

**TRAGUS GROUP LIMITED**

**DIRECTORS' REPORT AND CONSOLIDATED  
FINANCIAL STATEMENTS**

**52 week period ended 25 May 2008**

Registered number: 06022528

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**COMPANY INFORMATION**

**DIRECTORS:** G Thorley - Chairman  
J Baratta  
M Frass-Ehrfeld  
R de Botton  
A Roux  
G Turner  
M Mansigani  
J M Parsons

**AUDITORS:** PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

**BANKERS:** Barclays Bank PLC  
1 Churchill Place  
London  
E14 5HP

**SOLICITORS:** Ashurst  
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London  
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**REGISTERED OFFICE:** 1st Floor  
163 Eversholt Street  
London  
NW1 1BU

**REGISTERED NUMBER:** 06022528

**DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the 52 week period ended 25 May 2008. The comparatives are for the 24 week and 3 day period ended 27 May 2007.

**Business and principal activity**

Tragus Group Limited ("the Company"), together with its subsidiaries ("the Group") is one of the largest independently owned mid-market restaurant chains in the UK and operates primarily under the Café Rouge, Bella Italia and Strada brands. The company's parent company is Tragus Cayco Limited, a company incorporated in the Cayman Islands and ultimately controlled by private equity funds managed by The Blackstone Group in New York.

The company is a 100% owned subsidiary of Tragus Cayco Limited, and is the highest company in the group which is registered in England and Wales for whom Group accounts are prepared.

On 30 May 2007, the Group acquired Talisker Limited, the parent company of the group that operated restaurants under the Strada and Belgo brands for £75.6 million plus deal fees of £2 million.

**Results, dividends and future developments**

The results for the Group for the 52 week period ended 25 May 2008 show a loss after tax and before minority interest of £35,944,000 (24 week and 3 day period ended 27 May 2007: loss of £9,755,000).

The Group has net debt of £305,736,000 as at 25 May 2008 (27 May 2007: £198,812,000). No dividends have been declared in the period (2007: nil). The Group will continue to operate restaurants for the foreseeable future.

**Business environment**

The UK restaurant/eating out market is made up of a large number of operators ranging from single owner managed restaurants to large multi-site branded operations. Tragus Group Limited is one of the largest mid-market restaurant chain operators in the UK operating 269 restaurants as at 25 May 2008 (27 May 2007: 182 restaurants).

The overall trading environment became more challenging during the year. The poor 2007 summer weather restricted growth at Cafe Rouge where we have a high number of terraces.

The latter half of 2007 and into 2008 has witnessed deteriorating economic conditions and pressure on the consumer as a result of increases in interest rates and commodity cost increases. Whilst these are forecast to continue, we believe that the group will be resilient to these pressures because of the strength and breadth of the Group's brands, value for money offerings and the fact that eating out is now a habitual lifestyle choice. Inflationary cost pressures on our input costs and, in particular, our utility costs continue to be faced. Menu content has been kept under regular review in order to mitigate cost increases through menu re-engineering and the regular re-tendering of our supplier contracts.

Longer term, it is felt that the prospects for the eating out market remain positive due to socio-economic factors such as an ageing population, more females in work and lifestyle changes.

**Strategy**

The Group's vision is to be the UK's best mid-market multi branded restaurant operator by consistently delivering great food and service in distinctive and attractive restaurant surroundings.

The Group has six main strategies, which are:

- \* To grow organically by finding new developments or converting existing buildings.
- \* To continually develop and improve our existing brands through ongoing menu development, marketing initiatives and investment in the estate.
- \* To improve profitability through disciplined management and the use of technology and procurement initiatives.
- \* Ongoing investment in people through training and development programmes.
- \* Acquisitions; the UK restaurant market is highly fragmented and we will assess all consolidation opportunities that will enhance our strategic aims.
- \* To continually look at new opportunities and styles of eating.

**Principal risks and uncertainties**

The management of the business and the execution of the Group's strategy are subject to a number of risks. Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them. The key business risks affecting the Group are set out below:

*Supply Chain*

The Group has a large number of suppliers and prides itself on the quality of its product. The Group could be adversely affected by a fall in the standard of goods supplied by third parties. In order to mitigate this, all of the Group's food suppliers must carry the British Retail Consortium (BRC) approval. Furthermore, the Group's key suppliers are subject to an annual audit by an independent inspection company which checks and rates all aspects of the supplier's production process. Any suppliers who do not achieve the necessary minimum standards are de-listed. The group regularly re-tenders its food contracts to ensure the quality of product supplied.

