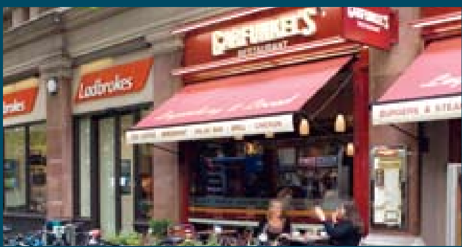
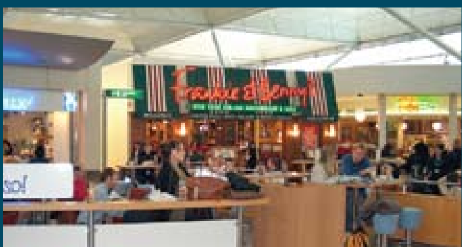
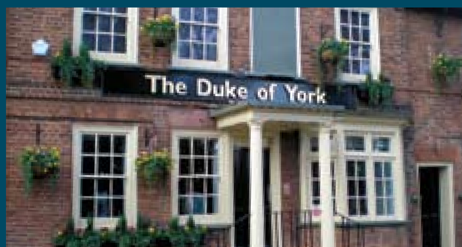
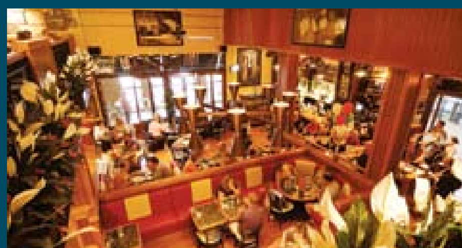
the
restaurant
group plc









Growing brands nationwide

Annual Report 2008

Who we are

The Restaurant Group plc operates 354 restaurants and pub restaurants predominantly in leisure locations and airports. Its primary offerings are Frankie and Benny's, Chiquito, Garfunkel's, Blubeckers and Brunning & Price.

Group highlights

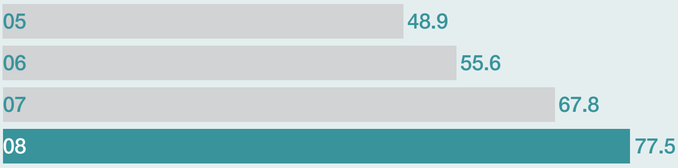
The Group performed strongly in 2008:

- 1.5% growth in like-for-like sales
- Revenue up 14% to £417m
- Adjusted EBITDA increased by 14% to £77.5m
- Adjusted profit before tax increased by 13% to £48.9m
- Adjusted EPS rose 14% to 16.7p
- Proposed final dividend of 6.3p per share giving a full year dividend of 7.7p per share, up 6%
- Statutory profit before tax increased by 10% to £47.1m
- Statutory EPS rose 10% to 16.4p

* Results marked as adjusted are stated excluding non-trading items (refer to note 2 of the financial statements)

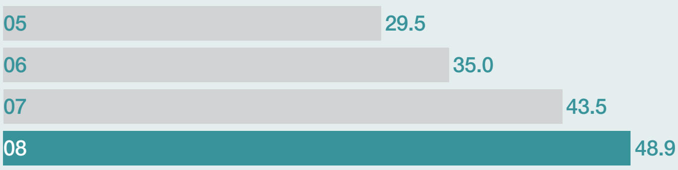
Financial highlights

Adjusted EBITDA (£m)



+14%

Adjusted profit before tax (£m)

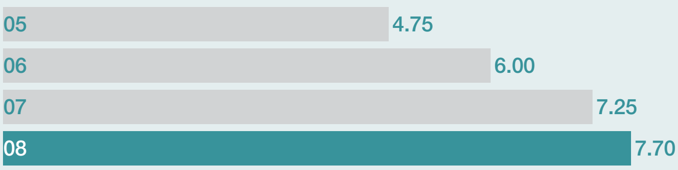


+13%

Adjusted EPS (p)

+14%

Adjusted dividend per share (p)



+6%

Continuing commitment to our successful business model

At a glance

Frankie & Benny's

An unbeatable combination of classic American and traditional Italian dishes.

One of the UK's most popular family restaurant brands, Frankie & Benny's trades successfully in leisure, retail and airport locations nationwide.

Frankie & Benny's brings together the best of classic American-Italian style cuisine. Alongside favourites including char-grilled burgers, steaks, pizza and pasta are house specialities such as chicken parmigiana and BBQ ribs.

Inside, Frankie & Benny's has the atmosphere of a favourite family-run restaurant. From the clear view of the open kitchen to the bottle lined bar, it takes you back to 1950's New York. Take a seat in a cosy booth and look at the family snapshots showing life in the Lower East Side of the Big Apple whilst listening to classic 50's American swing.

Chiquito

With its unique blend of sizzling Mexican and Tex-Mex food, refreshing margaritas and friendly service, Chiquito delivers a fiesta for everyone.

Entering its 20th year with over 60 UK outlets, Chiquito delivers a sunny, spicy extravaganza served up in a fun and lively atmosphere.

There are burritos, chilli, nachos, wraps and tacos – and the famous sizzling fajitas, smoking on a redhot skillet! Or you can enjoy the Texas BBQ ribs, juicy burgers or steaks. The Kids' Menu offers a wide range of (less spicy) dishes.

The bar showcases signature margaritas, classic tequilas and cocktails alongside refreshing ice-cold beers and soft drinks.

Stylish interiors and lively Latin American music add to the atmosphere, whether you visit a lazy lunch, an exciting evening or fiesta occasion!

Garfunkel's

After trading successfully in the UK's most competitive locations for 30 years, Garfunkel's provides the reassurance of a familiar face, well-known for its quality of service, great menu choice and affordable prices.

The menu features favourite dishes from around the globe, including a range of steaks, burgers, pasta, chicken, grills, omelettes and the famous salad bar.

Whether you want coffee and a pastry, breakfast, lunch, a light snack, afternoon tea, dinner or just a relaxing drink while you watch the world go by, you will always receive a warm welcome at Garfunkel's.

Blubeckers

Blubeckers mixes the best of the past with the best of the present to create a welcoming pub restaurant you can enjoy every day, more than 20 locations in the South of England.

Open all day, you can pop in for a pint of real ale and a pie at the bar or have a glass of wine and a steak in our comfortable restaurant areas. There's friendly, engaging service from the moment you arrive, ensuring that all your needs are taken care of.

Our chefs use the best quality ingredients to prepare a menu that combines traditional favourites with world influences. Seasonal specials regularly feature, but our signature burger and ribs remain constants on the menu since we opened our doors for the first time, over 25 years ago.

Investing in businesses that perform

Our locations

Brunning & Price

Brunning & Price is a family of 15 “proper pubs” located in Wales, the North West and South of England. The founders of the business have run informal places for people who like to meet, talk, eat and drink in a relaxed friendly atmosphere since 1981.

Set in beautiful locations, each pub has a ‘local’ feel. In all our pubs we offer imaginative home cooking, a variety of cask conditioned beers, good wine and classic malt whiskies all served by friendly staff in relaxed, comfortable, classic interiors that feature open fires, antique furniture, blackboards, and an intriguing mix of books and pictures.

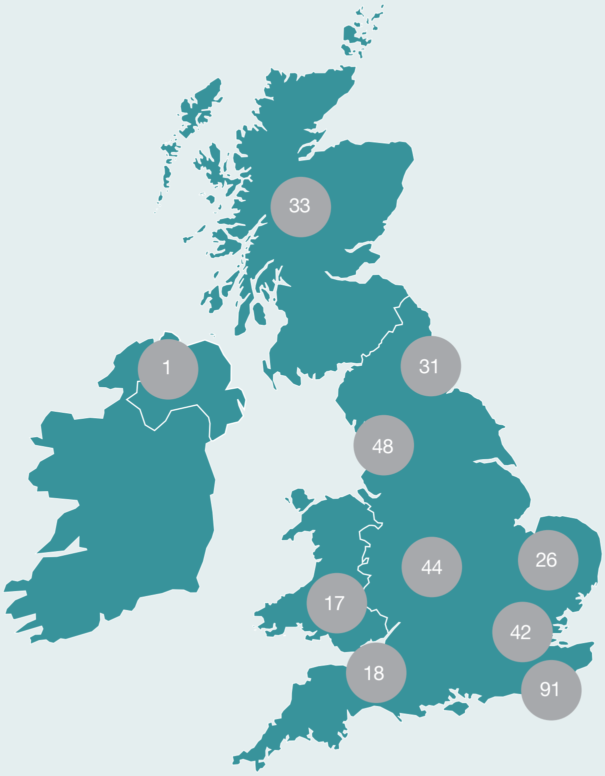
In 1997, 2004 and 2007 Brunning & Price was voted Pub Group of the Year by the Good Pub Guide.

TRG Concessions

TRG’s Concessions division has a market-leading reputation for developing partnerships to deliver catering solutions that meet the needs of our clients and their customers.

Currently operating approximately 50 outlets in the UK’s busiest airports, other transport locations and shopping centres, we have almost 20 years of experience providing hospitality to the travelling public. Our specialist operating knowledge and flexibility ensures successful performance across our diverse brand portfolio, covering a wide range of popular categories including table service, counter service, sandwich shops, pubs and bars.

To meet client needs we deliver existing TRG brands, create bespoke concepts or establish partnerships to franchise brands from third parties as appropriate. Building on our track record of innovation, partnership and performance ahead of sector growth will ensure we remain a market leader in this exciting sector.



Scotland – 33
19 Frankie & Benny’s
06 Chiquito
07 Garfunkel’s
01 TRG Concessions

Northern Ireland – 1
01 Frankie & Benny’s

Wales – 17
09 Frankie & Benny’s
03 Chiquito
05 Brunning & Price

South West – 18
11 Frankie & Benny’s
06 Chiquito
01 Garfunkel’s

South East – 91
33 Frankie & Benny’s
10 Chiquito
19 Blubeckers & Edwinns
27 TRG Concessions
02 Brunning & Price

London (inside the M25) – 42
11 Frankie & Benny’s
06 Chiquito
14 Garfunkel’s
07 Blubeckers & Edwinns
04 TRG Concessions

East – 26
14 Frankie & Benny’s
02 Chiquito
03 Blubeckers & Edwinns
07 TRG Concessions

Midlands – 44
33 Frankie & Benny’s
08 Chiquito
03 TRG Concessions

North West – 48
24 Frankie & Benny’s
11 Chiquito
05 TRG Concessions
08 Brunning & Price

North East – 31
21 Frankie & Benny’s
09 Chiquito
01 TRG Concessions

Number of restaurants

354

2007 **330**
2006 **284**
2005 **237**

Openings in 2008

40

2007 **36**
2006 **34**
2005 **32**

Investment in new restaurants

£36m

2007 **£38m**
2006 **£29m**
2005 **£25m**

Chairman's statement

Alan Jackson, Chairman

"Our strong business model and resilient market positioning, combined with affordable offerings, enabled the Group to produce a record set of results."

I am very pleased to report that The Restaurant Group ("TRG" or "the Group") produced a record level of profits and earnings per share in 2008. During what became an increasingly challenging environment for our sector, TRG built on its strong first half performance to deliver growth in both revenues and earnings per share for the full year. Set against a deteriorating marketplace for consumer-facing businesses, this represents a strong and very resilient performance. During 2008 TRG's like-for-like sales grew by 1.5%, we sold over 33 million meals (including nearly four million children's meals), opened 40 new restaurants and created approximately 600 new full and part-time jobs.

Despite the rapid deterioration experienced in the UK economy during the second half of 2008, the Group was able to build on its successful first half performance and further grow revenues, profits and earnings during the second half of the year. Full year revenues increased by 14% to £417m (2007: £367m), adjusted profit before tax increased by 12.5% to £48.9m (2007: £43.5m) and adjusted earnings per share increased by 14% to 16.67p (2007: 14.64p). Following on from two successive years of 27% growth in adjusted earnings per share, this represents continued good progress. Accordingly, the Board is recommending a final dividend of 6.30p per share (2007: 5.99p) giving

Implementing a robust strategy

a total for the year of 7.70p (2007: 7.25p) per share, an increase of 6%. Subject to approval at the Annual General Meeting, the final dividend will be payable on 8 July 2009 to shareholders on the register on 12 June 2009 and the shares will be marked ex-dividend on 10 June 2009.

At the end of 2005, TRG embarked upon its strategy of focusing on two core segments (Leisure and Concessions) and 2008 was the third full year of trading in this form. Our results since adopting this strategy have been consistently strong and it is our intention to continue to focus our efforts in these two areas.

Both divisions, Leisure and Concessions, performed well during 2008 growing both revenues and profits. During the year we opened a total of 40 new restaurants and, overall, we are delighted with their performance. Our plans for new openings during 2009 have been impacted by a slowdown in new construction projects. The credit crunch and a deterioration in the retail marketplace has resulted in many of our potential landlords delaying new development projects and this has particularly impacted the edge and out of town leisure and retail parks market. Consequently, we now anticipate that we will open between 15 and 20 new restaurants during 2009. Whilst this is less than we had previously anticipated, it enables the Group to retain more of its cashflow which can, if appropriate, be deployed at a later stage to pursue fresh opportunities within our chosen market segments.

Our Leisure division, which incorporates Frankie & Benny's, Chiquito, Garfunkel's and Pub Restaurants, enjoyed another successful year. Brunning & Price, which we acquired in October 2007, produced an excellent performance during its first full year of TRG ownership with growth in like-for-like sales, revenue and profits. During the year we opened 31 new restaurants and pub restaurants within our Leisure division – these are trading well and are set to deliver strong returns. For the year as a whole, the Leisure division delivered a strong performance with growth in both revenues (up 15%) and profit (up 12%). We plan to open between 13 and 15 new restaurants in our Leisure division during 2009.

The Concessions division also performed well during 2008, recording an increase in revenues (up 7.5%) and profit (up 2%). 2008 was an exceptionally busy year for this division with nine new openings and 11 sites closing. During the first half year we opened four sites at Heathrow's new Terminal 5 and four new sites at Gatwick South. Overall, the performance of these new openings has been good and is set to improve further as T5 and Gatwick South increase their passenger numbers. We plan to open between two and five new airport sites during 2009.

In what was a difficult year for UK consumer-facing businesses, these results represent a strong performance from TRG and reflect the hard work and dedication of our Directors, senior management team and all of our staff. On behalf of the Board I would like to thank them all for their valued contribution over the past year.

Whilst 2008 was the most challenging year that our industry has experienced over the past decade or more, it looks likely that 2009 will be even more challenging. Although not immune to the adverse impact of the UK recession, TRG occupies a resilient position within the popular price-point dining out marketplace and is well-equipped to strengthen its market position further.

2009 has started reasonably well, with like-for-like sales for the first nine weeks of the year 2.5% below 2008 levels. Despite the more difficult backdrop we are confident that TRG is well positioned to weather this recession, to capitalise on opportunities that may arise and to continue with its profitable development in the same focused and sustainable manner as it has done to date.

Alan Jackson
Chairman
4 March 2009

* Results marked as adjusted are stated excluding non-trading items (refer to note 2)

Earnings per share

16.67p

2007 **14.64p**
2006 **11.50p**
2005 **9.08p**

Dividend per share

7.70p

2007 **7.25p**
2006 **6.00p**
2005 **4.75p**

Chief Executive's review of operations

Andrew Page, Chief Executive

"2008 was another year of good progress, building on the strong performance of the previous year."

At the beginning of 2008 we were concerned that a less favourable outlook for the UK economy combined with tightening conditions for the consumer would present significant challenges for our sector during the year ahead. At that time inflationary headwinds were also building and, although we had mitigated the risk of this via fixed or capped price contracts in respect of approximately one third of our input costs, those too were anticipated to make profit progress more difficult to achieve. In addition, many of the other operators in our sector had, since the end of 2007, adopted a tactic of deep discounting in order to stem declining sales. Against what looked set to become a more challenging and potentially divergent marketplace we framed our strategy and tactics accordingly and I am pleased to report that this has enabled TRG to enjoy another year of good progress.

Against the well-documented challenging economic backdrop, both of our divisions performed well during the year delivering growth in both revenues and profit. Margins too held up well with a 10 basis point increase in the EBITDA margin to 18.6% (2007: 18.5%) and a 10 basis point decline in operating profit margin to 13.0% (2007: 13.1%). Our like-for-like sales also grew by 1.5%, which taken against increases of 5.0% and 5.5% in the two preceding years represents very solid progress. As a result, the Group again achieved a record level of adjusted profit before tax which increased by 12.5% to £49m and adjusted earnings per share which increased by 14% to 16.7p.

TRG rationale

Our core objective continues to be growth in shareholder value and our strategy to achieve this is to build a business capable of delivering long-term, sustainable and growing cashflows. I am pleased to report that, once again, we have successfully converted our profits into cash at a very healthy rate. TRG's business model enables the Group to grow in a predominantly organic and highly value-accretive way, funded from internally generated funds. Our touchstones are cashflow and return on investment.

TRG's primary focus is on edge of town, out of town, rural, semi-rural and airport locations. These locations have significant barriers to entry, offer good growth prospects and enable the Group to generate consistently high returns on investment. We occupy leading market positions in each of these segments and are well placed to continue to grow our business.

Capex and TRG opening programme

Our philosophy regarding capital expenditure remains consistent – that is, we focus on cash generation and return on invested capital at rates ahead of TRG's weighted average cost of capital.

Consistently strong returns

We will continue to apply the same high level of analytical rigour, commercial analysis, experience and risk adjustment to each capital project that we undertake. This approach has served TRG well over the last seven years and we do not intend to deviate from it. This means that projects that have been postponed or delayed by the developers will not be substituted with unduly risky and/or less attractive projects. Rather, we will retain our cash until such time as either the original projects reappear or other equally attractive opportunities become available. In the meantime, our surplus cashflow will be applied towards reducing debt.

Results

All of our key trading metrics performed well during 2008:

- Building on the 5% and 5.5% increases in like-for-like sales in 2006 and 2007, we grew this metric by 1.5% in 2008. During the year we sold more than 33 million meals;
- Revenue increased by 14% to £417m;
- Adjusted EBITDA increased by 14% to £77.5m and adjusted operating profit increased by 13% to £54.2m; and
- Group margins (EBITDA and operating profit) were held at last year's levels – a very satisfactory performance against a changing business mix, inflationary cost pressures and the 290 basis point increase in operating profit margins achieved since the beginning of 2005.

Leisure

	2008	2007	2006
Total revenue	£329.0m	£285.2m	£236.3m
Operating profit	£69.0m	£61.6m	£50.7m
Operating margin	21.0%	21.6%	21.5%

Frankie & Benny's (179 units)

Frankie & Benny's performed well during 2008 with turnover, EBITDA and operating profit all increasing. Whilst the EBITDA margin was maintained there was a very small decline in the operating margin. During the year we opened 21 new restaurants of which 13 were on non-cinema sites. The results from the new openings have been excellent and they are set to deliver strong returns. In 2009 we had intended to open a similar number of new restaurants to 2008 but we have, over the past six months, had a rising number of projects postponed or cancelled by the developers. We believe that this reflects two key factors – firstly a lack of bank finance available to property companies and secondly a deteriorating retail sector making it more difficult for landlords to secure tenants on projects with a retail component. Accordingly, as of March 2009, we now anticipate opening between 8 and 12 new Frankie & Benny's during the forthcoming year.

