes to the financial statements (continued)

18 Financial Instruments (continued)

Currency exposures

At 1 July 2007 the Group had Euro denominated current liabilities, that were not denominated in Sterling, being the functional currency of the relevant Group company of £0.5 million. Other than these the Group had no material net foreign currency monetary assets and liabilities that were not denominated in the functional currency of the relevant Group company, as at 1 July 2007.

Borrowing facilities

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

Maturity of financial liabilities

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

The secured loan notes of £29.6 million are due in one year or less. Further details of their maturity dates are given in note 15.

The Company has no borrowings.

Hedges

The Group's policy is to hedge a significant portion of interest rate risk using interest swaps. At 9 February 2007 the Group had committed to an interest rate swap to commence from 26 September 2007. This swap will fix the interest rate of £415.0m of the senior debt at a rate of 5.66 per cent. until September 2008. The swap matures in March 2011.

As at 1 July 2007, the fair value of the interest rate swap was £7.6 million, which is an unrecognised gain at period end.

The Company has no unrecognised gains or losses.

19 Called up share capital

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

19 Called up share capital (continued)

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

- On sale, winding up or initial public offering ("IPO"), if certain valuation thresholds are met the Ordinary A and B shares convert into Deferred Shares at rates defined by the articles of association. As Deferred Shares are not entitled to participate in distributions below £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 to be allocated equally between Ordinary A, B and C shares, to the extent that the surplus assets after all liabilities have been settled amount to £1 billion. Distributions over above this amount are then allocated equally between Ordinary A, B, C and Deferred shares.

The following movements in issued share capital took place during the period:

- On incorporation, 1 Ordinary A Share was issued at par for cash consideration.

Each of the following equity subscriptions were settled either by cash paid to the Company's subsidiary, Gondola Acquisitions Limited, or by means of a redemption of loan notes held in Gondola Acquisitions Limited (see note 15) and settled through the relevant intercompany accounts accordingly:

- On 5 January 2007, 6,847,705 Ordinary A shares, 140,668 Ordinary B shares and 882,333 Ordinary C shares were issued at par.

- On 17 January 2007, 1,695 Ordinary B shares and 14,919 Ordinary C shares were issued at par.

- On 2 February 2007, 1,066 Ordinary B shares and 12,822 Ordinary C shares were issued at par.

- On 27 February 2007, 3,661 Ordinary B shares and 12,806 Ordinary C shares were issued at par.

- On 31 March 2007, 1,691 Ordinary B shares and 45,280 Ordinary C shares were issued at par.

20 Minority Interests

	Equity
	£m
On incorporation	-
Acquired on acquisition of Gondola Holdings plc (note 22(a))	0.7
Profit for the period	-
Acquisition of minority (note 22(b))	(0.7)
At 1 July 2007	-

The minority interests previously arose from the 0.4 per cent. holding by various minority shareholders in PizzaExpress Limited, which was acquired by the Group on 3 April 2007.

21 Reserves

Group	**Profit and loss account**
	£m
On incorporation	**-**
Retained loss for the financial period	(33.1)
At 1 July 2007	**(33.1)**

Company	**Profit and loss account**
	£m
On incorporation	**-**
Retained loss for the financial period	(0.1)
At 1 July 2007	**(0.1)**

22 Acquisitions

(a) The Gondola Holdings plc Acquisition

On 22 December 2006, Gondola Acquisitions Limited (formerly Paternoster Acquisitions Limited), a wholly owned subsidiary of Gondola Group Limited, acquired a controlling interest in Gondola Holdings plc upon declaring unconditional a public offer which valued the issued capital of Gondola at £549.6 million.

The total purchase consideration of £554.7m includes acquisition costs of £4.3m and stamp duty of £0.8m.