*Employees*

The Group's performance depends largely on its managers and staff, both at a restaurant and head office level. The resignation of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Group's results. To mitigate these issues the Group have invested in a training programme for all staff to maintain high service levels and have a number of schemes linked to the Group's results that are designed to reward and retain key individuals.

## **DIRECTORS' REPORT**

### **Principal risks and uncertainties continued**

#### *Competition*

The Group operates in a highly competitive market particularly in respect of service offering, price and product quality. In order to mitigate this risk our marketing teams monitor market offerings and pricing on an ongoing basis and the group, through a third party, undertakes regular 'mystery diner' visits to all our restaurants to ensure menu offering and customer service are maintained to a high standard. In addition, the existing estate is subject to a rolling seven-year refurbishment programme.

#### *Input Price Increase*

The Group's margins can be adversely reflected by an increase in price of key raw materials, wages and overheads including utilities.

#### *Brand Risk*

Significant damage to one or more of the Group's brands is a principal risk. This could occur through a one off incident, such as a food scare, or a slow decline in a brand's appeal to its customer base. The Group manages the risk of a one off incident through day to day operational management. In addition, a rigorous supplier selection policy is applied. There is training for all staff on food safety including use of an e-learning programme. The risk of a slow decline in a brands appeal is managed through continuous menu innovation and marketing campaigns.

#### *Expansion Risk*

Over aggressive expansion could result in the Group acquiring unprofitable sites. To mitigate this risk the Group has a rigorous decision making process which includes strong financial and operational review. In addition, the Group has a dedicated property team with experience in identifying and securing new sites.

#### *Leverage Risk*

Under its facilities agreement the Group is subject to agreed financial covenants. Breach of these covenants would require re-negotiation and the requirement to raise additional funds from shareholders. This risk is mitigated by regular and thorough financial forecasting followed by close monitoring of these covenants. Appropriate action is taken to minimise risk.

#### *Fraud*

The Group operates multiple sites across the UK. Risk of fraud exists in misappropriation of assets, including cash banking, theft of stock and theft of cash takings. The Group mitigates this risk through management structure, regular financial review with and extensive use of business systems such as EPOS and stock management. Regular external financial audits are also carried out on all restaurants.

#### *General Economic Conditions*

The disposable income of customers and their leisure activity preferences are and will be affected by changes in the general economic environment. The group regularly reviews its product offering and engages with its customers to ensure it provides a value for money offering and meets its customers' needs.

### **Key performance indicators ("KPIs")**

The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures of progress that are reviewed on a regular basis to monitor the development of the group.

#### *Like for Like Sales*

This measure provides an indicator of the underlying performance of our existing restaurants, and highlights successful development of our offerings to best match changing consumer demands over time. Whilst the Company was only incorporated last year, the underlying like for like sales for the acquired companies increased by 3.4% year on year in respect of the key brands (2007: 9.7% excluding the Strada, Belgo and Bierodrome brands) due to the continued development of a high quality all day offering and high standards of customer service.

#### *Cash Return on Investment (CROI)*

During the year, the Group opened 36 new sites including eight concessions in Center Parcs and plans to open around 20 new sites in the current financial year. The expansion of the brands is a key driver of the Group's profitability. Potential new sites are subject to a rigorous appraisal process before they are presented to the Board for approval. This process ensures the quality of openings is maintained as well as the quantity of sites opened.

The investment into growing the estate has proved extremely successful with an average Cash Return on Investment (CROI) of 36.4% on the new sites opened in the Group during the last three years and trading for more than six months. CROI is the operating profit of a site expressed as a percentage of the capital cost.

**DIRECTORS' REPORT****Directors**

The directors who held office during the period were as follows:

G Thorley - Chairman  
 J Baratta  
 B Jacobs (resigned 1 August 2008)  
 M Frass-Ehrfeld  
 R de Botton  
 A Roux (appointed 1 August 2008)  
 G Turner  
 M Mansigani  
 J M Parsons

**Financial Risk Management**

The board of directors regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complicated financial instruments and where financial instruments are used they are used for reducing interest rate risk. The Group does not use derivative financial instruments for trading purposes. Group operations are primarily financed from retained earnings and bank loans. In addition to the primary financial instruments, the group has other financial instruments such as debtors, prepayments, trade creditors and accruals that directly arise from the Group's operations.