Chiquito (61 units)

Chiquito enjoyed another year of good progress with increases in revenues, EBITDA and operating profit. EBITDA and profit margins were maintained at the levels achieved in 2007. During the year we opened eight new Chiquito restaurants – these are trading well and are set to deliver good returns. During 2009 we expect to open between two and four new Chiquito restaurants. Again, we have seen strong performances from our co-located restaurants and we plan to continue to pursue dual roll-out opportunities.

Garfunkel's (22 units)

This year the Garfunkel's brand celebrates its 30th anniversary and it remains a strong business, predominantly located in central London, delivering high margins and excellent returns on invested capital. During 2008 Garfunkel's performed superbly and, although some restaurant closures (due to the expiry of leases) meant that turnover reduced, the overall profit increased by 15%. Margins also improved with significant increases in both EBITDA and operating profit margins. During 2009 we expect to open a new Garfunkel's in Tottenham Court Road on a redeveloped site upon which a very successful Garfunkel's previously traded.

EBITDA

£77.5m

2007 **£67.8m**
2006 **£55.6m**
2005 **£50.0m**

Profit before tax

£48.9m

2007 **£43.5m**
2006 **£35.0m**
2005 **£29.5m**

Chief Executive's review of operations continued

Pub Restaurants (44 units)

Overall our Pub Restaurant business performed steadily during 2008. Brunning & Price, which we acquired in October 2007, delivered a superb performance with growth in like-for-like sales, revenues and profits. Blubeckers, however, found the going tougher and this pattern persisted throughout the year. This was due, in part, to its geographical concentration in the South East and also to its price point which, combined with a more formal style of offering, means that it has less "everyday appeal". Where feasible, during 2009 we will be aligning the Blubeckers style of offering more closely to the less formal style of Brunning & Price as we believe that this will afford greater operational flexibility and will also appeal to a wider potential customer base.

At the start of 2008 we had anticipated opening between 5-10 new pub restaurants. In fact, we opened just two. The main reason behind our decision to scale back the openings in 2008 was due to our assessment, as we moved through the first half of the year, that the pub sector was likely to come under more pressure over the next year or so. Whilst this pressure may lead to further competitive discounting and pricing pressure in the near term it will, we believe, yield some potentially lucrative opportunities to grow our Pub Restaurant business in the future. Accordingly we have, for the time being, decided to "keep our powder dry" in the expectation that over the next couple of years we will have the opportunity to use our resources to greater effect. Longer-term we believe that this business has the potential to grow significantly.

Concessions

	2008	2007	2006
Total revenue	£87.3m	£81.2m	£72.5m
Operating profit	£12.7m	£12.5m	£11.1m
Operating margin	14.6%	15.4%	15.3%

Despite a number of factors impacting adversely upon our Concessions division during 2008, the business recorded a very creditable set of results. Turnover and profits both increased although, as previously anticipated, profit margins came under pressure slipping by 80 basis points to 14.6%.

2008 was a challenging year for several reasons including large scale changes at Heathrow airport (including the opening of the new Terminal 5) and major redevelopment at Gatwick South. Since the fourth quarter of 2008 we have experienced a decline in passenger numbers ("pax") at many of our airport locations and this has also impacted our Concessions business. Notwithstanding these factors, our team has responded magnificently to ensure that the adverse revenue impact resulting from both airport disruptions and pax declines was

Efficient model for value creation

minimised, and that operational efficiencies were secured. The result was like-for-like sales growth in every quarter and an increase in profits over the year.

Looking forward into 2009, we are cautious about the outlook for airports. A global recession with the prospect of declining GDP is likely to impact air travel adversely and thus pax for much, if not all, of 2009. Beyond this it is difficult to make a call but we do know from past experience that firstly, TRG has an outstanding track record of positively outperforming pax changes and secondly, the medium and longer – term trends for this sector are strong with pax growth forecast to trend ahead of GDP growth and with a growing number of passengers flying with low cost airlines. 2009 is likely to be a year where we focus on continuing to outperform pax and to carefully control our costs. Our Concessions business is in good shape, it is the pre-eminent operator in UK airports, has an outstanding team of experienced staff and continues to generate good returns.

Additionally, the average length of our airport concessions has increased significantly over the past year. This should leave TRG well placed in the event of changes in individual airport ownership.

Non-core

During the year non-core losses decreased by £0.6m and we will continue to take steps to minimise these non-core losses.

Market dynamics and economic backdrop

Eating out has become an increasingly popular pastime for large parts of the UK population in recent years with growth trending at levels ahead of GDP growth and we remain confident that the prospects for our market are positive. Socio-economic factors such as an ageing population, more females in work and levels of disposable income significantly higher than in previous generations augur well for our industry. Eating out, particularly at our popular price points (£10-£16 spend per head), is a relatively “small ticket” item for most people and for many it has become a habitual part of their lives and something that they are reluctant to give up.

Nevertheless, eating out represents, to a significant degree, discretionary spend and as such can be flexed according to consumers’ disposable income and confidence. It would therefore be naïve to assume that our business is impervious to the recessionary forces and deteriorating economic backdrop currently besetting the UK. To date, TRG has demonstrated a level of resilience and popularity with diners that has enabled it to continue to grow revenues and profits and, at the same time, maintain margins – we are determined to continue this. There are a number of factors that have enabled TRG to withstand the economic downturn. These include our distinct market positioning in segments with lower supply-side risk, our price point (and avoiding the deep discounting that has pervaded large parts of the market), offerings which have wide appeal to most socio-economic groups and a commitment to delivering great hospitality to our customers.

There is no doubt that we currently face the most difficult economic backdrop experienced for at least two generations. The issues are many and complex. The rapidity with which the global economy has deteriorated over the past twelve months has been astonishing. Twelve months ago there was great concern about global inflation and this was being particularly felt in our sector. Today the concerns have moved on to worries of worldwide deflation, stretched public and private sector finances, rising unemployment and a global recession. Furthermore, a lack of liquidity in the banking system is making life difficult for both corporates and consumers. This has become serious as it adds a further deflationary and negative dimension to the slowdown. The reaction of most governments and central authorities has been to launch initiatives to reflate economies and the UK has been at the forefront of many of these. Both fiscal

Operating profit margin

13.0%

2007 **13.1%**
2006 **12.5%**
2005 **11.1%**

Dividend cover

2.16

2007 **2.02**
2006 **1.92**
2005 **1.91**

Chief Executive's review of operations continued

and monetary stimuli have been harnessed, potentially including the relatively untried technique of quantitative easing. Interest rates are now at the lowest level on record and may yet go lower. Meanwhile unemployment levels have risen.

The two key macro-economic drivers for consumer spend which tend to influence our marketplace are interest rates and employment levels. The latter is likely to act as a drag for some time whilst a reduction in the former has yet to feed through into increasing consumer spend whilst uncertainty over job security, and a desire to pay down household debt and rebuild household savings, persists. Nevertheless the significant reduction in interest rates combined with lower inflation should mean that disposable incomes increase and in due course this will lead to an increase in consumer spend.

GDP changes have moved into negative territory and the outlook for 2009 is for a decline of 3% or more. Therefore, in the short-term it looks highly likely that things may become more difficult. Some commentators have suggested that the UK will emerge from the recession in the second half of 2009 and that there will be a resumption of growth in 2010. We believe that it is too early, and that there is still too much uncertainty, to make that call. We have factored into our planning a further deterioration in the outlook for the UK economy in 2009.

It is our intention to work hard to sustain those positive factors that have, to date, enabled TRG to withstand the deteriorating situation and grow sales and profit. We will also re-enforce our emphasis on tight cost control and judicious, value-accretive, expansion. TRG plans to continue to focus on those areas of business that it knows well and where it has expertise. Having eschewed the trend in recent years to replace permanent capital with debt we are well-placed to continue our expansion through new openings and should suitable new site opportunities arise TRG should be well-positioned to exploit them. As always our touchstones will be cashflow and return on investment.

Future prospects

Against a backdrop of further UK economic deterioration we have started the year reasonably well with like-for-like sales for the first nine weeks 2.5% below 2008 levels. This represents a good improvement on the trends experienced in the final two months of 2008.

Whilst the short-term outlook for the UK economy and consumer-facing businesses is trickier and may make life difficult for many companies, we believe that beyond the short-term it is likely to have a cathartic and positive effect upon our sector. The reasons for this are two-fold: firstly, some operators will withdraw or significantly downscale their plans and secondly, it is likely, for some time, to deter new entrants. Combined, these factors should act as a brake on restaurant supply and the positive impact of this is likely to be felt for some time. Looking forward, companies with sound finances and strong market positions will emerge from this recession in a significantly enhanced position. TRG is well placed to strengthen its position within its two chosen business segments and to continue its profitable development.

Finally, I would like to record my thanks and appreciation to the TRG team. We asked a great deal of our people in 2008 and they responded magnificently. Without their unstinting efforts and professionalism we would not have been able to make such good progress. Our focus is now directed to 2009 and beyond and we are again looking to our staff to re-double their efforts. I am confident that they will do so.

Andrew Page
Chief Executive Officer
4 March 2009

* Results marked as adjusted are stated excluding non-trading items (refer to note 2)

Strong market positions

Group Finance Director's report

Stephen Critoph, Group Finance Director

"Our strong financial position means that we are able to maintain an appropriate level of investment in the existing estate."

Results

The Group has recorded another very satisfactory set of financial results. Total Group revenue increased by 14% to £416.5m. This was generated from a combination of like-for-like sales growth, a full year impact of new sites opened in 2007 and a part-year impact from the current year site openings.

Group EBITDA for the year was £77.5m (2007: £67.8m), or £79.4m after adding back the non-cash charge of £1.9m in respect of share-based payments. Total Group adjusted operating profit in the year was £54.2m, up 12.5% compared to the prior year. As noted in the Chief Executive's review, the Group's operating margin held up more strongly than we had anticipated earlier in the year at 13.0% (2007: 13.1%). This commendable performance resulted from a determined focus on managing all elements of our cost base against the background of a challenging trading environment and substantial inflationary pressures on some of our key cost lines.

Total interest costs increased to £5.3m (2007: £4.0m). This increase was primarily due to the impact of a full year's interest charge in respect the increased levels of debt resulting from the Brunning & Price acquisition in October 2007.

Total Group adjusted profit before tax and non-trading items was £48.9m, an increase of 12.5% compared to the prior year. This resulted in underlying EPS of 16.67p, an increase of 14% compared to 2007.

Non-trading items

The full year results include a net charge before tax for non-trading items of £1.8m compared to a charge of £0.7m last year. The principal components of this are:

- A £0.3m net profit on some minor property disposals.
- A £0.6m charge in respect of one-off restructuring costs in the Leisure division.
- A charge of £1.5m arising on the revaluation of interest rate swap arrangements at the year end.

Interest cover

10.2x

2007 **12.1x**
2006 **12.0x**
2005 **17.5x**

Free cash flow

£49.5m

2007 **50.5m**
2006 **42.4m**
2005 **35.7m**

Group Finance Director's report continued

Capital expenditure

During the year the Group invested £46.7m in capital additions (2007: £47.4m) comprising:

- Development capital expenditure – £35.9m (2007: £37.8m).
- Maintenance and refurbishment – £10.8m (2007: £9.6m).

The Group is committed to maintaining the fabric of the existing estate. Our strong financial position means that we are able to maintain an appropriate level of investment in the existing estate, even in the current challenging economic environment.

During the year the Group opened a total of 40 new outlets, one of the largest opening programmes we have undertaken in recent years. After taking into account site closures (primarily in the Concessions Division at Heathrow and Gatwick Airports), we ended the year with 354 trading units. The table below summarises the openings and closures by brand.

	At 30/12/07	Opened	Closed	Re-branded	At 28/12/08
Frankie & Benny's	159	21	(1)	–	179
Chiquito	53	8	(1)	1	61
Garfunkel's	26	–	(3)	(1)	22
Pub Restaurants	42	2	–	–	44
Concessions	50	9	(11)	–	48
Total	330	40	(16)	–	354

The Restaurant Group is highly focused on ensuring that all our investments generate excellent returns on investment. In order to ensure that this is achieved we adopt a rigorous approach to capital investment appraisal. All new sites are subject to this process. As well as detailed financial evaluation this involves demographic, local competitor and market analysis. All significant projects are subject to Group Board approval and we conduct post completion reviews on a regular basis. These confirm that we are continuing to achieve financial returns at a very satisfactory level. This focus on returns from new investments and the post investment appraisal process has been a key driver of value for the Group in recent years.

Cash flow

Set out below is a summary cash flow statement for 2008. This demonstrates the very strong cash flow generation characteristics of The Restaurant Group and the very transparent conversion of reported operating profits into cash. Cash flow from operations was £78.8m. After paying interest costs, tax and maintenance capex the Group generated free cash flow of just under £50m. This free cash flow has been utilised to finance the Group's substantial opening programme and to pay total cash dividends in excess of £14m (a 17% increase in cash payments compared to the prior year).

£ million	2008	2007
Operating profit	**54.2**	48.2
Working capital & non-cash adjustments	**1.3**	6.0
Depreciation	**23.3**	19.6
Cash flow from operations	**78.8**	73.8
Interest paid	**(4.8)**	(3.4)
Tax paid	**(13.6)**	(10.2)
Maintenance capex	**(10.8)**	(9.6)
Free cash flow	**49.6**	50.6
Development capex	**(35.9)**	(37.8)
Dividends paid	**(14.2)**	(12.2)
Normalised net cash flow	**(0.5)**	0.6
Disposals (including Living Room)	**1.8**	8.6
Acquisition of Brunning & Price	**–**	(32.9)
Cash proceeds from issue of shares	**0.1**	1.1
Purchase of shares for employee benefit trust	**(3.6)**	(7.2)
Financing costs offset against bank debt	**(0.1)**	0.7
Change in net debt	**(2.3)**	(29.1)
Net debt at start of the year	**(76.6)**	(47.5)
Net debt at end of the year	**(78.9)**	(76.6)

Building on our solid financial base

Financing

The Group has committed banking facilities of £120m and a £10m overdraft facility. The committed bank facility was put in place in December 2007 and runs for five years until December 2012. At the year end the Group's net debt was £79m.

The Group has interest rate hedging instruments in place to fix interest costs on £65m of its total debt. £25m is fixed at a rate of 4.9% plus margin until January 2011; £20m is fixed at a rate of 3% plus margin until January 2012. A further £20m is fixed at 2.7% plus margin until January 2011.

The Group's banking arrangements contain two financial covenants and these are tested on a six monthly basis. The Group currently has substantial headroom against both of these covenants as summarised in the next section.

Balance sheet and key financial ratios

Total Group net assets increased in the year from £77.2m to £93.6m. The details of this movement are set out in the consolidated statement of changes in equity. The principal movements in the year are an increase of £32.2m, representing retained profits for the year, less dividends paid of £14.2m and a £3.6m charge to reserves in respect of the purchase of shares for the employee benefit trust.

The key financial ratios during the year were as follows:

	Covenant	2008	2007
EBIT interest cover	N/A	10.2x	12.1x
EBITDA interest cover	>4x	14.6x	17.0x
Fixed charge cover	N/A	2.4x	2.4x
Balance sheet gearing	N/A	84%	99%
Net debt / EBITDA	<3x	1.02x	1.13x

As is clear from this table, there is very substantial headroom against our banking covenants. Balance sheet gearing has reduced from 99% to 84% (net debt as a percentage of net assets). However, for a leased based business such as The Restaurant Group the key financial ratio in terms of gearing is fixed charge cover. In 2008 the Group's fixed charge cover was 2.4 times, in line with the previous year.

Taxation

The total taxation charge for the year was £14.9m as follows:

	Trading	**Non-trading**	**2008 Total**
Corporation tax	**15.0**	**(0.5)**	**14.5**
Deferred tax	**1.1**	**(0.7)**	**0.4**
Total	**16.1**	**(1.2)**	**14.9**

	Trading	Non-trading	2007 Total
Corporation tax	12.5	0.3	12.8
Deferred tax	2.3	(1.5)	0.8
Total	14.8	(1.2)	13.6

The average tax rate on trading activities has fallen from 34% in 2007 to 33% in 2008. This reflects a nine month benefit from the reduction in the headline rate of corporation tax from 30% to 28% (effective from April 2008) partly offset by other adjustments, notably a lower level of tax relief arising on the exercise of share options. The Group's average tax rate continues to be higher than the headline rate of corporation tax. This is primarily due to the significant level of disallowable expenditure within our capital expenditure.

Stephen Critoph
Group Finance Director
4 March 2009

* Results marked as adjusted are stated excluding non-trading items (refer to note 2)

Revenue

£417m

2007 **£367m**
2006 **£315m**
2005 **£302m**

Increase in like-for like sales

1.5%

2007 **5.5%**
2006 **5.0%**
2005 **3.0%**

Board of Directors

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1 Alan Jackson
Non-executive Chairman
Aged 65, he joined The Restaurant Group plc as Executive Chairman in March 2001 and became non-executive Chairman from January 2006. He has a wealth of experience in the leisure sector. For 18 years, from 1973 to 1991, he occupied various positions within Whitbread, principally Managing Director of Beefeater steakhouses and also the Whitbread restaurant division where he was responsible for the creation and development of Beefeater, Travel Inns and TGI Friday brands. After the Beer Orders in 1991 he founded his own business which became Inn Business Group plc in 1995 and was subsequently acquired by Punch in 1999. He chaired Oriental Restaurant Group plc until its sale to Noble House in 2000. Currently Alan is non-executive chairman of Luminar plc and Charles Wells Limited, and he is a non-executive director of Playtech plc.

2 Andrew Page
Chief Executive Officer
Aged 50, he joined The Restaurant Group plc as Finance Director in June 2001. In December 2003 he was appointed Group Managing Director and in January 2006 became Chief Executive Officer. His career has spanned both international and domestic businesses. Prior to joining The Restaurant Group plc, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels and Finance Director of Hanover International plc. Prior to that, Andrew spent six years as a Corporate Financier with Kleinwort Benson having trained and qualified as a Chartered Accountant with KPMG. Andrew became a non-executive director of Arena Leisure plc in December 2008.

3 Stephen Critoph
Group Finance Director
Aged 48, he was appointed as Finance Director of The Restaurant Group plc in September 2004. Previously he has held several senior finance positions in Compass Group plc and Granada Group plc, including Corporate Development Director of Compass Roadside and Finance Director of Travelodge and Little Chef. He trained and qualified as a Chartered Accountant with Deloitte & Touche.

4 Trish Corzine
Executive Director, TRG Concessions
Aged 51, she joined The Restaurant Group plc in 1993 as Area Manager for Garfunkel's which included the Group's airport operations. In 1997 she was appointed Brand Director of Garfunkel's and Airports, and in 1999 was promoted to Operations Director – Concessions. In March 2003 she was appointed Managing Director – Concessions and in October 2003 was appointed to the Board. Prior to joining The Restaurant Group plc, Trish worked for Häagen-Dazs then managed the Atacama Restaurant Group.