The total adjustments required to the book values of the assets and liabilities of Gondola Holdings plc acquired in order to present them at fair value in accordance with the Group's accounting policies was £5.8 million, details of which are set below, together with the amount of goodwill arising:

	Book value IFRS	**Accounting policy alignments**	**Revaluation**	**Total Fair Value (provisional)**
			£m	£m
Intangible fixed assets	0.7	(0.7)	-	-
Tangible fixed assets	207.2	11.8	(3.0)	216.0
Stock	10.1	-		10.1
Debtors	33.9	(11.1)	(0.3)	22.5
Cash	27.8	-	-	27.8
Creditors due within one year	(73.5)	0.8	-	(72.7)
Creditors due after more than one year	(352.5)	-	(2.5)	(355.0)
Provisions	(33.4)	12.6	-	(20.8)
Total assets/(liabilities)	**(179.7)**	**13.4**	**(5.8)**	**(172.1)**
Minority interest	(0.7)	-	-	(0.7)
Total assets/(liabilities) purchased	(180.4)	13.4	(5.8)	(172.8)
Total purchase consideration				(554.7)
Goodwill (note 9)				**(727.5)**

Cash acquired of £27.8m includes restricted cash of £0.4m.

Gondola Holdings plc previously published its results under International Financial Reporting Standards ("IFRS"). Certain adjustments are required to align accounting policies to UK GAAP, as adopted by the Group. The following adjustments have been made to the balance sheet of Gondola Holdings plc:

- Under IFRS, lease incentives are spread over the lease term. Under UK GAAP, the Group spreads the incentives over the shorter of the lease term or the period until the first rent review. This accounting policy alignment has decreased creditors due within one year by £0.5m.

- Under IFRS, interest rate swaps are fair valued at each balance sheet. Under UK GAAP, interest rate swaps are held at cost. Creditors due within one year amounting to £0.3m have been written back to the acquisition balance sheet accordingly.

- Under IFRS, lease premiums paid are recognised in the profit and loss account evenly over the lease term. Under UK GAAP, the Group recognises these payments as part of tangible fixed assets, depreciating the cost over the lease period. The impact of this accounting policy alignment at the date of acquisition is to reduce prepayments by £11.1m and to increase tangible fixed assets by £11.1m.

Notes to the financial statements (continued)

22 Acquisitions (continued)

- Under IFRS, software costs are held as intangible fixed assets, resulting in a reclassification of £0.7m of such costs from intangible fixed assets to tangible fixed assets.
- Under IFRS, a deferred tax liability is recognised for capital gains rolled over into newly acquired assets, contrary to UK GAAP. Accordingly, an adjustment of £2.6m has been made to reduce the deferred tax liability under UK GAAP.
- On business combinations made previously by Gondola Holdings plc, a deferred tax liability was recognised under IFRS reflecting the difference between the tax written down value of non-qualifying acquired assets and their fair value. This liability was £10.0m at the date of acquisition and has been reversed in order to align the accounting policies to UK GAAP.

At the date of the Gondola Holdings plc acquisition, a fair value exercise was carried out and the following revaluations identified:

- 4 restaurants were considered impaired, resulting in a fair value adjustment to tangible fixed assets of £3.0 million.
- Capitalised bank loan issue costs of £2.5 million were written off as the existing bank debt was repaid on acquisition;
- A debtor of £0.3 million was considered irrecoverable and subsequently fully provided;

The results of Gondola Holdings plc to the date of acquisition on 22 December 2006 were as detailed in the table below. These results are from 3 July 2006 and are stated under IFRS.

	£m
Turnover	323.3
Operating profit	27.9
Profit before tax	15.5
Profit after tax	7.1
Minority interests	(0.1)
Net profit	7.0

The profit after tax of Gondola Holdings plc in the 53 week period ended 2 July 2006 was £12.2m (as published under IFRS).

Gondola Holdings plc contributed £54.4m of the operating cash flow of the Group for the period from 22 December 2006 to 1 July 2007.

(b) Acquisition of minority interest in PizzaExpress Limited

On 3 April 2007, the Group paid £1.5m to acquire the remaining 0.4 per cent. of issued share capital PizzaExpress Limited, which was then owned by various shareholders external to the Gondola Group. Goodwill of £0.7m arose on this acquisition.