*Liquidity Risk*

Tragus Bidco Limited, a subsidiary of the Company holds the bank borrowings for the wider Group and these are available under a Facilities Agreement which was originally put in place in December 2006 following the acquisition of the group by Blackstone and amended in July 2007 following the acquisition of Strada. The Facilities Agreement is long term and is due for repayment in 2015-2017. The Facilities agreement is secured by a fixed and floating charge over certain of the Group's assets.

*Foreign Currency Risk*

Whilst no borrowings are denominated in foreign currencies, a number of suppliers are paid in foreign currencies, in particular the Euro. The Group has reviewed its exposure to foreign currency risk and has concluded not to hedge any foreign currency risk.

*Credit Risk*

Counterparty credit ratings are regularly monitored and there is no significant concentration of credit risk to any single counterparty. The Group has a large customer base and a significant proportion of cash sales. Counterparties for cash and derivative balances are with financial institutions with strong credit ratings and whilst there is exposure to losses, the Board does not expect them to fail to meet their obligations.

*Interest Rate Risk*

A subsidiary of the Company, Tragus Bidco Limited holds the debt of the Group. The Group borrows at variable rates and uses interest rate swaps and caps as cash flow hedges of future interest payments that have the effect of converting some of the borrowings from floating rate to fixed rate. Under the interest rate swap and cap agreement, the Group agrees with an external financial institution to exchange at specified intervals, the difference between the fixed contracted rate and floating rate, with interest amounts calculated by reference to an agreed notional principal amount. The related interest expense or income is recognised as interest payable or receivable. The following are the interest rate swaps and caps entered into by the Group:

Effective from 18 February 2005, the Group under Tragus Limited entered into an interest rate cap with a notional amount of £30 million increasing to £50 million on 1 June 2007 until 31 January 2008 at which date it terminated that capped interest at a fixed rate of 5.5%.

Effective from 15 June 2006, the Group under Tragus Limited entered into an interest rate swap for a notional amount of £30 million, reducing to £22 million in instalments until 31 May 2009 at which date it terminates. The fixed rate for the duration of the swap is fixed at 5.257%. On the same date, the Group under Tragus Limited entered into an interest rate cap with a notional amount of £50 million from 31 January 2008 to 31 May 2009 at an interest rate of 5.50%.

Effective from 8 February 2007, the Group entered into an interest rate swap with a notional value of £13.4875 million increasing to £51 million by the termination date of 31 December 2009 at a fixed rate of 6.035%. On the same date the Group entered into an interest rate cap with a notional value of £13.4875 million increasing to £51 million by the termination date of 31 December 2009 at a fixed rate of 6%.

As at the year end the mark to market (MTM) estimate of the above transactions was an amount payable from the counterparty of £539,000 (2007: £943,000).

**Creditor payment policy**

The Company's policy is to agree the terms of payments with its suppliers as and when a trading relationship is established. 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 25 May 2008 the Company had no trade creditors (2007: nil).

**Employee involvement**

The Board recognises the importance of employees being fully informed of events which directly affect them and their working conditions and to this end regular meetings are held with them. Senior employees receive a bonus based upon business performance.

**DIRECTORS' REPORT****Employment of disabled persons**

The policy of the Company and its subsidiaries is that, wherever it is practicable and reasonable within existing legislation, all employees, including disabled persons, are treated in the same way in matters relating to employment, training, career development and promotion. Every effort is made to retain and assist any individuals disabled during their employment. Full and fair consideration is given to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

**Donations**

No donations for political purposes have been made by the Company during the period. Charitable events, fund raising and sponsorship are organised by restaurants for organisations in their locality.

Customers of Café Rouge raised £12,428 for the British Red Cross and £13,633 for Marie Curie whereby 25p from every Moules du Café Rouge was donated to these charities. Customers of Café Rouge also raised £1,377 through other activities for Children in Need.