Strong, experienced direction

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5 John Jackson
Non-executive
Aged 62, he was appointed a non-executive Director of the Company in October 1996. He is CEO of Jamie Oliver Holdings Limited and is also senior non-executive director of Wilkinson Hardware Stores Limited and a non-executive director of Luminar plc. He was formerly chief executive of Semara plc, managing director of Body Shop International plc, chairman and managing director of Chesebrough Ponds Limited and chairman of Virgin Vie At Home, Victory Corporation Limited, and various other Virgin companies.

6 Tony Hughes
Non-executive
Aged 60, he was appointed as a non-executive Director of the Company in January 2008. He was managing director of the Restaurants Division of Mitchells & Butlers plc (previously Bass plc and Six Continents plc) from 1995 to 2007 and served on the Board of Mitchells & Butlers plc from 2003 to 2007. Prior to joining Bass, he held senior management roles at B&Q, J.A. Devenish and Whitbread. He is also a non-executive director of OJSC Rosinter Restaurants Holding.

7 Robert Morgan
Company Secretary
Aged 37, he joined The Restaurant Group in 2002 in the finance department and was appointed as Company Secretary in September 2004. Previously he worked in the finance function of Coca-Cola HBC S.A. having qualified as a Chartered Accountant with KPMG.

Report of the Directors

The Directors present their Annual Report and the Group Accounts for the year ended 28 December 2008.

Results and dividends

The results for the year ended 28 December 2008 are presented under International Financial Reporting Standards (“IFRSs”). The Report and Accounts are drawn up on a 52 week reporting basis (ending on 28 December 2008). The results for the year are set out in the Group consolidated income statement on page 37. This shows a Group profit after taxation of £32.2m (2007: £29.2m). An interim dividend of 1.40p per share was paid on 16 October 2008. The Directors propose a final dividend of 6.30p per share to be paid on 8 July 2009 bringing the ordinary dividend payable in respect of 2008 to 7.70p (2007: 7.25p).

Principal activity

The principal activity of the Group is the operation of restaurants and pub restaurants. Further information relating to the business including a review of the year’s performance and planned developments is given in the Chief Executive’s review of operations on pages 6 to 10.

Directors

Full details of the Directors of the Company are given on pages 14 and 15. The Directors who held office during 2008 were as follows:

Alan Jackson
Andrew Page
Stephen Critoph
Kevin Bacon (until 5 November 2008)
Trish Corzine
John Jackson
Tony Hughes
David Richardson (until 8 August 2008)
Andrew Thomas (until 6 February 2008)

Tony Hughes was appointed as a non-executive Director of the Company with effect from 1 January 2008. Kevin Bacon resigned from the Board on 5 November 2008, Andrew Thomas retired from the Board on 6 February 2008 and David Richardson resigned from the Board on 8 August 2008. In respect of 2008, each of the non-executive Directors (excluding the Chairman) is considered by the Board to be independent. John Jackson holds the role of senior non-executive Director. Alan Jackson transitioned from executive Chairman to non-executive Chairman on 1 January 2006 and following his tenure as an executive Director, is not considered to be an independent non-executive Director.

No Director has a service contract with the Company requiring more than twelve months notice. In accordance with the Articles of Association, the Director retiring by rotation is Alan Jackson who, being eligible, offers himself for re-election at the Annual General Meeting. John Jackson has been a non-executive Director of the Company for more than nine years, and, in accordance with corporate governance best practice, also offers himself for re-election. The Board considers John Jackson to remain independent and recommends his re-election as an independent non-executive Director.

During the year the Audit Committee comprised the following non-executive Directors:
John Jackson
Tony Hughes
Andrew Thomas (until 6 February 2008)
David Richardson (until 8 August 2008)

John Jackson is currently Chairman of the Audit Committee.

During the year the Remuneration Committee comprised the following non-executive Directors:
John Jackson
Tony Hughes
Andrew Thomas (until 6 February 2008)
David Richardson (until 8 August 2008)

Tony Hughes is currently Chairman of the Remuneration Committee.

During the year the Nominations Committee comprised the following Directors:
John Jackson (Chairman)
Alan Jackson
Andrew Page
Tony Hughes
Andrew Thomas (until 6 February 2008)
David Richardson (until 8 August 2008)

The Directors’ remuneration report, which includes details of Directors’ remuneration and interests in the Company’s shares and options, together with information on service contracts, is set out on pages 26 to 31.

Directors' shareholdings

The interests of the Directors in the shares of the Company, all being beneficially owned, were as follows:

	At 3 March 2009	**At 28 December 2008**	At 30 December 2007
Executive Directors			
Andrew Page	417,485	**417,485**	270,166
Stephen Critoph	77,581	**77,581**	43,250
Kevin Bacon (to 5 November 2008)	n/a	**n/a**	125,133
Trish Corzine	132,466	**132,466**	100,423
Non-executive Directors			
Alan Jackson	400,191	**400,191**	400,191
John Jackson	300,000	**300,000**	80,000
Tony Hughes	10,000	**10,000**	n/a
David Richardson (to 8 August 2008)	n/a	**n/a**	13,000
Andrew Thomas (to 6 February 2008)	n/a	**n/a**	52,388

Details of the Directors' share options are disclosed in the Directors' remuneration report on pages 30 and 31. The closing mid-market price of the ordinary shares on 28 December 2008 was 114.5p and the range during the year was 99p to 191.25p.

Share capital structure

The Company has one class of shares, ordinary shares of 28⅛p. The authorised share capital is 284,444,444 ordinary shares of 28⅛p. As at 28 December 2008, the allotted, called up and fully paid number of shares in issue was 196,738,838 shares. There are no preference shares or special rights pertaining to any of the shares in issue.

Following the 2008 Annual General Meeting the Directors have had the authority to allot shares up to an aggregate nominal amount of £18,979,354 which represented approximately one third of the ordinary share capital of the Company at the time the authority was given by shareholders. This authority expires at the Annual General Meeting to be held on 6 May 2009 and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority.

In addition, following the 2008 Annual General Meeting the Directors have the authority to make market purchases of shares in The Restaurant Group plc on behalf of the Company up to 19,662,684 ordinary shares (which represented 10% of the Company's issued ordinary share capital). The minimum price that may be paid for such shares is 28⅛p per share. The maximum price is the higher of 5% above the average middle market quotation for the ordinary shares for the five business days preceding the date of purchase and the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time the purchase is carried out. This authority expires at the forthcoming Annual General Meeting and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority.

The Group has entered into various contracts including leases during the course of ordinary business which may be terminated in the event of a change of control of The Restaurant Group plc.

Substantial shareholdings

At 17 February 2009 the Company had been notified of the following interests of 3% or more in the issued ordinary share capital of the Company:

	Number of shares	% of issued share capital
Lloyds Banking Group	11,951,429	6.07
Old Mutual Asset Managers	10,700,441	5.44
Legal & General Investment Management	10,066,802	5.12
Citigroup	8,660,580	4.40
F&C Asset Management	7,907,798	4.02
Rathbones	7,860,742	4.00
Standard Life	7,300,290	3.71
BAE Pension Fund Investment Management	6,716,984	3.41
JPMorgan Asset Management	6,460,588	3.28

Report of the Directors continued

Corporate governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the best practice provisions of the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council and the Guidance on Audit Committees, together "the Code". The Company has been in full compliance throughout the year with the provisions set out in the Code except for provisions concerning the number of Directors considered to be independent, and the independence of the Chairman.

The Board

The Board's role is to provide entrepreneurial leadership of the Company and Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board reviews the Group's strategic objectives and looks to ensure that the necessary financial and human resources are in place to achieve these objectives, and to review management performance against these objectives. The Board also sets the Company's values and standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders. The Board currently comprises the non-executive Chairman, the Chief Executive Officer, the Group Finance Director, the Executive Director of the Concessions division and two non-executive Directors. Their biographies appear on pages 14 and 15 and these demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital for the success of the Group.

John Jackson acts as senior independent non-executive Director and is available to shareholders if they have reasons for concern on which contact through the normal channels is inappropriate or has failed to resolve an issue.

The roles of Chairman and Chief Executive Officer are clearly defined. The Chairman is responsible for the leadership of the Board and the Chief Executive Officer is responsible for the strategic direction and operational management of the Group. The Board meets on a regular basis and there is a formal schedule of matters specifically reserved for its decision. This includes approval of the annual budget and the three year business plan, approval of the interim and year end Report and Accounts, review and approval of significant capital expenditure (including development of new sites), significant disposals of assets and acquisitions or disposals of businesses.

Operational management are responsible for the day-to-day running of the Group and report on a regular basis on that performance to the Board. The Board is responsible for reviewing, challenging and approving the strategic direction of the Group and monitoring operational performance. The Board is responsible to shareholders for the proper management of the Group and has access to the necessary information to enable it to discharge its duties. All Directors are subject to election by shareholders at the first opportunity after their appointment, except where they are appointed by shareholders, and to re-election thereafter at intervals of not more than three years.

There is significant involvement from the non-executive Directors. This involves an on-going dialogue with the executive Directors including constructive challenge of performance and the Group's strategy. The non-executive Directors are provided with sufficient information to allow them to monitor, assess and challenge the executive management of the Group. Comprehensive Board papers including financial information are circulated to all Directors prior to Board meetings and, on a weekly basis, they receive up-to-date trading information. The non-executive Directors have the opportunity to meet without the executive Directors present, and this includes discussions of targets set and achieved by management.

All Directors have access to the advice and services of the Company Secretary and a procedure has been agreed for the Directors in the furtherance of their duties to take independent professional advice, if necessary, at the expense of the Company. On joining the Board there is a process for Directors to receive training as to their role and its requirements and for non-executive Directors to gain an understanding of the whole business. Non-executive Directors are actively encouraged to meet with operational management and to visit the Group's operations in order to enhance their understanding of the Group's business, its brands, employees and processes. During 2008 there were nine Board meetings with full attendance by Board members apart from David Richardson who gave his apologies in respect of one meeting.

Executive Directors are included in the annual performance evaluation of all senior employees within the Group. This involves a comprehensive review of performance against objectives and covers areas for future development through appraisal documentation and meetings. The non-executive Directors also meet in the absence of the Chairman to appraise the Chairman's performance in the light of his fee review.

The Company acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars and to acquire skills and experience which may enhance their contribution to the on-going progress of the Group. The Board and committees of the Board have been subject to a formal performance appraisal, through an internal questionnaire, and the performance of all members of the Board is considered as part of the annual remuneration review process.

Communications with shareholders

Communications with shareholders are given high priority. The Chairman's statement, Chief Executive's review of operations and Group Finance Director's report on pages 4 to 13 include a detailed review of the business and the Chief Executive's review of operations on pages 6 to 10 includes a review of planned future developments. There is a regular dialogue with institutional investors including presentations after the Company's preliminary announcement of the year end results, and at the half year.

Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board will take steps to address their concerns and recommendations. The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the Audit Committee, Remuneration Committee and Nominations Committee are available at the Annual General Meeting to answer questions, and for all Directors to attend.

Remuneration Committee

The Remuneration Committee consists of two non-executive Directors. There was 100% attendance of the four Remuneration Committee meetings during 2008. The role of this Committee and details of how the Company complies with the principles of the Code are set out in the Directors' remuneration report on pages 26 to 31.

Nominations Committee

The Nominations Committee consists of the non-executive Directors, the non-executive Chairman and the Chief Executive Officer. It met once during 2008 with full attendance. There are written terms of reference for the Nominations Committee. It makes recommendations to the Board for the appointment or replacement of additional Directors. It is also responsible for succession planning for the Group.

Audit Committee

The Audit Committee consists of two non-executive Directors. During the year the Committee was chaired by John Jackson who is a qualified accountant. It meets on a regular basis under its terms of reference, and meets with the Group Finance Director and the external auditors to review the financial statements and external financial announcements made by the Company. It has responsibility for reviewing and monitoring the external auditors' independence and objectivity, and reviews supplies of all non-audit services provided by the external auditors to ensure that their independence and objectivity are not compromised. The Audit Committee met twice during 2008 with full attendance at each meeting. Shareholders of the Company have the opportunity to re-appoint Deloitte LLP at the Annual General Meeting to be held on 6 May 2009.

The Restaurant Group plc – strategy

The Restaurant Group's key objective is to grow shareholder value and the strategy deployed to achieve this is to build a business capable of generating long-term sustainable and growing cash flows. In pursuit of this we have built a business which is focused on the growing casual eating-out market. We have targeted segments of this market which offer distinct barriers to entry and where we can be confident of delivering good growth in profits and cash flows and where there is good potential for high returns on investment. This has led the Group to focus our activities in two areas – Leisure and Concessions. This emphasis was underlined by the divesting of our high street businesses (Caffe Uno and Est Est Est) during 2005. The Group operates in the expanding casual dining market, and our offerings continue to provide good value for money in comfortable surroundings and excellent service from our dedicated teams.

The Group's strategy is to deliver further organic growth through the roll-out of our brands – Frankie & Benny's and Chiquito and our Pub Restaurant business. We have a solid pipeline of sites for development, coupled with a strong focus on continuing to deliver like-for-like sales growth from our existing restaurants. Our Concessions business operates in a dynamic and complicated market where our management teams have market-leading expertise and a track record of innovation and improving sales performance.

The Restaurant Group plc – risk factors

The Board of Directors regularly identify, monitor and manage potential risks and uncertainties to the Group. The list below sets out what the Directors consider to be the current principal risks and uncertainties. This list is not presumed to be exhaustive and is, by its very nature, subject to change.

- Adverse economic conditions and a decline in consumer confidence and spend in the UK.
- Increased supply of new restaurant concepts into the market.
- Failure to provide customers with brand-standard value for money offerings and service levels.
- Increase in prices of key raw materials (including foreign currency fluctuations), wages and overheads and utilities.
- Major failure of key suppliers to deliver products into restaurants.
- Reversion of formerly sold or disposed leases following business failure of new occupiers.
- Impact of terrorism in key locations (including airports).
- Increased regulation of the food and beverage industry leading to higher costs.
- Damage to our brands' images due to failures in environmental health compliance in the restaurants or from contamination of products.
- Possible health pandemic that may cause customers to stay away or prevent restaurants being adequately staffed.
- The loss of key personnel or failure to manage succession planning.
- Breakdown in internal controls through fraud or error.

Further information on risk factors is also set out in the Chief Executive's review of operations, the Group Finance Director's report and in the notes to the financial statements (note 26 contains information on credit risk, liquidity risk, foreign currency risk and interest rate risk).

Report of the Directors continued

The Restaurant Group plc – key performance indicators

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. There is no accounting standard or consistent definition of "like-for-like sales" across the industry, although the Group has applied a consistent basis of calculation across years for reporting like-for-like performance. During 2008, the Group like-for-like sales increased by 1.5%, which followed a 5.5% increase in 2007 and a 5% increase in 2006.

New sites opened

The expansion of our brands is a key driver of the Group's profitability. As noted in the Group Finance Director's report, potential new sites are subject to a rigorous appraisal process before they are presented to the Board for approval. This process ensures we maintain the quality of openings as well as the quantity of sites opened. During 2008 the Group opened 40 new sites and plans to open 15-20 new restaurants during 2009.

EBITDA

The ability of the Group to finance its roll-out programme is aided by strong cash flows from the existing business. The Group defines EBITDA as operating profit before depreciation, amortisation and non-trading items. EBITDA serves as a useful proxy for cash flows generated by operations and is closely monitored. During 2008 the Group generated £77.5m EBITDA, an increase of 14% on the 2007 level of £67.8m.

Operating profit margin

The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group. During 2008 the Group adjusted operating profit margin was 13.0% (2007: 13.1%). In addition, the Group closely scrutinises the returns on invested capital from new site openings and the average EBITDA generated by restaurants.

Further information on these key metrics is provided in the Chief Executive's review of operations and the Group Finance Director's report.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In accordance with guidance for directors "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"), the Board has ensured that there is an ongoing process for reviewing the effectiveness of the system of internal control including identifying, evaluating and managing the significant risks faced by the Group. This process, which is regularly reviewed by the Board, is carried out in conjunction with business planning and is documented in a risk register that has been progressively enhanced during the financial year and up to the date of approval of the Annual Report and Accounts.

Whilst acknowledging its overall responsibility for the system of internal control, the Board is aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group has well-established procedures which have been developed over many years which meet the requirements of the Turnbull Guidance. A key control procedure is the day-to-day involvement of executive members of the Board in all aspects of the business and their attendance at regular management meetings at which performance against plan and business prospects are reviewed. The Group has established a monthly executive management meeting where the three executive Directors, senior operational managers and head of functional departments review Group performance and issues affecting the Group.

Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward. The Group's associate company, Pimco 2637 Limited, does not fall under the same internal controls as the Group. The internal controls within the associate are discussed with management of that company during shareholder meetings and are considered to be appropriate for an entity of its size.

Other key features and the processes for reviewing effectiveness of the internal control system are described below:

- Terms of reference for the Board and its sub-committees, including a schedule of matters reserved for the Board and an agreed annual programme of fixed agenda items for Board approval.
- An established organisational structure with clear lines of responsibility and rigorous reporting requirements. Operational performance and operational matters are considered at monthly meetings of the executive Directors with senior management. Financial performance is monitored and action taken through weekly reporting to the executive Directors and monthly reporting to the Board against annual budgets approved by the Board.
- Capital investment is regulated by a budgetary process and authorisation levels, with appraisals and post investment reviews.
- Comprehensive policy manuals setting out agreed standards and control procedures. These include human resources related policies, information technology and health and safety. The Group employs a firm of external auditors to monitor restaurants on a regular basis for compliance with statutory and internal health and safety requirements.
- An internal audit function headed by an experienced internal auditor has access to all areas of the Company and Group's business and reports into the Board.

Statement of Directors' responsibilities in relation to the accounts

The Directors are responsible for preparing the Annual Report, Directors' remuneration 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. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information provided to auditors

Each of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant information of which the auditors are unaware. This information is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Going concern

As referred to in the Chief Executive's review of operations there are significant economic uncertainties facing the United Kingdom and consumer-facing industries in particular. Potential risk factors and uncertainties that could affect the business are listed above. The Group has a debt facility of £120m which matures in December 2012 and net debt at 28 December 2008 of £79m. Based on the Group's plans for 2009 and after making enquiries (including preparation of reasonable trading forecasts, consideration of current financing arrangements and current headroom for liquidity and covenant compliance), the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Report of the Directors continued

Corporate responsibility

The Restaurant Group plc ("TRG") acknowledges that it has a significant role to play with regard to the community and wider environment in which it operates. This statement sets out the principal areas of focus and activity that the Group has undertaken to date, and what the Group is looking at for future development, in managing its impact on customers, employees, communities and the wider environment.

This is split into five sections:

- Our market – the area of business that our strategy is focused on.
- Our environment – the impact of TRG on the wider environment, and how we are seeking to reduce this.
- Our people – the Group's policies and actions towards our 9,500 and more employees.
- Our communities – how TRG interacts with those communities from which our customers and employees are drawn from.
- Our shareholders – those that have invested capital in the development of The Restaurant Group plc, and to whom the Directors and management of the Group are reporting to.

Our market

The Restaurant Group has a clearly defined strategic aim – to grow shareholder value by operating in the expanding casual dining market, focusing on those areas of this market which can offer barriers to entry, high returns on investment and strong and growing cash flows. Dining out continues to be enjoyed by the UK populace, but in recent years there has been an increased focus from customers and regulatory authorities on healthy dining issues including dietary habits, drinking and smoking.