23 Notes to cash flow statement

a) Reconciliation of operating profit to operating cash flows

	Period ended 1 July 2007 £m
Group operating profit	12.6
Depreciation	10.4
Amortisation of goodwill	19.0
Decrease in stocks	0.7
Decrease in debtors	5.0
Increase in creditors	0.8
Net cash inflow from operating activities	**48.5**

b) Reconciliation of net cash flow to movement in net funds/(debt)

	1 July 2007 £m
Increase in cash	12.9
Cash inflow from movement in debt – Loan notes	(29.2)
Cash inflow from movement in debt – Bank debt and other borrowings	(558.3)
Cash outflow from movement in restricted cash	29.2
Cash outflow from movement in short term deposit at bank	21.7
Net debt acquired	(355.0)
Bank fees	22.3
Other non cash changes	(39.5)
Change in net funds resulting from cash flows	**(895.9)**
Net funds at beginning of period	-
Net debt at end of period	**(895.9)**

c) Analysis of changes in net funds/(debt)

	Cash at bank and in hand	Debt due within one year – Loan notes	Bank debt and other borrowings	Cash on short term deposit	Restricted cash	Total
	£m	£m	£m	£m	£m	£m
On incorporation	-	-	-	-	-	-
Acquisition	27.4	(0.4)	(355.0)	-	0.4	(327.6)
Cash flow	(14.5)	(29.2)	(536.0)	21.7	29.2	(528.8)
Non-cash changes	-	-	(39.5)	-	-	(39.5)
At 1 July 2007	**12.9**	**(29.6)**	**(930.5)**	**21.7**	**29.6**	**(895.9)**

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

24 Operating lease commitments

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

	1 July 2007
	£m
Land and buildings	
Within one year	0.4
In the second to fifth years inclusive	2.7
Over five years	36.5
	39.6
Other	
Within one year	0.1
In the second to fifth years inclusive	0.2
	0.3

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

25 Contingent liabilities

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

The amounts outstanding at the balance sheet dates for these loans were £565.0 million under the Senior Facilities and £63.4 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.

26 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

A fee of £8.0 million was paid to Cinven Limited, the ultimate controlling party of the Group (see note 27), in respect of equity and bank and shareholder loan arrangement fees in relation to the Gondola Holdings plc acquisition. There was no amount outstanding as at the balance sheet date.

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

Transactions with directors

On 12 February 2007 the Group acquired seven restaurants from PandoraExpress 2A Limited, (a subsidiary of PandoraExpress LP) for £1.

Harvey Smyth, a director of the Company, is a limited partner of PandoraExpress LP.

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 per cent. and are repayable on demand. The following loans were owed by directors and were outstanding as at 1 July 2007:

Harvey Smyth	£290,877

26 Related party transactions (continued)

Gondola Acquisitions Limited A Loan Notes

On acquisition by Gondola Acquisitions Limited, shareholders of Gondola Holdings plc were able to take part or all consideration in the form of Gondola Acquisitions Limited A Loan notes. Loan notes are redeemable at six month intervals from 31 December 2007 to 31 December 2010. They earn interest at 0.5 per cent. below LIBOR.

Loan Notes held by directors at 1 July 2007 were:

Bank of Scotland Branch Nominees Limited, as nominee for Harvey Smyth	£3,778,885

Gondola Finance 1 Limited A Loan Notes

On acquisition of Gondola Holdings plc, the Group introduced the "Gondola Investment Plan" for eligible employees and directors, in addition to the principal investment made by and on behalf of the Cinven Funds. Shareholders and directors purchased Gondola Finance 1 A Loan notes at cost. At 1 July 2007, the holdings of related parties was:

CB Luxembourg V S.a.r.l., a company owned by the Cinven Funds	£276,912,699

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

Y Chotai	£135,979
P Catterall	£101,975
C Miller-Jones	£1,203

Gondola Finance 1 Limited B Loan Notes

On acquisition of Gondola Holdings plc, the Group introduced the "Gondola Investment Plan" for eligible employees and directors, in addition to the principal investment made by and on behalf of the Cinven Funds. Shareholders and directors purchased Gondola Finance 1 B Loan notes at cost. At 1 July 2007, the holdings of related parties was:

The Cinven Funds	£1,466,135
Harvey Smyth	£2,658,591
Chris Woodhouse	£166,162
Nick Carter	£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 are as follows:

Y Chotai	£723
P Catterall	£543
C Miller-Jones	£6

27 Ultimate Parent Undertakings

At 1 July 2007 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 and Fourth Cinven (MACIF) LP (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.

28 Principal subsidiary undertakings

The principal subsidiary undertakings of the Group for the period ended 1 July 2007 were as follows:

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