Customers of Bella Italia raised £16,118 for Tommy's the Baby charity and £8,939 for Children in need whereby 25p from every Penne Alpina Pasta dish sold was donated to these charities. Customers of Bella Italia also raised £620 through other activities for Marie Curie and British Red Cross.

Customers of Potter's raised £3,443 for Tommy's the Baby Charity whereby 10p from every children's menu meal paid for was donated to the charity.

In addition the Group encourages the restaurant managers to get involved with and support good causes in their local communities.

**Statement of directors' responsibilities**

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

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

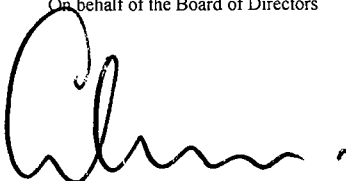
**Auditors and disclosure of information to auditors**

Each of the persons who is a director at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

Pursuant to section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP who were appointed by the directors during the prior year and have indicated their willingness to continue in office will be deemed to be re-appointed each year unless a resolution to terminate their appointment is made under section 386.

On behalf of the Board of Directors



DIRECTOR  
Graham Turner

10 September 2008

1st Floor  
163 Eversholt Street  
LONDON  
NW1 1BU

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRAGUS GROUP LIMITED

We have audited the Group and parent company financial statements (the "financial statements") of Tragus Group Limited for the 52 week period ended 25 May 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

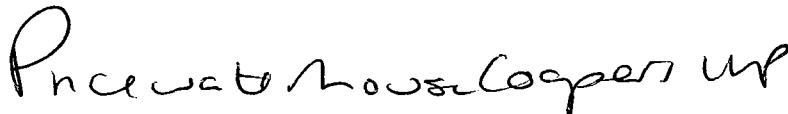
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 parent Company's affairs as at 25 May 2008 and of the Group's loss and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

15th September 2008

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**52 week period ended 25 May 2008**

		Existing operations before exceptional items period ended 25 May 2008	Exceptional items on existing operations period ended 25 May 2008 (note 6)	Acquisition period ended 25 May 2008 (note 2)	Total period ended 25 May 2008	Restated before exceptional items period ended 27 May 2007 (note 1)	Restated Exceptional items period ended 27 May 2007 (note 6)	Restated Total period ended 27 May 2007 (note 1)
Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>TURNOVER</b>	1	178,961	-	68,877	247,838	69,621	-	69,621
Cost of sales		(132,206)	-	(54,905)	(187,111)	(53,234)	-	(53,234)
<b>GROSS PROFIT</b>		46,755	-	13,972	60,727	16,387	-	16,387
Total administrative expenses		(41,974)	(15,118)	(3,435)	(60,527)	(12,723)	(726)	(13,449)
<b>OPERATING PROFIT BEFORE AMORTISATION AND DEPRECIATION</b>								
		31,180	(15,118)	12,721	28,783	12,204	(726)	11,478
Amortisation	11	(19,513)	-	-	(19,513)	(5,809)	-	(5,809)
Depreciation	12	(6,886)	-	(2,184)	(9,070)	(2,731)	-	(2,731)
<b>OPERATING PROFIT</b>	4	4,781	(15,118)	10,537	200	3,664	(726)	2,938
(Loss) / Profit on disposal of fixed assets		(134)	-	-	(134)	3	-	3
Interest receivable and similar income	9	74	-	131	205	97	-	97
Interest payable and similar charges	9	(35,674)	-	(14)	(35,688)	(10,146)	(2,063)	(12,209)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(30,953)	(15,118)	10,654	(35,417)	(6,382)	(2,789)	(9,171)
Taxation	10				(527)			(584)
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>					(35,944)			(9,755)
Minority interest	20				(4)			(5)
<b>LOSS FOR THE PERIOD</b>					(35,948)			(9,760)

All activities are in respect of continuing operations

The Group has no recognised gains or losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been prepared.

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above and their historic costs equivalent.