Healthy eating

Healthy eating is a personal responsibility but TRG acknowledges that as a provider of food and drink we have a role to play in providing appropriate options from which individuals may choose when they eat out. TRG strongly believes that it should provide its guests with choice. Whilst we do not wish to be prescriptive we aim to provide a healthy choice at each menu point, alongside more indulgent options. For many people dining out is a treat, and therefore the normal restrictions which may be applied to healthy eating on a day to-day basis are waived in favour of enjoyment and experience. For example, whilst completing the weekly shop a consumer may choose chocolate fudge cake for their weekend dessert as opposed to a piece of fruit during the week.

Healthy dining is of particular concern when it affects young people, and all our brands offer vegetables or salad with every child's meal. We also serve a wide range of alternatives to the traditional fried potato chip such as mashed potato, rice and jacket potatoes.

The Group is undertaking a process of monitoring nutritional content across its menus and, as part of our on-going menu review, will look to further the healthier options available to customers and to work with our suppliers to reduce salt content and calorific content.

Hydrogenated fats

In light of UK government and consumer focus with regard to consumption of products containing high levels of fat, particularly saturated fats and artificial hydrogenated trans-fats*, which have been linked to potential risks to cardiovascular health, we conducted a detailed review of our suppliers and our menu ingredients in conjunction with our external food safety consultants.

- We have worked closely with all of our suppliers to identify the types and levels of fats and oils in our ingredients to facilitate a programme of removal, replacement or reduction, whilst maintaining our required quality standards.
- The vast majority of our ingredients (>99%) are now free from hydrogenated fats and oils.
- Since August 2007 we have prohibited the supply of new ingredients containing added hydrogenated fats and oils.
- We continue to work closely with all of our suppliers to identify and progress opportunities for reducing overall levels of saturated fat wherever possible and to provide healthier choices.

* Whilst some trans-fats occur naturally and are found in small amounts in meat and dairy products, concerns have been raised about artificial trans-fats, formed during a food manufacturing process called hydrogenation that turns oils into solid/semi-solid fats. These hydrogenated fats/oils can be found in products such as biscuits, cakes, margarine, processed foods and cooking oils.

Genetically modified foods

For many years the Group has had a policy of not sourcing genetically modified foods and new suppliers are required to confirm that they will not provide The Restaurant Group with such products.

Drink aware

All our restaurants operate an "Are You 21" policy, whereby we will ask for proof of identification to anyone who appears to be under 21. We also do not permit the sale of alcohol to under 18's, even if the alcohol is for consumption with a meal. All of our restaurants offer a wide range of non-alcoholic drinks including fruit juices, carbonates, minerals and non-alcoholic cocktails.

Smoking

From 1 July 2007 we have complied fully with the legislation throughout the United Kingdom which has banned smoking in public areas.

Our environment

The Restaurant Group takes its commitment to the environment very seriously. We are developing a number of initiatives to reduce our impact on the wider environment, which link in with improving our cost base. Our initial focus is ensuring we have reliable and measurable data to monitor our impact; hence we have been upgrading our facilities to measure consumption of gas, electricity and water. This will allow us to analyse inefficient use of these resources and then take steps to improve our usage. This will reduce our impact on the environment and also save costs.

We are taking steps to recycle more packaging and waste within the Group. We are working with suppliers to increase volumes of glass recycling and paper recycling – it is surprising how few suppliers are able to offer assistance in this area – but we continue to work with them to achieve this.

We have a number of initiatives and trials across the Group which have been instigated over the past couple of years. We have been monitoring their progress during the 2008 and look forward to increasing these schemes. For example:

- During 2007 we trialled glass recycling schemes in ten restaurants and during 2008 this was rolled out across our estate. In 2008 we also trialled a system whereby we can economically recycle our cardboard waste and this will be rolled out during 2009.
- In 2008 the Group consolidated the fresh foods supplier chain through a just in time delivery process for our Leisure businesses. This has made a significant reduction of the number of deliveries into our restaurants.
- In five sites we are currently trialling water reduction equipment in our washrooms that reduces water consumption.
- All new units comply with the latest environmental regulations.
- Our head office at Marshalsea Road has recycling facilities for waste paper throughout the building.

Our people

It is often said that a company's most important asset is its people. At TRG we endeavour to build great teams, in which individuals can develop their skills, contribute to a successful business and enjoy their time at work.

We employ over 9,500 people and this number continues to expand. During 2008 we created in excess of 600 new full and part-time roles in the Group and the roll-out of our great brands means there are plenty of opportunities for individuals to develop with the Group in a variety of rewarding and challenging roles. Our staff handbook clearly sets out that the Group offers equal employment rights regardless of age, colour, gender, sexual orientation, disability or religion. This is reinforced across our teams from the recruitment process onwards. We have clear and fair terms of employment within the Group. All staff are provided with a contract of employment or service agreement and there are fully documented procedures in place for disciplinary issues and grievances raised by employees. The Group has a defined termination policy, should this be required.

The Group pays all its employees at least the hourly national minimum wage. The Group does not engage in the practice of using tips to make up minimum wage, with tips received by employees being an additional remuneration over and above their contracted hourly rates, which are all at a level at least equivalent to the minimum wage. In the case of credit card tips a nominal deduction of no more than 10% is made for the handling, processing, allocating and paying out of such tips and for offsetting the charges levied by credit card companies.

The Group devotes considerable resource to training our teams. Training commences on the first day of joining any of our brands and we have recently invested in a new HR system to enable continual monitoring of the development of individuals through their time with TRG. Employees take part in performance reviews on at least an annual basis with training and development opportunities or requirements identified.

With an expanding portfolio of sites and a sizeable Group already in place, communications with all our teams are of vital importance.

All restaurants receive regular communication packs with updates of what is happening within their brands. We also have processes in place for monthly meetings within restaurants to cascade information throughout the Group. Most importantly, our more senior managers spend a considerable amount of time visiting the restaurants and discussing matters with the teams.

The health and safety of our customers and employees is of paramount importance. The Group has extensive procedures to ensure we mitigate risks to our guests and teams as far as possible. We have very clear procedures and standards in place, and to enforce these we employ external auditors and carry out benchmarking of our restaurants. We have also significantly increased the level of training in health and safety matters across the Group in recent years to further enhance the clean, safe environment for our customers and staff.

Report of the Directors continued

Our communities

The Restaurant Group has a history of involvement in the local communities around our restaurants and pub restaurants. Whilst the Group has a broad nationwide portfolio of sites, it is vital that each site has its roots in its local community. Whether it is a Blubeckers or Brunning & Price pub, often a building of local historical importance, that has been carefully developed retaining many of its original features and characteristics and so offering the warmth of a "local" in a small rural community, or a busy Frankie & Benny's on a large leisure scheme, we aim to ensure our restaurants are involved in their communities.

During 2008 our brands were involved with several charities and schemes to support local communities. This theme is set to continue to grow in 2009. In 2008 Frankie & Benny's sponsored over 80 local junior sports teams, with an average investment of £500 per team. Funds are allocated to sponsor kit, equipment and transport. As well as the direct sponsorship fund, teams and their supporters are encouraged to use our restaurants as venues for meetings, team dinners and awards ceremonies. Frankie & Benny's also invested £50,000 into the development and purchase of schools packs. Schools were then invited to bring classes to the restaurant, to show how children meals are made and served from customer order through to consumption. The packs given to children to take away were developed in line with initiatives within the national curriculum focusing on healthy eating and exercise. This is an ongoing initiative that will continue to run in 2009, along with supporting BBC Children in Need.

2008 saw Chiquito raising money for Childline, through a series of fundraising activities across the year including local events around the Mexican festival of "Cinco de Mayo" – the 5th of May. Chiquito also works with schools, to deliver educational field trips that teach children about the history of Mexico and the foods that the country is famous for. In 2009 Chiquito will work with Casa Alianza, a Mexican charity which raises money to help underprivileged children in Mexico. Our new Chiquito menu will feature a typically Mexican dish, £1 of each sale will be donated to the charity throughout the year. Cinco de Mayo and many other events will also be run during 2009 to raise money for this charity.

In 2008 Blubeckers restaurants were encouraged to support local charities, fundraising for causes that are close to the hearts and minds of people within the local community. Support of the local community will continue in Blubeckers in 2009.

Our shareholders

The Group has had a clear strategy since 2001 – to deliver value for shareholders by focusing on sectors within the eating out market that offer high barriers to entry, where we can generate sustainable and growing cash flows and which offer high returns on investment. This has led the Group to focus investment into the Leisure division and our Concessions division, which operates principally on airports. In 2005 the Group disposed of its high-street focussed brands, Est Est Est and Caffe Uno. Garfunkel's in Central London, Bath and Edinburgh continues to perform well for the Group.

The Chairman's statement, Chief Executive's review of operations and Group Finance Director's review provide further detail on the Group's strategy, performance during 2008 and prospects for the Group.

Donations

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

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 28 December 2008 the Company had no trade creditors. The Group had an average of 63 days (2007: 56 days) purchases outstanding in trade creditors.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while looking to maximise returns to shareholders. The capital structure of the Group consists of equity (comprising issued share capital, reserves and retained earnings), debt, finance leases and cash and cash equivalents. The Group monitors its capital structure on a regular basis through cash flow projections and consideration of the cost of financing its capital.

In December 2007 the Group completed a refinancing exercise. As part of this the Group has externally imposed banking covenant requirements. The Group has a £120m revolving facility in place until December 2012 and a £10m overdraft facility. Under the terms of the £120m revolving facility the Group is required to comply with its financing covenants whereby net interest charges must be covered by at least four times by EBITDA and net debt must not exceed three times EBITDA. These covenants are tested twice annually and are monitored on a regular basis. During 2008 the Group remained within its external limits throughout the year.

Financial risk management

The Board of The Restaurant Group plc regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complex financial instruments, and where financial instruments are used it is 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 borrowings (including an overdraft facility).

In addition to the primary financial instruments, the Group also has other financial instruments such as debtors, prepayments, trade creditors and accruals that arise directly from the Group's operations. Further information is provided in note 26 to the accounts.

Effective from 16 January 2006, the Group entered into a three year interest rate swap, for an initial notional amount of £20m rising to £50m from 18 April 2006 until 16 January 2008, when it reduced to £30m until 16 January 2009, at which date it terminated. The fixed rate for the duration of the three years was 4.695% (plus margin).

Effective from 18 January 2008, the Group entered into a further three year interest rate swap for a notional amount of £25m, from 18 January 2008 to 18 January 2011 at a fixed rate of 4.92% (plus margin).

Effective from 16 January 2009, the Group entered into a further two interest rate swaps: a two year interest rate swap for a notional amount of £20m at a rate of 2.70% (plus margin) and a three year interest rate swap for a notional amount of £20m at a rate of 2.975% (plus margin).

After the impact of the interest rate swap, the average rate of interest charged during the year on the Group's debt was 5.64% (2007: 6.02%), and the average year end rate was 2.10% (2007: 6.40%). On 2008 results, net interest was covered 10.2 times (2007: 12.1 times) by profit before tax, interest and non-trading items. Based on year end debt and profits for 2008, a 1% rise in interest rates would reduce profits before tax and non-trading items by 0.6% (2007: 0.7%) and interest cover would reduce to 9.7 times (2007: 11.3 times).

At 28 December 2008 the Group had gross borrowings attracting interest (including overdraft) of £85.0m (2007: £79.0m) and cash balances of £5.5m (2007: £1.7m).

Annual General Meeting

A separate Circular is included with the mailing of the Annual Report to shareholders setting out the resolutions to be voted on at the Annual General Meeting, which is to take place at 11am on 6 May 2009 at the offices of College Hill, The Registry, Royal Mint Court, London EC3N 4QN.

The Board believes that the proposed resolutions to be put to the shareholders at the Annual General Meeting are in the best interests of shareholders and, accordingly, recommends that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings in the Company.

Auditors

Deloitte LLP have expressed their willingness to continue as auditors, and a resolution will be proposed at the Annual General Meeting for their reappointment.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

1) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group; and

2) The Chairman's statement, Chief Executive's review of operations, Group Finance Director's report and report of the Directors include a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties faced.

By order of the Board,

Robert Morgan
Company Secretary
4 March 2009

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 7a of the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration in the Combined Code. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements are subject to approval.

The Act requires the auditors to report to the Company's members on the part of the Directors' remuneration report subject to audit and to state whether in their opinion that part of the report has been properly prepared in accordance with Schedule 7a of the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

The Company has established a Remuneration Committee ("the Committee") which is constituted in accordance with the recommendations of the Combined Code. The members of the committee during the year were John Jackson, Tony Hughes, Andrew Thomas (until 6 February 2008), and David Richardson (until 8 August 2008) who were all independent non-executive Directors. The Committee is currently chaired by Tony Hughes.

None of the Committee has any personal financial interest in the Company (other than as shareholders). The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration. In determining the other executive Directors' remuneration for the year the Committee consulted Alan Jackson (non-executive Chairman) about its proposals.

Hewitt New Bridge Street (appointed independent advisers who provided no other services to the Group during the year) provided advice to the Committee, encompassing all elements of the remuneration packages.

Remuneration policy

Executive remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to progress and develop the Group and to reward them for top quartile sector performance and enhancing value to shareholders. The performance measurement of the executive Directors and the determination of their annual remuneration package are undertaken by the Committee. In addition, the Committee determines the remuneration for the Chairman. The remuneration of the other non-executive Directors is determined by the Board. There are four main elements of the remuneration package for executive Directors:

- Basic annual salary and benefits – for 2009 no increases were applied to any Director's salary;
- Annual bonus payments which cannot exceed 120% of basic salary for 2009 (100% in 2008) for executive Directors;
- Long-Term Incentive Plan awards; and
- Pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the executive Directors should be performance related. As described below, for 2009 executive Directors may earn annual incentive payments of up to 120% of their basic salary together with the benefits of the participation in the Long-Term Incentive Plan.

Executive Directors are entitled to accept appointments outside the Company or Group. There is no requirement for Directors to remit fees earned from appointments outside of the Company or Group to The Restaurant Group plc. Andrew Page was appointed as a non-executive director of Arena Leisure plc on 1 December 2008 and received remuneration as a non-executive director of Arena Leisure plc of £3,750 in 2008.

Basic salary

An executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and by reference to remuneration levels at other companies in the leisure and hospitality sectors. Basic salaries were reviewed in December 2007 with increases taking effect from 1 January 2008. They were again reviewed in December 2008 although no salary increases for executive Directors were awarded with effect from January 2009. In addition to basic salary, the executive Directors receive pension contributions and certain benefits-in-kind, principally a car (or car allowance), and health and life insurance.

Annual bonus payments

The annual bonus is based on the achievement of stretching profit before tax targets and personal objectives. Performance targets are set annually as part of the budgeting process and performance is reviewed against those targets at the end of the financial year. The maximum performance related bonus that can be paid in respect of performance in 2009 is 120% (2008: 100%) of basic annual salary and for significant bonuses to be paid, performance must be outstanding. For any bonus payment made between 75% and 100% of salary there is a reinvestment commitment for the Director into shares in The Restaurant Group plc, and these shares can form part of the matching element described in the Long-Term Incentive Plan detailed below. This reinvestment requirement will be waived if an executive Director has a shareholding with average acquisition cost of greater than one times their salary.

Given the importance to the Group of retaining the executive management team of the Group in this current highly challenging economic climate, when the Committee met at the end of 2008 it formed the view that it would be appropriate to increase the potential bonus level for 2009 for executive Directors from 100% to 120%. However it was also determined that any additional bonus potential would be payable only upon the achievement of a significant out-performance of the Group against the 2009 plan and its comparator sector.

Long-term incentives

The Company operates the 2005 Long-Term Incentive Plan ("LTIP" or "Plan"), and the 2003 Save As You Earn ("SAYE") Scheme under which awards may be granted to executive Directors.

Long-Term Incentive Plan

The 2005 LTIP is the primary long-term incentive scheme of the Company. Under the terms of the LTIP, individuals may receive an award of conditional free shares ("Conditional Awards") with a face value at grant of up to 100% of salary per annum, vesting at least three years after grant subject to performance conditions and continued employment. In addition, the Plan has the flexibility to grant conditional awards on a matching basis, pro rata to the number of shares purchased via the annual bonus ("Matching Awards"). Matching Awards may be granted over shares worth up to 37.5% of base salary per annum. The aggregate value of annual awards (Conditional and Matching) is capped at 137.5% of base salary.

Under the Plan, the Remuneration Committee has the discretion to increase this cap to 200% of salary if the Committee decides there are exceptional circumstances in relation to retention and recruitment of employees. The Remuneration Committee has determined that exceptional circumstances do currently exist in relation to the retention of certain key employees and Directors and it has therefore determined that it may be appropriate to exercise its discretion to make awards (in respect of the aggregate of Conditional and Matching shares) of up to 200% of salary in 2009.

In prior years, the performance criteria have been a mix of Total Shareholder Return ("TSR") and Earnings Per Share ("EPS"). In respect of awards to be made in 2009, the Committee has reviewed the appropriateness of maintaining the mixed EPS and TSR vesting criterion. Against a background of significant economic uncertainty it was determined that a TSR-based criterion would most closely align the interests of shareholders and employees. Accordingly, for the 2009 award (to be granted after the announcement of the 2008 results) the Committee considers that Total Shareholder Return ("TSR") is the most appropriate measure of performance. The performance condition attached to the Conditional and Matching Awards is based on TSR performance measured against the constituents of the FTSE Travel & Leisure Index (excluding airline companies) over a single three-year period from March 2009 to March 2012. This award will vest between 30% for median performance increasing on a straight line basis to 100% for upper quartile performance.

Shareholding guidelines

Following the approval of the LTIP, shareholding guidelines for executive Directors were introduced, linked to the out-turn of the Plan. At the time Conditional and Matching Awards vest under the Plan (or any other executive plan established in the future), there is a requirement to retain no fewer than 50% of the shares net of taxes vesting under an LTIP award until a shareholding with a market value (calculated by reference to purchase price) equal to 100% of base salary is achieved.

SAYE Scheme

The Company also operates a SAYE Share Option Scheme, the 2003 SAYE Scheme, for eligible employees under which options may be granted at a discount of up to 20% of market value. Eligible employees are full time employees and executive Directors who have worked for the Group for at least one year. Under the terms of the Scheme the eligible employees are able to purchase shares under a three-year savings contract. Awards under the SAYE scheme were made in 2004, 2006 and 2008 to eligible employees and Directors.

Pension arrangements

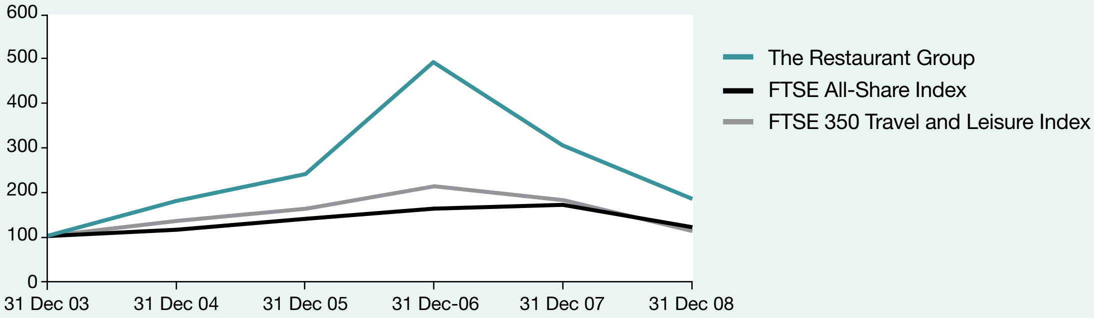
Executive Directors have individual pension arrangements in the form of personal pension plans. The Company makes a contribution at a rate of up to 20% of basic salary towards funding each executive Director's pension plan. To the extent that this funding exceeds the relevant current HMRC limit, the surplus may be paid as a salary supplement. There are no unfunded pension promises or similar arrangement for Directors.

Directors' remuneration report continued

Performance graph

As required by the Regulations, the graph below compares the Company's TSR performance with the FTSE 350 Travel and Leisure Share Index for each of the past five years.

The FTSE 350 Travel and Leisure Share Index has been selected for this comparison because it is the index most relevant to gauging the Company's relative performance. This graph shows the value, by 31 December 2008, of £100 invested in The Restaurant Group plc on 31 December 2003 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE 350 Travel and Leisure Share Index. The other points plotted are the values at intervening financial year-ends.



Directors' contracts

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may be necessary occasionally to offer longer initial notice periods to new Directors. All executive Directors have contracts which are subject to one year's notice by either party. In the event of early termination (including following a change of control in the Company), the Directors' contracts provide for compensation in line with their contractual notice period.

The details of the executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
Andrew Page	28 August 2002	1 year
Stephen Critoph	7 July 2004	1 year
Trish Corzine	31 March 2003	1 year

Non-executive Directors

The service contracts of the non-executive Directors were each set for an initial three-year period (thereafter renewable for periods of three years). They are required to submit themselves for re-election every three years and the Board believes this to be appropriate in the Company's circumstances. Tony Hughes was elected and John Jackson was re-elected in 2008. Alan Jackson will stand for re-election at the Annual General Meeting to be held on 6 May 2009. In addition and in accordance with best practice, John Jackson is also standing for re-election at the Annual General Meeting as he has served on the Board for more than nine years. The non-executive Directors' appointments were made as follows:

	Date of appointment as non-executive Director	Notice period
Alan Jackson*	9 November 2005	1 year
John Jackson	1 October 1996	Nil
Tony Hughes	1 January 2008	Nil

* Alan Jackson was previously Executive Chairman of the Company, and was appointed in March 2001. From 1 January 2006 he has held the position of non-executive Chairman.

All non-executive Directors have specific terms of engagement and their remuneration (with the exception of Alan Jackson) is determined by the Board based on a review of fees paid to non-executive Directors of similar companies and reflects the time commitment and responsibilities of each role. The basic fee paid to the non-executive Directors (excluding Alan Jackson) in the year was £50,000 (2007: £45,000) (pro rated by tenure of service). Alan Jackson's fee was £300,000.

Audited information

Aggregated Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	Executive	Non-executive	2008 Total	2007 Total
Emoluments	**2,606**	**479**	**3,085**	2,747
Money purchase pension contributions	**192**	**–**	**192**	226
	2,798	**479**	**3,277**	2,973

(a) Emoluments

(i) Executive

	Basic salary £'000	Bonus £'000	Bonus waived £'000	Benefits in kind £'000	Compensation for termination of employment £'000	2008 Total £'000	2007 Total £'000
Andrew Page	**535**	**535**	**–**	**26**	**–**	**1,096**	940
Stephen Critoph	**240**	**240**	**–**	**19**	**–**	**499**	465
Kevin Bacon[1]	**234**	**–**	**–**	**12**	**392**	**638**	493
Trish Corzine	**230**	**144**	**(14)**	**13**	**–**	**373**	408
	1,239	**919**	**(14)**	**70**	**392**	**2,606**	2,306

As noted in the Chairman's Statement, The Restaurant Group plc has delivered record profits during 2008. For Andrew Page and Stephen Critoph, the annual bonuses were at the maximum level of 100% of salary reflecting the excellent profit performance of the Group and achievement in full of the personal objectives set out at the start of the year. Of the bonus amounts disclosed above, Trish Corzine elected to waive £14,375 of her bonus and she received an additional pension contribution from the Group equivalent to the amount (which are included in the pension contribution table overleaf).

[1] As per his employment contract Kevin Bacon received £392,000, representing twelve months salary, company pension contribution, car entitlement and part payment in respect of Group bonus. Kevin Bacon is also entitled to exercise those shares already vested under the 2003 ESOP schemes within six months of his leaving date. He is also entitled to exercise share options granted under the first award of the LTIP scheme made in 2005 and that will vest in 2009. The other awards under the LTIP scheme to Mr Bacon have lapsed.

(ii) Non-executive

	Fees £'000	Benefits in kind £'000	2008 Total £'000	2007 Total £'000
Alan Jackson	**300**	**38**	**338**	310
John Jackson	**50**	**–**	**50**	45
Tony Hughes	**50**	**–**	**50**	–
David Richardson	**33**	**–**	**33**	41
Andrew Thomas	**8**	**–**	**8**	45
	441	**38**	**479**	441

(b) Pension schemes

The executive Directors are members of money purchase schemes. Where an executive Director's entitlement to a contribution exceeds the allowable limit set by the HMRC, a salary supplement may be payable up to but not exceeding the level of entitlement. Contributions paid by the Group in respect of the executive Directors were as follows:

	2008 Pension contribution £'000	2008 Salary supplement £'000	2008 Total £'000	2007 Pension contribution £'000	2007 Salary supplement £'000	2007 Total £'000
Andrew Page	**107**	**–**	**107**	127	6	133
Stephen Critoph	**24**	**–**	**24**	23	–	23
Kevin Bacon	**23**	**–**	**23**	24	–	24
Trish Corzine	**23**	**15**	**38**	46	–	46
	177	**15**	**192**	220	6	226

As noted above, in respect of the financial year ended 28 December 2008 Trish Corzine elected to waive part of her bonus and received an additional pension contributions (grossed up by 6%) from the Group of £15,238 (2007: £25,043), which is included in the pension contribution table. In 2007, Andrew Page also elected to waive part of his bonus and receive an additional pension contribution of £37,763.

Directors' remuneration report continued

Long–term incentives

Aggregate emoluments disclosed above do not include any amounts for the long-term incentives granted to or held by the Directors. The Company operates a number of arrangements which executive Directors may participate in. Following the Placing of 19,430,000 shares on 14 January 2004, an application to restate the number and price of share options granted under the 1998 and 2003 schemes to Directors and employees was approved by the HMRC. This restatement was calculated to ensure the effective number and price attributed to the options was as before the Placing with no incremental benefit to the option holders. The information provided below is stated assuming the restatement occurred on 1 January 2004.

Name of Director	Scheme	At 31 December 2007	Granted	Lapsed	Exercised	At 28 December 2008	Exercise price	Date from which exercisable	Expiry date
Alan Jackson	Note (1)	200,000	–	–	–	200,000	45.0p	5.6.2004	5.6.2011
	2003	178,114	–	–	–	178,114	67.4p	4.7.2006	4.7.2013
	2003	200,000	–	–	–	200,000	97.7p	4.10.2007	4.10.2014
	2003	250,000	–	–	–	250,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	137,755	–	–	–	137,755	–	4.3.2009	4.9.2009
	LTIP (2)	103,316	–	–	–	103,316	–	4.3.2009	4.9.2009
Andrew Page	2003	200,000	–	–	–	200,000	97.7p	4.10.2007	4.10.2014
	2003	250,000	–	–	–	250,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	180,272	–	–	–	180,272	–	4.3.2009	4.9.2009
	LTIP (2)	67,602	–	–	–	67,602	–	4.3.2009	4.9.2009
	LTIP (3)	145,929	–	–	–	145,929	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	23,110	–	–	–	23,110	–	Publication of 2009 results	6 months after vesting
	LTIP (5)	–	645,689	–	–	645,689	–	Publication of 2010 results	6 months after vesting
	LTIP (6)	–	90,084	–	–	90,084	–	Publication of 2010 results	6 months after vesting
	2008 SAYE	–	7,680	–	–	7,680	125.0p	1.06.2011	1.12.2011
Stephen Critoph	2003	250,000	–	–	–	250,000	97.7p	4.10.2007	4.10.2014
	2003	50,000	–	–	–	50,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	112,244	–	–	–	112,244	–	4.3.2009	4.9.2009
	LTIP (2)	37,167	–	–	–	37,167	–	4.3.2009	4.9.2009
	2006 SAYE	5,843	–	–	–	5,843	160.0p	1.6.2009	1.12.2009
	LTIP (3)	69,124	–	–	–	69,124	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	20,737	–	–	–	20,737	–	Publication of 2009 results	6 months after vesting
	LTIP (5)	–	248,275	–	–	248,275	–	Publication of 2010 results	6 months after vesting
	LTIP (6)	–	58,188	–	–	58,188	–	Publication of 2010 results	6 months after vesting
Kevin Bacon	2003	100,000	–	–	–	100,000	97.7p	4.10.2007	5.5.2009
	2003	140,000	–	–	–	140,000	134.4p	4.4.2008	5.5.2009
	LTIP (1)	119,047	–	–	–	119,047	–	4.3.2009	4.9.2009
	LTIP (2)	39,942	–	–	–	39,942	–	4.3.2009	4.9.2009
	LTIP (3)	73,732	–	(73,732)	–	–	–	Lapsed	Lapsed
	LTIP (4)	21,313	–	(21,313)	–	–	–	Lapsed	Lapsed
	LTIP (5)	–	284,482	(284,482)	–	–	–	Lapsed	Lapsed
	LTIP (6)	–	62,067	(62,067)	–	–	–	Lapsed	Lapsed
	2008 SAYE	–	7,680	(7,680)	–	–	125.0p	Lapsed	Lapsed
Trish Corzine	2003	100,000	–	–	–	100,000	97.7p	4.10.2007	4.10.2014
	2003	100,000	–	–	–	100,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	102,040	–	–	–	102,040	–	4.3.2009	4.9.2009
	LTIP (2)	34,237	–	–	–	34,237	–	4.3.2009	4.9.2009
	LTIP (3)	64,516	–	–	–	64,516	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	18,433	–	–	–	18,433	–	Publication of 2009 results	6 months after vesting
	LTIP (5)	–	237,931	–	–	237,931	–	Publication of 2010 results	6 months after vesting
	LTIP (6)	–	54,310	–	–	54,310	–	Publication of 2010 results	6 months after vesting
	2008 SAYE	–	7,680	–	–	7,680	125.0p	1.06.2011	1.12.2011

No director exercised any share options during 2008.

The Group plans to make awards under the LTIP scheme following the publication of preliminary results in March 2009. In order to obtain tax–favoured treatment for the Group and the participants, it is planned that part of the value will be delivered to the participants using HM Revenue and Customs ("HMRC") approved options. These approved options have the same vesting and exercise conditions as awards under the Plan. The maximum number of plc shares that will ultimately vest under the award will be restricted to a level similar to awards made in previous years. Similarly, the maximum gross value a participant will ultimately receive under a combination of both the LTIP award and approved option will be at a similar level to awards made in previous years.

2003 – Under the 2003 Mirror Scheme the performance criteria that must be met requires the Company's EPS to grow at an annual rate of the Retail Price Index plus 2.5% over the three-year period prior to exercise of the option. No further awards may be made under the 2003 Scheme following the adoption of the LTIP.

LTIP (1) – these are Conditional Shares awarded under the LTIP scheme. They are free shares awarded to the Directors should the performance criteria be met. The vesting criteria are dependent on EPS growth of the 2008 results compared with the 2005 results and TSR performance, and this vesting criterion has been met in full. Consequently the Conditional Shares will become exercisable with effect from 4 March 2009.

LTIP (2) – these are Matching Shares awarded under the LTIP scheme. They are free shares and are conditional on the Directors acquiring and retaining a certain number of shares by 7 May 2006 for the respective Director to be entitled to the Matching Shares available under the scheme, and the performance criteria be met. The vesting criteria are dependent on earnings per share growth of the 2008 results compared with the 2005 results and this vesting criterion has been met in full. Consequently the Matching Shares will become exercisable with effect from 4 March 2009 to those Directors and employees who have retained their deposited shares for the full period.

LTIP (3) – these are Conditional Shares awarded under the LTIP scheme. They are free shares awarded to the Directors should the performance criteria be met. The vesting criteria are dependent on EPS growth of the 2009 results compared with the 2006 results and TSR performance.

LTIP (4) – these are Matching Shares awarded under the LTIP scheme. They are free shares and are conditional on the Directors acquiring and retaining a certain number of shares by 30 June 2007 for the respective Director to be entitled to the Matching Shares available under the scheme, and the performance criteria be met. The vesting criteria are dependent on earnings per share growth of the 2009 results compared with the 2006 results.

LTIP (5) – these are Conditional Shares awarded under the LTIP scheme. They are free shares awarded to the Directors should the performance criteria be met. The vesting criteria are dependent on EPS growth of the 2010 results compared with the 2007 results and TSR performance.

LTIP (6) – these are Matching Shares awarded under the LTIP scheme. They are free shares and are conditional on the Directors acquiring and retaining a certain number of shares by 30 June 2008 for the respective Director to be entitled to the Matching Shares available under the scheme, and the performance criteria be met. The vesting criteria are dependent on earnings per share growth of the 2010 results compared with the 2007 results.

For the Conditional Awards to executive Directors made in 2008, two separate performance conditions apply to proportions of the award.

- The performance condition attached to 50% of the Conditional Awards requires average annual EPS growth from 1 January 2008 to 31 December 2010 of between RPI plus 4% to RPI plus 10% p.a. for between 30% and 100% of this part of the award to vest (i.e. between 15% and 50% of the total award).
- The performance condition attached to the other 50% of the Conditional Awards is based on TSR performance measured against the constituents of the FTSE Travel & Leisure Index over a single three-year period from 1 March 2008 to 1 March 2011. This award will vest between 30% for median performance increasing on a straight line basis to 100% for upper quartile performance of this award to vest (i.e. between 15% (for median) and 50% (for upper quartile performance) of the total award).
- Awards will vest on a straight line basis between minimum and maximum thresholds.
- For Matching Awards, there is a 0.3:1 match for average EPS growth of RPI plus 4% p.a., rising on a straight line basis to the full 1:1 match for average EPS growth of RPI plus 10% p.a. Performance against the TSR and EPS targets will be independently calculated and reviewed by the Committee.

Note (1): Alan Jackson was granted an option over 2,400,000 ordinary shares on 5 June 2001 at an exercise price of 45p per share. This option was divided into three tranches of 800,000 shares, each of which may only be exercised if certain performance criteria are met. The Company's share price must meet a specified target, which is 75p in the case of the first tranche, 105p in the case of the second tranche and 135p in the case of the third tranche. In addition, the Remuneration Committee must be satisfied that there has been a sustained improvement in the underlying performance of the Group before any tranche of the option can be exercised. For the second and third tranches, half of each tranche of the option may be exercised after three years and half after four years in each case following the date of the grant. Each tranche of the option will lapse six years following the date of the grant if the target share price has not by then been met. If, however, the target share price relating to any tranche of the option is met within this period that tranche will remain exercisable until ten years following the date of grant. If a change of control of the Company occurs, Alan Jackson is entitled to exercise the option in full. The Company's share price has met the criteria of the three tranches and the Remuneration Committee is satisfied that there has been a sustained improvement in the underlying performance of the Group. Alan Jackson has exercised all of those options available to him under the first and second tranches, and has exercised half of the third tranche.

Approval

This report was approved by the Board of Directors on 4 March 2009 and signed on its behalf by:

Tony Hughes
Chairman of the Remuneration Committee

Independent auditors' report to the members of The Restaurant Group plc

We have audited the Group financial statements of The Restaurant Group plc for the 52 weeks ended 28 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 30. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of The Restaurant Group plc for the 52 weeks ended 28 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the Directors is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 group financial statements and the part of the Directors' remuneration report to be audited 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 Group financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the Directors is consistent with the Group financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
4 March 2009

Accounting policies for the consolidated accounts

Significant accounting policies

The Restaurant Group plc (the "Company") is a company incorporated and registered in Scotland. The consolidated financial statements of the Company for the year ended 28 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in its associate.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB) and as adopted by the European Union.

(b) Going concern basis

The consolidated financial statements have been prepared on a going concern basis as, after making appropriate enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The principal risks and uncertainties facing the Group and further comments on going concern are set out in the report of the Directors on pages 19 to 21.

(c) Basis of preparation

The accounting year runs to the nearest Sunday to 31 December each year which will be a 52 or 53 week period.

The financial statements are presented in sterling, rounded to the nearest thousand. They have been prepared on the historical cost basis except derivative financial instruments which are held at their fair value. Non-current assets and assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Future accounting policies

At the date of approval of these financial statements, the following standards and guidance relevant to the Group were in issue but not yet effective. In some cases these standards and guidance had not been endorsed by the European Union:

- IFRS 8 Operating segments; effective for accounting periods beginning on or after 1 January 2009
- IFRIC 11: IFRS 2 Group and treasury share transactions
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: – Reclassification of Financial Instruments; and – Reclassification of Financial Instruments; effective for accounting periods beginning on or after 1 July 2008
- IAS 23 (Revised) Borrowing Costs; effective for accounting periods beginning on or after 1 January 2009
- Amendments to IAS 1 Presentation of financial statements – A revised presentation; effective for accounting periods beginning on or after 1 January 2009
- Amendments to IFRS 2 Share-based payment; effective for accounting periods beginning on or after 1 January 2009
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements; effective for accounting periods commencing on or after 1 January 2009
- IFRS 3 (revised) Business combinations; effective for accounting periods beginning on or after 1 July 2009
- Amendments to IAS 27 Consolidated and separate financial statements; effective for accounting periods beginning on or after 1 July 2009

These pronouncements, when applied, will either result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements.

Accounting policies for the consolidated accounts continued

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account, regardless of management's intention to exercise that option or warrant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount would be reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheet. Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction. The profit and loss accounts for overseas operations are translated at the average rate of exchange for the periods covered by the accounts. Exchange differences that relate to the net equity investment in overseas activities are taken directly to reserves.

(f) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy l).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property (excluding land element) acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy l). Lease payments are accounted for as described in accounting policy s.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold land	Indefinite
Freehold buildings	50 years
Long and short leasehold property	Term of lease or 50 years, whichever is lower
Fixtures and equipment	3-10 years
Motor vehicles	4 years
Computer equipment	3-5 years

(h) Intangible assets – Goodwill
All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is formally tested bi-annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(i) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Stock
Stock is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment
The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

For property, plant and equipment, the carrying value of each cash generating unit ('CGU') is compared to its estimated value in use. Value in use calculations are based on discounted cash flows over the remaining useful life of the CGU (between 3 and 50 years). Impairment losses are recognised in the income statement.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement and are not subsequently reversed.