**CONSOLIDATED BALANCE SHEET**

**As at 25 May 2008**

	Notes	25 May 2008 £'000	27 May 2007 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	364,296	257,870
Tangible assets	12	<u>85,244</u>	<u>44,265</u>
		<b>449,540</b>	<b>302,135</b>
<b>CURRENT ASSETS</b>			
Stock - raw materials		1,891	1,143
Debtors	14	6,426	3,731
Cash	15	<u>15,768</u>	<u>23,771</u>
		<b>24,085</b>	<b>28,645</b>
<b>CREDITORS - amounts falling due within one year</b>	16	<u>(72,389)</u>	<u>(40,823)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(48,304)</u>	<u>(12,178)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>401,236</b>	<b>289,957</b>
<b>CREDITORS - amounts falling due after more than one year</b>	17	<b>(321,504)</b>	<b>(222,216)</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	19	<b>(15,277)</b>	<b>(6,475)</b>
Minority equity interests	20	<u>(30)</u>	<u>(26)</u>
<b>NET ASSETS</b>		<u><b>64,425</b></u>	<u><b>61,240</b></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	11,013	7,100
Share premium account	22	99,120	63,900
Profit and loss account	22	<u>(45,708)</u>	<u>(9,760)</u>
<b>SHAREHOLDERS' FUNDS</b>	23	<u><b>64,425</b></u>	<u><b>61,240</b></u>

These financial statements on pages 7 to 24 were approved by the Board of Directors and authorised for issue on 10 September 2008 and signed on its behalf by:



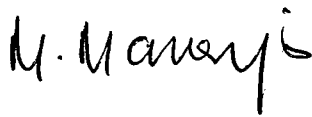
Director  
Mohan Mansigani

**COMPANY BALANCE SHEET**

**As at 25 May 2008**

	Notes	25 May 2008 £'000	27 May 2007 £'000
<b>FIXED ASSETS</b>			
Investments	13	110,133	71,000
<b>CURRENT ASSETS</b>			
Debtors	14	6,621	6,318
<b>CREDITORS - amounts falling due within one year</b>	16	<b>(6,621)</b>	<b>(6,318)</b>
<b>NET CURRENT ASSETS</b>		<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		<u><b>110,133</b></u>	<u><b>71,000</b></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	21	11,013	7,100
Share premium account	22	99,120	63,900
Profit and loss account	22	<u>-</u>	<u>-</u>
<b>SHAREHOLDERS' FUNDS</b>	23	<u><b>110,133</b></u>	<u><b>71,000</b></u>

These financial statements on pages 7 to 24 were approved by the Board of Directors and authorised for issue on 10 September 2008 and signed on its behalf by:



Mohan Mansigani  
Director

**CONSOLIDATED CASH FLOW STATEMENT****52 week period ended 25 May 2008**

	Notes	Period ended 25 May 2008 £'000	Period ended 27 May 2007 £'000
<b>Net cash inflow from operating activities</b>	24	45,705	9,553
<b>Returns on investments and servicing of finance</b>	25	(25,700)	(14,485)
<b>Taxation</b>		(248)	(526)
<b>Capital expenditure and financial investment</b>	25	(26,665)	(3,478)
<b>Acquisitions and disposals</b>			
Purchase of Tragus Limited		-	(136,875)
Purchase of Ma Potter's Limited		-	(11,767)
Purchase of Talisker Limited	2	(77,736)	-
Cash acquired on purchase of Tragus Limited		-	14,802
Cash acquired on purchase of Ma Potter's Limited		-	402
Cash acquired on purchase of Talisker Limited	2	2,681	-
<b>Net cash outflow for acquisitions</b>		<b>(75,055)</b>	<b>(133,438)</b>
<b>Management of liquid resources</b>			
Issue of loan notes		-	(15,892)
Repayment of loan notes		(16,646)	-
	18	<b>(16,646)</b>	<b>(15,892)</b>
<b>Financing</b>			
Issue of ordinary share capital to fund acquisitions	21	39,133	71,000
Repayment of loans acquired on acquisition of Tragus Limited		-	(113,787)
Repayment of loans acquired on acquisition of Ma Potter's Limited		-	(3,141)
Repayment of loans acquired on acquisition of Talisker Limited	2	(63,527)	-
Loan from fellow group undertaking	17	11,000	-
Eurobond issued		-	26,319
Repayment of loans in period		(95,000)	-
Drawdown of new loans in period		199,000	185,000
		<b>90,606</b>	<b>165,391</b>
<b>(Decrease) / Increase in cash in the period</b>	26	<b>(8,003)</b>	<b>7,125</b>