(m) Share-based payment transactions
The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Stochastic model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market based conditions not achieving the threshold for vesting.

(n) Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Accounting policies for the consolidated accounts continued

(o) Deferred and current tax
Corporation tax payable is provided on the taxable profit at the current rate. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that are enacted, or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(p) Pensions
The Group makes contributions for selected employees into defined contribution pension plans and these contributions are charged to the income statement as they become payable. The Group does not operate any defined benefit plans.

(q) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(r) Revenue
Revenue represents amounts received and receivable for services and goods provided (excluding value added tax and voluntary gratuities left by customers for the benefit of employees) and is recognised at the point of sale.

(s) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Incentives to enter into an operating lease are also spread on a straight line basis over the lease term.

(ii) Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Pre-opening expenses
Property rentals and related costs incurred up to the date of opening of a new restaurant are written off to the income statement in the period in which they are incurred. Promotional and training costs are written off to the income statement in the period in which they are incurred.

(iv) Borrowing costs
Debt is stated net of borrowing costs which are spread over the term of the loan.

(t) Dividend policy
In accordance with IAS 10, 'Events after the Balance Sheet Date', dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

Critical accounting judgements and key sources of estimation and uncertainty
In the process of applying the Group's accounting policies as described above, management has made a number of judgements and estimations of which the following are the most significant.

a) Impairment of carrying value of associate
The investment in Pimco 2637 Limited and the loan note of £10.4m receivable from a subsidiary of that company were fully provided against in the year ended 30 December 2007 and 31 December 2006 respectively. Following a review of the trading performance of the company, the Directors have concluded that this treatment is appropriate and no adjustment has been made in the current year. Further details are provided in notes 5 and 14.

b) Impairment of goodwill
The Group formally determines whether goodwill is impaired on a bi-annual basis. This requires an estimate of the value in use of the assets to which goodwill is ascribed to. Estimating the value in use requires the Group to make an estimate of the future cash flows from those assets and to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment of goodwill is required in the year ended 28 December 2008.

c) Acquisition of Brunning and Price Limited
Following the acquisition of Brunning and Price Limited on 17 October 2007, the Group consolidated the fair value of its assets and liabilities at that date. This required an estimate of the fair value of the properties acquired which the Directors have determined based on advice from an independent firm of qualified valuers.

Consolidated income statement

	Note	Year ended 28 December 2008 Trading business £'000	Non-trading £'000	Total £'000	Year ended 30 December 2007 Trading business £'000	Non-trading £'000	Total £'000
Revenue	3	**416,530**	**–**	**416,530**	366,710	–	366,710
Cost of sales:							
Excluding pre-opening costs	4	**(335,731)**	**–**	**(335,731)**	(294,102)	–	(294,102)
Pre-opening costs	4	**(2,513)**	**–**	**(2,513)**	(2,567)	–	(2,567)
		(338,244)	**–**	**(338,244)**	(296,669)	–	(296,669)
Gross profit		**78,286**	**–**	**78,286**	70,041	–	70,041
Administration costs		**(24,055)**	**–**	**(24,055)**	(21,834)	–	(21,834)
Trading profit		**54,231**	**–**	**54,231**	48,207	–	48,207
Release/(charge) of provision against carrying value of associate	5	**–**	**39**	**39**	–	(1,656)	(1,656)
Termination costs	5	**–**	**(637)**	**(637)**	–	–	–
Profit, net of losses, on disposal of fixed assets	5	**–**	**292**	**292**	–	247	247
Operating profit/(loss)		**54,231**	**(306)**	**53,925**	48,207	(1,409)	46,798
Interest payable	7	**(5,403)**	**(1,488)**	**(6,891)**	(4,017)	(237)	(4,254)
Interest receivable	7	**97**	**–**	**97**	39	986	1,025
Profit/(loss) before share of associate and tax		**48,925**	**(1,794)**	**47,131**	44,229	(660)	43,569
Share of post-tax result in associated undertaking	14	**–**	**–**	**–**	(749)	–	(749)
Profit/(loss) on ordinary activities before tax		**48,925**	**(1,794)**	**47,131**	43,480	(660)	42,820
Tax on profit/(loss) from ordinary activities	8	**(16,147)**	**1,233**	**(14,914)**	(14,802)	1,158	(13,644)
Profit/(loss) for the year		**32,778**	**(561)**	**32,217**	28,678	498	29,176
Earnings per share (pence)							
Basic	9	**16.67**		**16.38**	14.64		14.90
Diluted	9	**16.43**		**16.15**	14.56		14.82
Dividend per share (pence)[1]	10			**7.70**			7.25

[1] The dividend per share of 7.70p (7.25p) is the interim and final dividend in respect of 2008 (2007).

Consolidated statement of changes in equity

	Note	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Opening equity		**77,154**	65,204
Profit for the year		**32,217**	29,176
Foreign exchange translation differences		**512**	40
Current tax on share-based payments taken directly to equity		**8**	953
Deferred tax on share-based payments taken directly to equity		**(536)**	(1,665)
Total income and expense recognised directly in equity		**(16)**	(672)
Total recognised income and expense for the year		**32,201**	28,504
Dividends	10	**(14,187)**	(12,173)
Issue of new shares	20, 23	**138**	1,090
Share-based payments – credit to equity	22, 23	**1,897**	1,738
Employee benefit trust – purchase of shares	21	**(3,597)**	(7,209)
Total changes in equity in the year		**16,452**	11,950
Closing equity		**93,606**	77,154

Consolidated balance sheet

	Note	As at 28 December 2008 £'000	As at 30 December 2007 £'000
Non-current assets			
Intangible assets	12	**26,241**	26,516
Property, plant and equipment	13	**250,722**	228,757
		276,963	255,273
Current assets			
Stock	15	**3,933**	3,349
Financial assets – derivative financial instruments	26	**–**	415
Trade and other receivables	16	**5,652**	7,027
Prepayments		**12,985**	12,830
Cash and cash equivalents	25	**5,470**	1,692
		28,040	25,313
Total assets		**305,003**	280,586
Current liabilities			
Corporation tax liabilities		**(7,749)**	(6,842)
Trade and other payables	17	**(84,211)**	(85,191)
Financial liabilities – derivative financial instruments	26	**(1,073)**	–
Other payables – finance lease obligations	27	**(274)**	(271)
Provisions	18	**(825)**	(533)
		(94,132)	(92,837)
Net current liabilities		**(66,092)**	(67,524)
Non-current liabilities			
Long-term borrowings	25	**(84,354)**	(78,265)
Other payables – finance lease obligations	27	**(2,652)**	(2,558)
Deferred tax liabilities	19	**(26,211)**	(25,388)
Provisions	18	**(4,048)**	(4,384)
		(117,265)	(110,595)
Total liabilities		**(211,397)**	(203,432)
Net assets		**93,606**	77,154
Equity			
Share capital	20, 23	**55,333**	55,295
Share premium	23	**21,104**	21,004
Foreign currency reserve	23	**633**	121
Other reserves	23	**(5,348)**	(3,648)
Retained earnings	23	**21,884**	4,382
Total equity		**93,606**	77,154

The financial statements on pages 37 to 58 were approved by the Board of Directors and authorised for issue on 4 March 2009 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Consolidated cash flow statement

	Note	Year ended 28 December 2008 £'000	Year ended 30 December 2007 £'000
Cash flows from operating activities			
Cash generated from operations	24	**78,764**	73,812
Interest received		**97**	1,546
Interest paid		**(4,858)**	(3,468)
Tax paid		**(13,624)**	(10,228)
Net cash flows from operating activities		**60,379**	61,662
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	11	**–**	(32,884)
Net proceeds on disposal of investment in associate		**39**	6,280
Purchase of property, plant and equipment		**(46,723)**	(47,407)
Proceeds from sale of property, plant and equipment		**1,729**	815
Net cash flows used in investing activities		**(44,955)**	(73,196)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**138**	1,090
Employee benefit trust – purchase of shares		**(3,597)**	(7,209)
Net proceeds from issue of bank loans		**6,000**	32,000
Dividends paid to shareholders	10	**(14,187)**	(12,173)
Net cash flows (used in)/from financing activities		**(11,646)**	13,708
Net increase in cash and cash equivalents		**3,778**	2,174
Cash and cash equivalents at beginning of year	25	**1,692**	(482)
Cash and cash equivalents at end of year	25	**5,470**	1,692

Notes to the accounts

1 Segmental analysis

	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Year ended 28 December 2008					
Leisure	328,986	87,147	26.5%	68,951	21.0%
Concessions	87,275	16,606	19.0%	12,735	14.6%
Principal trading brands	**416,261**	**103,753**	**24.9%**	**81,686**	**19.6%**
Non-core brands	269	(290)	(107.9%)	(887)	(330.2%)
Total all brands	**416,530**	**103,463**	**24.8%**	**80,799**	**19.4%**
Pre-opening costs		(2,513)	(0.6%)	(2,513)	(0.6%)
Administration costs		(21,557)	(5.2%)	(22,158)	(5.3%)
Share-based payments		(1,897)	(0.5%)	(1,897)	(0.5%)
Total before non-trading items		**77,496**	**18.6%**	**54,231**	**13.0%**
Release/(charge) of provision against carrying value of associate				39	
Termination costs				(637)	
Profit, net of losses, on disposal of fixed assets				292	
Operating profit				**53,925**	

	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Year ended 30 December 2007					
Leisure	285,226	76,161	26.7%	61,572	21.6%
Concessions	81,199	16,567	20.4%	12,485	15.4%
Principal trading brands	**366,425**	**92,728**	**25.3%**	**74,057**	**20.2%**
Non-core brands	285	(1,134)	(398.0%)	(1,449)	(508.5%)
Total all brands	**366,710**	**91,594**	**25.0%**	**72,608**	**19.8%**
Pre-opening costs		(2,567)	(0.7%)	(2,567)	(0.7%)
Administration costs		(19,483)	(5.3%)	(20,096)	(5.5%)
Share-based payments		(1,738)	(0.5%)	(1,738)	(0.5%)
Total before non-trading items		**67,806**	**18.5%**	**48,207**	**13.1%**
Release/(charge) of provision against carrying value of associate				(1,656)	
Termination costs				–	
Profit, net of losses, on disposal of fixed assets				247	
Operating profit				**46,798**	

No geographical segment analysis has been provided as the Directors do not consider there to be materially significant geographical segments. The Group currently operates three restaurants outside of the United Kingdom.

EBITDA is operating profit before depreciation, amortisation and non-trading items.

Notes to the accounts continued

1 Segmental analysis continued

	Year ended 28 December 2008 Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	18,196	39,033	256,518	56,131
Concessions	3,871	7,373	25,173	12,523
Principal trading brands	**22,067**	**46,406**	**281,691**	**68,654**
Non-core brands	597	–	1,571	8,614
Total all brands	**22,664**	**46,406**	**283,262**	**77,268**
Administration	601	317	10,434	8,060
Unallocated items	–	–	11,307	126,069
Total Group	**23,265**	**46,723**	**305,003**	**211,397**

	Year ended 30 December 2007 Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	14,589	39,834	236,353	50,670
Concessions	4,082	7,166	22,216	13,638
Principal trading brands	**18,671**	**47,000**	**258,569**	**64,308**
Non-core brands	315	12	1,836	10,567
Total all brands	**18,986**	**47,012**	**260,405**	**74,875**
Administration	613	395	10,912	10,438
Unallocated items	–	–	9,269	118,119
Total Group	**19,599**	**47,407**	**280,586**	**203,432**

Assets and liabilities are allocated to divisions where possible. Unallocated assets include derivative financial instruments, trade and other receivables, certain prepayments and cash and cash equivalents. Unallocated liabilities include borrowings, current and deferred tax, derivative financial instruments and certain accruals and other creditors.

2 Additional non-statutory information

* Results are stated excluding non-trading items.

Additional non-statutory income statement information is provided as a useful guide to underlying trading performance. The 2008 and 2007 results include a number of items which are of a one-off nature or are unrelated to the year's result and hence are not representative of the underlying trading performance of the business. The following segmental analysis excludes these non-trading items, as described in note 5, and is provided to aid understanding of the income statement and should be read in conjunction with, rather than as a substitute for, the reported information.

	Year ended 28 December 2008				
	Turnover £'000	**EBITDA £'000**	**EBITDA margin %**	**Operating profit £'000**	**Operating profit margin %**
Leisure	328,986	87,147	26.5%	68,951	21.0%
Concessions	87,275	16,606	19.0%	12,735	14.6%
Principal trading brands	**416,261**	**103,753**	**24.9%**	**81,686**	**19.6%**
Non-core brands	269	(290)	(107.9%)	(887)	(330.2%)
Total all brands	**416,530**	**103,463**	**24.8%**	**80,799**	**19.4%**
Pre-opening costs		(2,513)	(0.6%)	(2,513)	(0.6%)
Administration costs		(21,557)	(5.2%)	(22,158)	(5.3%)
Share-based payments		(1,897)	(0.5%)	(1,897)	(0.5%)
EBITDA/adjusted operating profit		**77,496**	**18.6%**	**54,231**	**13.0%**
Total net interest charges				(5,306)	
Adjusted profit before share of associate and tax				**48,925**	
Share of post-tax result in associated undertaking				–	
Adjusted profit before taxation				**48,925**	
Taxation				(16,147)	
Adjusted profit after taxation				**32,778**	
Earnings per share (pence) – trading business					
Basic				**16.67**	
Diluted				**16.43**	

	Year ended 30 December 2007				
	Turnover £'000	EBITDA £'000	EBITDA margin %	Operating profit £'000	Operating profit margin %
Leisure	285,226	76,161	26.7%	61,572	21.6%
Concessions	81,199	16,567	20.4%	12,485	15.4%
Principal trading brands	**366,425**	**92,728**	**25.3%**	**74,057**	**20.2%**
Non-core brands	285	(1,134)	(398.0%)	(1,449)	(508.5%)
Total all brands	**366,710**	**91,594**	**25.0%**	**72,608**	**19.8%**
Pre-opening costs		(2,567)	(0.7%)	(2,567)	(0.7%)
Administration costs		(19,483)	(5.3%)	(20,096)	(5.5%)
Share-based payments		(1,738)	(0.5%)	(1,738)	(0.5%)
EBITDA/adjusted operating profit		**67,806**	**18.5%**	**48,207**	**13.1%**
Total net interest charges				(3,978)	
Adjusted profit before share of associate and tax				**44,229**	
Share of post-tax result in associated undertaking				(749)	
Adjusted profit before taxation				**43,480**	
Taxation				(14,802)	
Adjusted profit after taxation				**28,678**	
Earnings per share (pence) – trading business					
Basic				**14.64**	
Diluted				**14.56**	

No geographical segment analysis has been provided as the Directors do not consider there to be materially significant geographical segments. The Group currently operates three restaurants outside of the United Kingdom.

Financial information regarding segmental assets and liabilities is detailed in note 1.

EBITDA is operating profit before depreciation, amortisation and non-trading items.

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3 Revenue

	2008 £'000	2007 £'000
Revenue consists of the following:		
Continuing operations	**416,530**	366,710
Other income not included within revenue in the income statement:		
Rental income	**3,575**	4,013
Interest income	**97**	1,025
Total income for the year	**420,202**	371,748

4 Profit for the year

	2008 £'000	2007 £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	**335,731**	294,102
Pre-opening costs	**2,513**	2,567
Total cost of sales for the year	**338,244**	296,669

	2008 £'000	2007 £'000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation	**23,265**	19,599
Purchases	**98,338**	86,300
Staff costs (see note 6)	**127,438**	111,059
Minimum lease payments[1]	**41,388**	39,055
Contingent rents[1]	**8,261**	8,325
Total operating lease rentals of land and buildings[1]	**49,649**	47,380
Rental income	**(3,575)**	(4,013)

[1] In 2007, contingent rents, defined as that portion of the lease payment based on a percentage of sales, were included in the total of operating lease rentals of land and buildings. Contingent rents for the year ended 28 December 2008, together with the comparative amount for 2007, are now disclosed separately.

	2008 £'000	2007 £'000
Auditors' remuneration:		
Audit of the annual accounts	**140**	133
Audit of overseas subsidiary	**7**	9
Total audit fees	**147**	142
Tax services	**40**	60
Disposal of investment in associate	**–**	45
Corporate finance services	**–**	120
Due diligence assurance fees	**–**	200
Other assurance services	**30**	34
Total non-audit fees	**70**	459
Total fees paid to the Group's auditors	**217**	601

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. Of the total fees paid to auditors, £0.2m was expensed as administration costs. In 2007, of the total fees paid to auditors, £0.2m was expensed as administration costs, £0.3m was capitalised as part of the professional fees incurred on an acquisition and £0.1m was expensed as professional fees incurred on disposal of investment in associate.

During 2007, the Group appointed Deloitte LLP as auditors. Of the total fees paid to auditors in the year ended 30 December 2007, £0.1m was paid to BDO Stoy Hayward LLP and £0.5m was paid to Deloitte LLP.

5 Non-trading items

	Note	2008 £'000	2007 £'000
Items classified as non-trading within ordinary activities:			
Release/(charge) of provision against carrying value of associate	i	**39**	(1,656)
Interest receivable from associate	ii	**–**	986
Termination costs	iii	**(637)**	–
Finance charge arising from remeasurement of interest rate swaps	iv	**(1,488)**	(237)
Profit on disposal of fixed assets	v	**306**	476
Loss on disposal of fixed assets	v	**(626)**	(26)
Release/(creation) of accrual for disposal of assets	v	**600**	(203)
Asset disposal included within operating profit	v	**12**	–
Profit, net of losses, on disposal of fixed assets		**292**	247
Loss on ordinary activities before tax		**(1,794)**	(660)
Taxation charge on non-trading items		**1,233**	(225)
Credit in respect of rate change on deferred tax liability	vi	**–**	1,383
Total taxation on non-trading items		**1,233**	1,158
Total non-trading items after tax		**(561)**	498

i) A £1.7m provision was made in the year ended 30 December 2007 against the carrying value of the Group's associate company which, together with the £9.5m provision made in the year ended 31 December 2006, leaves a £nil carrying value of both the investment and the loan note due. A further £0.039m of proceeds relating to the disposal of Living Ventures Limited was received in the year ended 28 December 2008. Further details are provided in note 14.

ii) A credit of £1.0m was recognised in 2007 in respect of accrued loan note interest received but not previously recorded in the income statement. Further details are provided in note 14.

iii) In the year ended 28 December 2008 the Group has incurred £0.6m of termination costs (2007: £nil).

iv) The Group has taken a charge of £1.5m (2007: £0.2m) in respect of the remeasurement of its interest rate swaps. Further details are provided in note 26.

v) During the year the Group disposed of fixed assets and realised a net profit of £0.3m (2007: £0.2m).

vi) A non-trading taxation credit of £1.4m was recognised in the income statement in 2007 due to the impact of the change in the corporation tax rate on the deferred tax liability. Further details are provided in note 8.

6 Staff costs and numbers

	2008	2007
a) Staff numbers (including executive Directors)		
Restaurant staff	**9,413**	8,566
Administration staff	**215**	179
	9,628	8,745

	2008 £'000	2007 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	**115,537**	100,860
Social security costs	**9,446**	8,198
Share-based payments	**1,897**	1,738
Pension costs	**558**	263
	127,438	111,059
c) Directors' remuneration		
Emoluments	**3,085**	2,747
Money purchase (and other) pension contributions	**192**	226
	3,277	2,973
Charge in respect of share options	**1,131**	917
	4,408	3,890

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 26 to 31, of which the information on pages 29 to 31 has been audited.