**Reconciliation of net cash flow to movement in net debt**

		Period ended 25 May 2008 £'000	Period ended 27 May 2007 £'000
(Decrease) / Increase in cash in the period		(8,003)	7,125
Movement in liquid resources		16,646	-
Movement in borrowings	26	(52,194)	(94,390)
<b>Change in net debt resulting from cash flows</b>		<b>(43,551)</b>	<b>(87,265)</b>
Borrowings acquired with subsidiaries		(62,806)	(116,928)
Non cash movement - loan expenses incurred		(567)	5,381
<b>Change in net debt</b>		<b>(106,924)</b>	<b>(198,812)</b>
Net debt at start of period	26	(198,812)	-
<b>Net debt at end of period</b>	26	<b>(305,736)</b>	<b>(198,812)</b>

**NOTES TO THE FINANCIAL STATEMENTS****Period ended 25 May 2008****1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Companies Act 1985 and applicable accounting standards in the United Kingdom. The accounting policies adopted by the directors which have been consistently applied, are described below:

**Accounting convention**

The financial statements are prepared on the going concern basis and under the historical cost convention.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. The acquisition method of accounting has been adopted. Under this method, the results and cash flows of subsidiary undertakings acquired are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

Under Section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The Company's result for the financial period is disclosed in note 22.

**Goodwill and intangible fixed assets**

On the acquisition of a business, fair values are attributed to the group's share of identifiable assets and liabilities. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the period of acquisition. Purchased goodwill is amortised to nil by equal annual instalments over the directors' estimate of its useful life of 20 years. On acquisition, directors make estimates to the fair values of the assets acquired. If necessary, these are revised in the year after acquisition. Capitalised purchased goodwill in respect of subsidiaries is included within intangible fixed assets.

**Tangible fixed assets**

Depreciable fixed assets are written off on a straight line basis over their estimated useful lives as follows:

- Leasehold improvements are depreciated to their estimated residual values over their remaining lease periods, except where the anticipated renewal or extension of the lease is sufficiently certain that a longer estimated useful life is appropriate. Current legislation and the terms of the lease contracts are such that in most instances, leases are readily extendible by an additional 14 years. The maximum depreciation period for leasehold improvements is 30 years. In the current period, adopting this policy has resulted in a total net decrease in depreciation charged for the year of £618,600.
- Furniture, fixtures and equipment are depreciated over 4 to 25 years.
- IT systems and equipment are depreciated over 5 to 8 years.

The carrying values of tangible fixed assets are reviewed for impairment if 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. Profits and losses on disposal of fixed assets reflect the difference between net selling price and net book value at the date of disposal.

**Investments**

Investments are stated at cost less provision for any impairment in value.

**Stock**

Stocks are valued at the lower of cost and net realisable value.

**Vacant properties**

Onerous contract provisions are made for the future net costs of leasehold properties which are vacant, loss making or sub-let below passing rent. Provisions are based on estimated future net cash outflows.

**Taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not been reversed by the balance sheet date. Deferred taxation is not recognised when an asset is sold if it is more likely than not that the taxable gain will be rolled over. Deferred taxation assets are recognised to the extent that they are regarded as recoverable. Provisions for deferred taxation are not discounted. Deferred tax assets and liabilities are calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

The 2007 Finance Act reduced the main rate of UK corporation tax from 30% to 28% effective from 1 April 2008 and this change is reflected in these financial statements.

**Turnover**

Turnover is the value of goods and services sold at restaurants, solely within the United Kingdom, as part of the company's continuing ordinary activities after deducting sales based taxes. Turnover is recognised on provision of goods and services. The Directors consider there to be one business segment which faces the same risks.

**Prior period restatement**

Management have reviewed the allocation of costs between the cost of sales and administrative expenses in the period. Management consider cost of sales should include all costs of operating the restaurants. The prior period profit and loss account has been restated to reflect this change in classification. This has resulted in a reclassification of £37.5 million from administrative expenses to cost of sales.

**Foreign exchange**

The consolidated financial statements are presented in sterling which is the company's functional and presentation currency. Tragus Bidco Limited has an intercompany loan with Tragus Luxco S.a.r.l. which does not trade but has intercompany loans with the company and small foreign exchange differences arise upon translation of Tragus Luxco S.a.r.l. balances which are in euros, into sterling. These limited foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Profit and Loss account. These are retranslated at period end closing rates.