Notes to the accounts continued

7 Net finance charges

	2008 £'000	2007 £'000
Bank interest payable	**4,718**	3,370
Other interest payable	**368**	330
Interest on obligations under finance leases	**317**	317
Change in fair value of interest rate swaps	**1,488**	237
Total borrowing costs	**6,891**	4,254
Bank interest receivable	**15**	9
Interest received on loan note from associate	**–**	986
Other interest receivable	**82**	30
Interest receivable	**97**	1,025
Net finance charges	**6,794**	3,229

8 Taxation

a) The taxation charge comprises:

	2008 £'000	2007 £'000
Current taxation		
UK corporation tax at 28.5% (2007: 30%)	**15,382**	12,901
Adjustments in respect of previous periods	**(842)**	(107)
	14,540	12,794
Deferred taxation		
Origination and reversal of timing differences	**32**	2,306
Adjustments in respect of previous periods	**347**	(73)
Credit in respect of rate change	**(5)**	(1,383)
	374	850
Total taxation charge for the year	**14,914**	13,644

b) Factors affecting the tax charge for the year

The tax assessment for the year is higher than the standard UK corporation tax rate of 28.5% (2007: 30%) due to the following factors:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	**47,131**	42,820
Profit on ordinary activities before taxation multiplied by the standard UK corporation tax rate of 28.5% (2007: 30%)	**13,432**	12,846
Effects of:		
Loss made by associate, with no tax credit available	**–**	225
Depreciation on non-qualifying assets	**1,241**	1,416
Expenses not deductible for tax purposes	**713**	794
Profit on disposal of non-qualifying assets	**(381)**	(74)
Credit in respect of rate change on deferred tax liability	**(5)**	(1,383)
Adjustment in respect of previous years	**(495)**	(180)
Other adjustments	**409**	–
Total taxation charge for the year	**14,914**	13,644

The Finance Act 2007 reduced the rate of corporation tax from 30% to 28% from 1 April 2008, resulting in a blended rate being used to calculate the corporation tax liability for the year ended 28 December 2008. At 30 December 2007, the revised rate of 28% was used to calculate the deferred tax liability which resulted in a one-off non-trading tax credit in the income statement of £1.4m.

9 Earnings per share

	2008 £'000	2007 £'000
a) Basic earnings per share:		
Weighted average ordinary shares in issue during the year	**196,669,242**	195,878,089
Total basic profit for the year (£'000)	**32,217**	29,176
Basic earnings per share for the year (pence)	**16.38**	14.90
Total basic profit for the year (£'000)	**32,217**	29,176
Effect of non-trading items on earnings for the year (£'000)	**561**	(498)
Earnings excluding non-trading items (£'000)	**32,778**	28,678
Adjusted earnings per share (pence)	**16.67**	14.64
b) Diluted earnings per share:		
Weighted average ordinary shares in issue during the year	**196,669,242**	195,878,089
Dilutive shares to be issued in respect of options granted under the Share Option Schemes	**2,861,641**	1,023,168
	199,530,883	196,901,257
Diluted earnings per share (pence)	**16.15**	14.82
Adjusted diluted earnings per share (pence)	**16.43**	14.56

The additional non-statutory earnings per share information (where non-trading items, described in note 5, have been added back) has been provided as the Directors believe they provide a useful indication as to the underlying performance of the Group.

Diluted earnings per share information is based on adjusting the weighted average number of shares in issue in respect of notional share awards made to employees in respect of share option schemes. No adjustment is made to the reported earnings for 2008 and 2007.

10 Dividend

	2008 £'000	2007 £'000
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the year ended 30 December 2007 of 5.99p (2006: 4.95p) per share	**11,504**	9,702
Interim dividend for the year ended 28 December 2008 of 1.40p (2007: 1.26p) per share	**2,683**	2,471
Total dividends paid in the year	**14,187**	12,173
Proposed final dividend for the year ended 28 December 2008 of 6.30p (2007 actual proposed and paid: 5.99p) per share	**12,073**	11,504

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 6 May 2009 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 28 December 2008, adjusted for the 5.1m shares owned by the employee benefit trust for which dividends have been waived. Further details are provided in note 21.

11 Acquisition of Brunning and Price

On 17 October 2007 The Restaurant Group plc completed the acquisition of 100% of the ordinary share capital of Brunning and Price Limited ("B&P") for £27.2m including the costs of acquisition, and a further payment of £5.7m for the repayment of existing debt within B&P. Adjustments have been made to the carrying values of property, plant and equipment, trade and other receivables, trade and other payables and deferred tax as a result of changes in estimates after the provisional accounting was completed. As a result, a further £0.015m consideration is payable. These adjustments have been made in the year ended 28 December 2008 in accordance with IFRS 3 'Business Combinations'. These adjustments have resulted in a decrease of £0.3m in the goodwill on acquisition.

	Provisional values £'000	Adjustments £'000	Revised carrying values £'000
Property, plant and equipment	27,146	252	27,398
Stocks	236	–	236
Trade and other receivables	320	(64)	256
Net debt	(5,687)	–	(5,687)
Trade and other payables	(3,433)	15	(3,418)
Deferred tax	(6,626)	87	(6,539)
Net identifiable assets and liabilities	**11,956**	**290**	**12,246**
Goodwill on acquisition	15,241	(275)	14,966
Consideration paid/payable	**27,197**	**15**	**27,212**
Net debt acquired and settled	5,687	–	5,687
Total consideration paid/payable, including settlement of acquired debt	**32,884**	**15**	**32,899**

Notes to the accounts continued

12 Intangible assets

	Goodwill £'000
Cost	
At 1 January 2007	11,275
Acquisition of Brunning and Price Limited (see note 11)	15,241
At 30 and 31 December 2007	26,516
Adjustment from change in estimates on acquisition of Brunning and Price Limited (see note 11)	(275)
At 28 December 2008	**26,241**

Goodwill arising on business combinations is not amortised but is subject to an annual impairment review, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill arising on the acquisition of Blubeckers Limited and Brunning and Price Limited is monitored at a brand level and an impairment test is carried out which compares the value in use to the carrying value of each brand.

Value in use calculations are based on budgeted cash flows. Cash flows are projected over the remaining useful lives of the brands, estimated to be, on average, 27 years for Blubeckers Limited and 37 years for Brunning and Price Limited, with a 2% annual growth rate applied. The pre-tax discount rate applied to cash flow projections is 9.03%.

13 Property, plant & equipment

	Land and buildings £'000	Fixtures, equipment & vehicles £'000	Total £'000
Cost			
At 1 January 2007	194,858	85,786	280,644
Exchange movement	206	73	279
Acquisitions (see note 11)	26,339	807	27,146
Additions	32,012	15,395	47,407
Disposals	(2,674)	(818)	(3,492)
Adjustment[1]	–	(2,949)	(2,949)
At 30 December 2007 (adjusted)	**250,741**	**98,294**	**349,035**
Accumulated depreciation and impairment			
At 1 January 2007	64,800	41,809	106,609
Exchange movement	107	39	146
Provided during the year	12,206	7,393	19,599
Disposals	(2,366)	(761)	(3,127)
Adjustment[1]	–	(2,949)	(2,949)
At 30 December 2007 (adjusted)	**74,747**	**45,531**	**120,278**
Cost			
At 31 December 2007 (adjusted)	250,741	98,294	349,035
Exchange movement	566	216	782
Acquisitions (see note 11)	378	(126)	252
Additions	29,801	16,922	46,723
Disposals	(7,655)	(16,182)	(23,837)
At 28 December 2008	**273,831**	**99,124**	**372,955**
Accumulated depreciation and impairment			
At 31 December 2007 (adjusted)	74,747	45,531	120,278
Exchange movement	349	129	478
Provided during the year	12,229	11,036	23,265
Reclassifications[2]	(4,746)	4,746	–
Disposals	(6,190)	(15,598)	(21,788)
At 28 December 2008	**76,389**	**45,844**	**122,233**
Net book value as at 30 December 2007	175,994	52,763	228,757
Net book value as at 28 December 2008	**197,442**	**53,280**	**250,722**

Net book value of land and buildings

	2008 £'000	2007 £'000
Freehold	**50,959**	48,099
Long leasehold	**1,728**	1,890
Short leasehold	**144,755**	126,005
	197,442	175,994

[1] The adjustment relates to the gross cost and accumulated depreciation of assets disposed of in previous periods and not previously derecognised. There is no impact on net book value or the income statement.
[2] On review of the classification of depreciation charges across different categories of asset, a number of reclassifications between categories have been identified. There is no impact on total net book value or the income statement.

Assets held under finance leases

	2008 £'000	2007 £'000
Costs at the beginning and end of year	**1,961**	1,961
Depreciation		
At start of year	**1,049**	1,023
Provided during the year	**25**	26
At end of year	**1,074**	1,049
Net book value at end of year	**887**	912

14 Investment in associate

The Restaurant Group holds a 38% investment in Pimco 2637 Limited and this investment is accounted for using the equity method. Pimco 2637 Limited has an accounting year end date of 31 March and as there is no material benefit in making the accounting year end co-terminus with the Group, no change has been made.

As a result of a detailed review of the trading performance of Pimco 2637 Limited, the investment has been recorded at £nil and a loan note of £10.4m due from LV Finance Limited, a subsidiary of Pimco 2637 Limited, was fully provided against as at 28 December 2008 and 30 December 2007.

The Group's share of the post-tax result of Pimco 2637 Limited for the year ended 28 December 2008 was a loss of £0.6m (23 June to 30 December 2007: loss of £0.2m). This loss has not been recognised in the income statement, in accordance with IAS 28 "Associates and Joint Ventures", as the investment has a carrying value of £nil.

Interest is receivable from LV Finance Limited on the loan note of £10.4m at a rate of LIBOR. In the year ended 28 December 2008 £0.6m of interest has been accrued of which the Group has recognised £nil (period from 23 June to 30 December 2007: £0.3m of which the Group recognised £nil). Consequently in addition to the loan note of £10.4m outstanding at that date, £0.9m of interest receivable had accrued, of which, under the terms of the agreement, £0.4m was overdue.

Summarised financial information on Pimco 2637 Limited is as follows:

	2008 £'000	2007 £'000
Non-current assets	**21,133**	20,196
Current assets	**1,527**	2,442
Non-current liabilities	**(17,898)**	(17,170)
Current liabilities	**(5,684)**	(4,812)
Equity	**(922)**	656
Revenue	**21,850**	10,744
Net loss	**(1,578)**	(433)

At 28 December 2008 Pimco 2637 Limited was contractually committed to £0.03m of capital expenditure (30 December 2007: £0.4m).

Investment in Living Ventures Limited

Until 22 June 2007, the Group held a 38% investment in Living Ventures Limited, which was accounted for using the equity method. On 22 June 2007 a new company, Pimco 2637 Limited, was formed with identical shareholdings to Living Ventures Limited. Living Ventures Limited sold part of its business to Pimco 2637 Limited and Living Ventures Limited was subsequently sold. As a result of this transaction, the Group received a consideration of £6.3m in cash, net of costs. In addition, the outstanding interest on the loan note at that time, amounting to £1.5m, was settled in full. Of the £1.5m received, £1.0m had not been previously recognised in the income statement and was recorded as a non-trading credit in the income statement in the year ended 30 December 2007 (2006: £nil). Further proceeds of £0.039m resulting from this sale were received by the Group in 2008.

The Group's share of the post-tax result of Living Ventures Limited for the period to 22 June 2007 was a loss of £0.7m.

Notes to the accounts continued

15 Stock

Stock comprises raw materials and consumables and has been valued at the lower of cost and estimated net realisable value. The replacement cost at 28 December 2008 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £98.3m of purchases as an expense in 2008 (2007: £86.3m).

16 Trade and other receivables

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Trade debtors	**962**	3,294
Other debtors	**4,690**	3,733
	5,652	7,027

17 Trade and other payables

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Trade creditors	**41,008**	35,809
Other tax and social security	**10,399**	10,581
Other creditors	**5,839**	8,190
Accruals	**26,965**	30,611
	84,211	85,191

18 Provisions

	2008 £'000	2007 £'000
Provision for onerous lease contracts:		
Balance at beginning of year	**4,917**	3,466
Additional provisions made	**1,714**	1,653
Amounts utilised	**(651)**	(456)
Provisions released	**(1,463)**	–
Unwinding of discount	**356**	254
Balance at end of year	**4,873**	4,917
Analysed as:		
Amount due for settlement within one year	**825**	533
Amount due for settlement after one year	**4,048**	4,384
	4,873	4,917

The provision for onerous contracts is in respect of lease agreements and covers the element of expenditure over the life of those contracts which are considered onerous, expiring in 1 – 32 years.

19 Deferred taxation

	2008 £'000	2007 £'000
Balance at beginning of the year	**25,388**	16,247
Capital allowances in advance of depreciation charged to the income statement	**1,191**	2,619
Other timing differences	**(817)**	(386)
Credit in respect of rate change	**–**	(1,383)
Deferred tax taken directly to the income statement (see note 8)	**374**	850
Tax on share-based payments	**536**	1,623
Charge in respect of rate change	**–**	42
Deferred tax taken through equity	**536**	1,665
Deferred tax arising on acquisition of Brunning & Price Limited (see note 11)	**(87)**	6,626
Other adjustments	**(87)**	6,626
Balance at end of year	**26,211**	25,388

	2008 £'000	2007 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	**27,426**	27,836
Capital gains held over	**110**	148
Capital gains rolled over	**543**	591
Other timing differences	**(1,868)**	(3,187)
	26,211	25,388

20 Share capital

	Number	£'000
Authorised:		
At 30 December 2007 and 28 December 2008 (ordinary shares of 28⅛p each)	**284,444,444**	**80,000**
Allotted, called up and fully paid:		
At 1 January 2007	195,067,263	54,863
Exercise of share options	1,537,995	432
At 30 and 31 December 2007	**196,605,258**	**55,295**
Exercise of share options	133,580	38
At 28 December 2008	**196,738,838**	**55,333**

21 Employee benefit trust

An employee benefit trust ("EBT") was established in 2007 in order to satisfy the exercise or vesting of existing and future share awards under the Long-Term Incentive Plan ("LTIP"). The EBT purchases shares in the market, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 28 December 2008, the Trustees, Appleby Trust (Jersey) Limited, held 5.1m shares in the Company (30 December 2007: 2.5m shares). In the year ended 28 December 2008, the EBT purchased 1,625,000 shares on 27 March 2008 at an average price of £1.372 per share, 500,000 shares on 6 May 2008 at an average price of £1.427 per share and 500,000 shares on 17 June 2008 at an average price of £1.256 per share (2007: 1,500,000 purchased on 29 June 2007 at an average price of £3.271 per share and 1,000,000 purchased on 27 November 2007 at an average price of £2.236 per share). Net cash outflow in the year ended 28 December 2008 was £3.6m, inclusive of costs (year ended 30 December 2007: £7.2m, inclusive of costs).

Details of options granted under the Group's share schemes are given in note 22.

22 Share-based payment schemes

The Group operates a number of share option schemes, details of which are provided in the Directors' remuneration report on pages 26 to 31. The Group has taken advantage of the exemption under IFRS 2 " Share-based payments" not to account for share options granted before 7 November 2002.

The charge recorded in the financial statements of the Group in respect of share-based payments is £1.9m (2007: £1.7m).

Executive Share Option Plans (ESOPs)

The Group has in place three ESOPs, the 1998 scheme, the 2003 scheme and a one-off scheme. Under these schemes, the remuneration committee may grant options over shares in The Restaurant Group plc to employees of the Group. Awards under the ESOPs are generally reserved for senior management level and above. The contractual life of an option is ten years. Options granted under ESOPs become exercisable on the third anniversary of the date of grant, subject to growth in earnings per share exceeding RPI growth by more than 4% (under the 1998 scheme) or 2.5% (under the 2003 scheme). Exercise of options is subject to continued employment within the Group. Options were valued using a Stochastic option pricing model. No performance conditions were included in the fair value calculations.

Year ended 28 December 2008:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
1998 Scheme							
2002 – 2009	75.0p	–	–	–	–	–	–
2003 – 2010	48.6p	3,015	–	–	–	3,015	3,015
Total number		**3,015**	**–**	**–**	**–**	**3,015**	**3,015**
Weighted average exercise price		**48.6p**	**–**	**–**	**–**	**48.6p**	**48.6p**
2003 Scheme							
2006 – 2013	67.4p	191,409	–	(4,522)	–	186,887	186,887
2007 – 2014	97.7p	1,479,500	–	(26,290)	(12,500)	1,440,710	1,440,710
2008 – 2015	134.4p	1,469,000	–	(50,000)	–	1,419,000	1,419,000
Total number		**3,139,909**	**–**	**(80,812)**	**(12,500)**	**3,046,597**	**3,046,597**
Weighted average exercise price		**113.0p**	**–**	**118.7p**	**97.7p**	**112.9p**	**112.9p**
One-off scheme (see note below)							
2004 – 2011	45.0p	200,000	–	–	–	200,000	200,000
Total number		**200,000**	**–**	**–**	**–**	**200,000**	**200,000**
Weighted average exercise price		**45.0p**	**–**	**–**	**–**	**45.0p**	**45.0p**
Total number		**3,342,924**	**–**	**(80,812)**	**(12,500)**	**3,249,612**	**3,249,612**
Weighted average exercise price		**108.9p**	**–**	**118.7p**	**97.7p**	**108.7p**	**108.7p**

Notes to the accounts continued

22 Share-based payment schemes continued

Year ended 30 December 2007:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
1998 Scheme							
2002 – 2009	75.0p	50,244	–	(50,244)	–	–	–
2003 – 2010	48.6p	6,030	–	(2,240)	(775)	3,015	3,015
Total number		**56,274**	**–**	**(52,484)**	**(775)**	**3,015**	**3,015**
Weighted average exercise price		**72.2p**	**–**	**73.9p**	**48.6p**	**48.6p**	**48.6p**
2003 Scheme							
2006 – 2013	67.4p	967,742	–	(776,333)	–	191,409	191,409
2007 – 2014	97.7p	1,667,500	–	(183,000)	(5,000)	1,479,500	1,479,500
2008 – 2015	134.4p	1,479,000	–	–	(10,000)	1,469,000	–
Total number		**4,114,242**	**–**	**(959,333)**	**(15,000)**	**3,139,909**	**1,670,909**
Weighted average exercise price		**103.8p**	**–**	**73.2p**	**122.2p**	**113.0p**	**94.2p**
One-off scheme (see note below)							
2004 – 2011	45.0p	400,000	–	(200,000)	–	200,000	200,000
Total number		**400,000**	**–**	**(200,000)**	**–**	**200,000**	**200,000**
Weighted average exercise price		**45.0p**	**–**	**45.0p**	**–**	**45.0p**	**45.0p**
Total number		**4,570,516**	**–**	**(1,211,817)**	**(15,775)**	**3,342,924**	**1,873,924**
Weighted average exercise price		**98.2p**	**–**	**68.6p**	**118.6p**	**108.9p**	**88.9p**

During 2008, the weighted average market price at date of exercise was 146.5p per share (2007: 304p).

Note: The one-off scheme is in respect of Alan Jackson's share options granted on 5 June 2001. Further details are provided in the Directors' remuneration report on page 31. During the year Alan Jackson exercised no options under this scheme, and as at 28 December 2008 there are 200,000 share options outstanding. No charge to the income statement is recognised in respect of Alan Jackson's share options as they were granted prior to 7 November 2002.

Long-Term Incentive Plan

On 9 November 2005 an Extraordinary General Meeting of The Restaurant Group plc approved the adoption of a new Long-Term Incentive Plan ("LTIP") for the Group, details of which are provided in the Directors' remuneration report on pages 26 to 31. Awards under the LTIP are generally reserved for senior management level and above. Conditional Award share options and Matching Award share options were granted to Directors and selected employees on 7 December 2005, 8 March 2007 and 6 March 2008. In respect of the Matching Award share options, the respective Director or employee was required to acquire a number of shares by 7 May 2006 in respect of the 7 December 2005 award, by 30 June 2007 in respect of the 8 March 2007 award and 30 June 2008 in respect of the 6 March 2008 award, known as "Deposited Shares", and retain these shares until the Matching Award share options vest, for those Matching Award share options to be valid. Vesting of share options under the LTIP is dependent on continuing employment. In exceptional circumstances, employees may be permitted to exercise options before the normal period in which they are exercisable.

The options from the LTIP scheme will be satisfied through share purchases via a trust. Further details are provided in note 21.

Year ended 28 December 2008:

Period during which options are exercisable	Type of award	Fair value	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2009	Conditional – TSR element	99.0p	340,135	–	–	–	340,135	–
2009	Conditional – EPS element	153.0p	673,252	–	(19,840)	(28,262)	625,150	–
2009	Matching	153.0p	369,362	–	(4,960)	–	364,402	–
2010	Conditional – TSR element	240.9p	187,787	–	–	(36,866)	150,921	–
2010	Conditional – EPS element	336.0p	379,506	–	–	(85,647)	293,859	–
2010	Matching	336.0p	183,721	–	–	(24,801)	158,920	–
2011	Conditional – TSR element	83.1p	–	768,533	–	(142,241)	626,292	–
2011	Conditional – EPS element	146.0p	–	1,649,445		(246,910)	1,402,535	–
2011	Matching	146.0p	–	812,363	–	(459,413)	352,950	–
Total number			**2,133,763**	**3,230,341**	**(24,800)**	**(1,024,140)**	**4,315,164**	**–**

Year ended 30 December 2007:

Period during which options are exercisable	Type of award	Fair value	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2009	Conditional – TSR element	99.0p	340,135	–	–	–	340,135	–
2009	Conditional – EPS element	153.0p	739,577			(66,325)	673,252	–
2009	Matching	153.0p	386,339	–	–	(16,977)	369,362	–
2010	Conditional – TSR element	240.9p	–	187,787	–	–	187,787	–
2010	Conditional – EPS element	336.0p	–	379,506	–	–	379,506	–
2010	Matching	336.0p	–	247,908	–	(64,187)	183,721	–
2011	Conditional – TSR element	83.1p	–	–	–	–	–	–
2011	Conditional – EPS element	146.0p	–	–	–	–	–	–
2011	Matching	146.0p	–	–	–	–	–	–
Total number			**1,466,051**	**815,201**	**–**	**(147,489)**	**2,133,763**	**–**

Save As You Earn Scheme

Under the Save As You Earn ("SAYE") scheme, the Board may grant options over shares in The Restaurant Group plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the five days prior to invitation. Employees pay a fixed amount from their salary into a savings account each month for the three-year savings period. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw their funds saved and the options expire. Exercise of options is subject to continued employment within the Group. In exceptional circumstances, employees may be permitted to exercise these options before the end of the three-year savings period. Options were valued using the Stochastic share pricing model.

Year ended 28 December 2008:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2007-2008	79.0p	59,482	–	(52,768)	(6,714)	–	–
2009	160.0p	219,319	–	–	(88,805)	130,514	–
2011	125.0p	–	847,897	–	(116,576)	731,321	–
Total number		**278,801**	**847,897**	**(52,768)**	**(212,095)**	**861,835**	**–**

Year ended 30 December 2007:

Period during which options are exercisable	Exercise price	Outstanding at beginning of year	Granted	Exercised	Lapsed	Outstanding at end of year	Exercisable at end of year
2007-2008	79.0p	401,602	–	(323,892)	(18,228)	59,482	59,482
2009	160.0p	266,029	–	(2,286)	(44,424)	219,319	–
2011	125.0p	–	–	–	–	–	–
Total number		**667,631**	**–**	**(326,178)**	**(62,652)**	**278,801**	**59,482**

Assumptions used in valuation of share-based payments granted in the year ended 28 December 2008.

Scheme Grant date	2008 LTIP TSR element 6/3/08	Conditional Award EPS element 6/3/08	2008 LTIP Matching award 6/3/08	2008 SAYE scheme 23/4/08
Share price at grant date	146.0p	146.0p	146.0p	149.0p
Exercise price	n/a	n/a	n/a	125.0p
No of options originally granted	768,533	1,649,445	812,363	847,897
Minimum vesting period (years)	3 years	3 years	3 years	3 years
Expected volatility[1]	42.4%	n/a	n/a	41.9%
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years
Risk free rate	3.95%	n/a	n/a	4.48%
Expected dividend yield	0.00%	0.00%	0.00%	4.87%
Expected forfeitures	19%	15%	56%	10%
Fair value per option	83.1p	146.0p	146.0p	42.6p

[1] Expected volatility is the measure of the amount by which the share price is expected to fluctuate during a period. In order to calculate volatility, the movement in the return index (share price plus dividends re-invested) over a period prior to the grant date equal in length to the remaining period over which the performance condition applies has been calculated. For the SAYE awards and for the discount for the TSR performance condition for the relevant Conditional awards, the calculated volatility based on the movement in the return index over a period of 3.25 years and 3 years respectively prior to the grant has been used.

Notes to the accounts continued

23 Reserves

	Share capital £'000	Share premium £'000	Foreign currency reserve £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
At 1 January 2007	**54,863**	**20,346**	**81**	**1,823**	**(11,909)**	**65,204**
Issue of shares	432	658	–	–	–	**1,090**
Profit for the year	–	–	–	–	29,176	**29,176**
Dividends	–	–	–	–	(12,173)	**(12,173)**
Share-based payments – credit to equity	–	–	–	1,738	–	**1,738**
Employee benefit trust – purchase of shares	–	–	–	(7,209)	–	**(7,209)**
Current tax on share-based payments taken directly to equity	–	–	–	–	953	**953**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	(1,665)	**(1,665)**
Foreign exchange translation differences	–	–	40	–	–	**40**
At 30 and 31 December 2007	**55,295**	**21,004**	**121**	**(3,648)**	**4,382**	**77,154**
Issue of shares	38	100	–	–	–	**138**
Profit for the year	–	–	–	–	32,217	**32,217**
Dividends	–	–	–	–	(14,187)	**(14,187)**
Share-based payments – credit to equity	–	–	–	1,897	–	**1,897**
Employee benefit trust – purchase of shares	–	–	–	(3,597)	–	**(3,597)**
Current tax on share-based payments taken directly to equity	–	–	–	–	8	**8**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	(536)	**(536)**
Foreign exchange translation differences	–	–	512	–	–	**512**
At 28 December 2008	**55,333**	**21,104**	**633**	**(5,348)**	**21,884**	**93,606**

The other reserve reflects the credit to equity made in respect of the charge for share options made through the income statement and the purchase of shares in the market in order to satisfy the vesting of existing and future share awards under the Long-Term Incentive Plan (see note 21). Since 1 January 1989 the cumulative amount of goodwill written off against realised reserves is £50.4m (2007: £50.4m). Records for periods prior to this date are not readily available.

24 Reconciliation of profit before tax to net cash flow from operating activities

	2008 £'000	2007 £'000
Profit before tax	**47,131**	42,820
Net finance charges	**6,794**	3,229
Profit, net of losses, on disposal of fixed assets	**(292)**	(247)
Provision against carrying value of associate	**(39)**	1,656
Share of loss made by associate	**–**	749
Share-based payment charge	**1,897**	1,738
Depreciation	**23,265**	19,599
Increase in stocks	**(584)**	(121)
Decrease/(increase) in debtors	**915**	(3,043)
(Decrease)/increase in creditors	**(323)**	7,432
Cash flows from operating activities	**78,764**	73,812

Major non-cash transactions

There were no major non-cash transactions in the year ended 28 December 2008.

During the year ended 28 December 2008, the Group received £0.039m (year ended 30 December 2007: £6.3m, net of costs), following the disposal of its investment in Living Ventures Limited, an associate of the Group. As a result of this transaction, in 2007 the Group made a provision of £1.7m against the remaining carrying value of the investment and the loan note receivable. Further details are provided in note 14. This impairment represents a significant non-cash transaction.

25 Reconciliation of changes in cash to the movement in net debt

	2008 £'000	2007 £'000
Net debt:		
At the beginning of the year	**(76,573)**	(47,482)
Movements in the year:		
Loans taken out	**(6,000)**	(32,000)
Non-cash movements in the year	**(89)**	735
Cash inflow	**3,778**	2,174
At the end of the year	**(78,884)**	(76,573)

Represented by:	At 1 January 2007 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 30 December 2007 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 28 December 2008 £'000
Cash and cash equivalents	**683**	1,009	–	**1,692**	3,778	–	**5,470**
Overdrafts	**(1,165)**	1,165	–	**–**	–	–	**–**
	(482)	2,174	–	**1,692**	3,778	–	**5,470**
Bank loans falling due after one year	**(47,000)**	(32,000)	735	**(78,265)**	(6,000)	(89)	**(84,354)**
	(47,482)	(29,826)	735	**(76,573)**	(2,222)	(89)	**(78,884)**

26 Financial instruments and derivatives

The Group finances its operations through equity and borrowings. The Group borrows at floating rates and uses interest rate swaps to generate the desired interest profile. The use of any financial instruments is carefully controlled and monitored by the Board in line with the Group's treasury strategy and the terms and conditions of its facilities.

Management's approach to treasury is to:

- ensure sufficient committed loan facilities are in place to support anticipated business requirements;
- ensure the Group's debt service will be supported by anticipated cash flows and that covenants will be complied with; and
- manage interest rate exposure with a combination of floating rate debt and interest rate swaps.

Further details on the business risk factors that are considered to affect the Group and more specific financial risk management (including sensitivity to increases in interest rates) are included in the report of the Directors on pages 16 to 25. Further details on market and economic risk is included in the Chief Executive's review of operations on pages 9 and 10. Further detail on headroom against covenants is included in the Group Finance Director's report on page 13.

(a) Financial assets and liabilities

Financial assets

The financial assets of the Group comprise:

	2008 £'000	2007 £'000
Cash and cash equivalents – Sterling	**5,030**	1,555
Cash and cash equivalents – Euro	**440**	137
	5,470	1,692
Derivative financial instruments	**–**	415
Trade and other receivables	**5,652**	7,027
Total financial assets	**11,122**	9,134

Cash and cash equivalents include balances on which interest is received at floating rates in the overnight money market and balances held on account in respect of deposits paid by tenants under the terms of their rental agreement.

Notes to the accounts continued

26 Financial instruments and derivatives continued

Financial liabilities

The financial liabilities of the Group comprise:

	2008 £'000	2007 £'000
Trade and other payables	**84,211**	85,191
Derivative financial instruments	**1,073**	–
Finance lease debt	**274**	271
Short-term financial liabilities	**85,558**	85,462
Long-term borrowings – at floating interest rates*	**84,354**	78,265
Finance lease debt	**2,652**	2,558
Long-term financial liabilities	**87,006**	80,823
Total financial liabilities	**172,564**	166,285

* Total financial liabilities attracting interest were £85.0m (2007: £79.0m). Interest is payable at floating interest rates which fluctuate and are dependent on LIBOR and base rate. The average weighted year end interest rate for these borrowings was 2.98% (2007: 7.41%). After taking into account the effect of the interest rate swaps, the average weighted year end interest rate for these borrowings was 2.10% (2007: 6.40%).

On 19 December 2007 the Group entered a 5 year facility agreement for £120m which was utilised from 17 January 2008 and replaced the existing facility under which the borrowings set out above for 2007 were drawn down. Interest is payable on the amount drawn down at LIBOR plus mandatory cost and the bank's margin, which is dependent on the debt to EBITDA ratio. The Group has a £10m overdraft facility, which is repayable on demand, on which interest is payable at the bank's overdraft rate.

The Group has £35.0m of committed borrowing facilities in excess of gross borrowings at 28 December 2008 (30 December 2007: £41m).

The maturity profile of anticipated gross future cash flows, including interest, relating to the Group's non-derivative financial liabilities, on an undiscounted basis, are set out below.

At 28 December 2008

	Floating rate loan £'000	Finance lease debt £'000	Total £'000
Within one year	1,911	274	**2,185**
Within two to five years	90,789	1,096	**91,885**
After five years	–	6,250	**6,250**
	92,700	7,620	**100,320**
Less: Future interest payments	(8,346)	(4,694)	**(13,040)**
	84,354	2,926	**87,280**

At 30 December 2007

	Floating rate loan £'000	Finance lease debt £'000	Total £'000
Within one year	(1,371)	271	**(1,100)**
Within two to five years	102,080	1,082	**103,162**
After five years	–	6,157	**6,157**
	100,709	7,510	**108,219**
Less: Future interest payments	(22,444)	(4,681)	**(27,125)**
	78,265	2,829	**81,094**

Effective from 16 January 2006, the Group entered into an interest rate swap for an initial notional amount of £20m, rising to £50m from 18 April 2006 until 16 January 2008, when it reduced to £30m until 16 January 2009, when it terminated. The fixed rate for the duration of the three years was 4.695%.

Effective from 18 January 2008 the Group entered into an interest rate swap for a notional amount of £25m for three years. The fixed rate for the duration of the three years is 4.92%.

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for two years. The fixed rate for the duration of the two years is 2.70%.

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for three years. The fixed rate for the duration of the three years is 2.975%.

Fair value of financial assets and liabilities

The Group has derivative financial instruments relating to interest rate swaps and in accordance with IAS 39 these have been valued at 28 December 2008. The fair value of these instruments was £1.1m and this is accounted for as a liability in the consolidated balance sheet (2007: £0.4m asset). The movement in fair value has been recorded as a non-trading item in the consolidated income statement.

All financial assets and liabilities, excluding the interest rate swap, are accounted for at cost and the Directors consider the carrying value to approximate their fair value.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. Counterparties for cash and derivative balances are with large established financial institutions. The Group is exposed to credit related losses in the event of non-performance by the financial institutions but does not expect them to fail to meet their obligations.

As a retail business with trading receipts settled either by cash or credit and debit cards, there is very limited exposure from customer transactions. The Group is exposed to credit risk in respect of retrospective discounts due from suppliers but management believe adequate provision has been made in respect of doubtful debts and there are no material amounts past due that have not been provided against.

The Group has an outstanding long-term receivable of £10.4m due from LV Finance Limited, a subsidiary of the Group's associate company Pimco 2637 Limited. This debt is secured on the assets of Living Ventures Restaurants Limited, formerly Est Est Est Restaurants Limited, but is subject to a prior ranking behind LV Finance Limited's bank. Following a detailed review of the carrying value of the business, including the loan note receivable, in 2007 the Board made full provision against the loan note due. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk.

(c) Liquidity risk

The Group has built an appropriate mechanism to manage liquidity risk of the short, medium and long-term funding and liquidity management requirements. Liquidity risk is managed through the maintenance of adequate cash reserves and bank facilities by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's loan facilities, which mature in 2012 (as set out in note (a) above) ensure continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the Group Finance Director's report on page 13).

(d) Foreign currency risk

As the Group operates primarily within the United Kingdom any transactional or translational exposure to changes in foreign exchange rate is limited. The three restaurants the Group operates in Spain are serviced by local Euro denominated debt. The Group is not materially exposed to changes in foreign currency rates and does not use foreign exchange forward contracts.

(e) Interest rate risk

Exposure to interest rate movements is controlled through the use of floating rate debt and interest rate swaps to achieve a balanced interest rate profile and to ensure that a minimum level of borrowings are at fixed rates for the next three years in line with the Group's treasury strategy. Details of the current swaps are set out in note (a) above. The interest rate profile is reviewed on a regular basis.

27 Lease commitments

Future lease payments in respect of finance leases are due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Within one year	**274**	271	**274**	271
Within two to five years	**1,096**	1,082	**840**	830
After five years	**6,250**	6,157	**1,812**	1,728
	7,620	7,510		
Less: Future interest payments	**(4,694)**	(4,681)		
Present value of lease obligations	**2,926**	2,829	**2,926**	2,829
Analysed as:				
Amount due for settlement within one year			**274**	271
Amount due for settlement after one year			**2,652**	2,558
Present value of lease obligations			**2,926**	2,829

Lease commitments are in respect of property leases where the term of the lease is in excess of 25 years and the conditions of the lease are in keeping with a finance lease. There are no finance leases where the Group itself is the lessor. The interest rate applied in calculating the present value of the payments is the incremental borrowing cost of the Group in relation to each lease. The fair value of the lease payments is estimated as £2.9m (2007: £2.8m).

Notes to the accounts continued

27 Lease commitments continued

The total future minimum rentals payable and receivable under operating leases over the remaining lives of the leases are:

Lease expiring:	Payable 2008 £'000	Receivable 2008 £'000	Payable 2007 £'000	Receivable 2007 £'000
Within one year	**498**	**146**	1,015	–
Within two to five years	**13,964**	**3,004**	25,321	2,608
After five years	**544,190**	**43,221**	483,653	42,914
	558,652	**46,371**	509,989	45,522

The Group has entered into a number of property leases on standard commercial terms, both as lessee and lessor. There are no restrictions imposed by the Group's operating leases, either in the current or prior year. Included within the minimum rentals are amounts payable as contingent rents. The lease payments for certain units, primarily in the Group's Concessions division, include an element that is dependent on the turnover of that unit.

28 Capital commitments

	2008 £'000	2007 £'000
Authorised and contracted for:	**12,379**	12,948

29 Contingent liabilities

The Group has assigned a number of leases to third parties that were originally completed prior to 1 January 1996 and hence unaffected by the Landlord and Tenant (Covenants) Act 1995 and also a number of leases completed after this date that were the subject of an Authorised Guarantee Agreement. Consequently, should the current tenant default, the landlord has a right of recourse to The Restaurant Group plc for future rental payments. As and when any liability arises, the Group will take whatever steps necessary to mitigate the costs.

30 Related party transactions

Pimco 2637 Limited is a related party to The Restaurant Group plc through the Group's 38% holding. A loan note of £10.4m is due from LV Finance, a subsidiary of Pimco 2637 Limited, which attracts interest at the rate of LIBOR. During the year ended 28 December 2008, £0.6m of interest was accrued of which the Group recognised £nil (23 June to 30 December 2007: £0.3m of which the Group recognised £nil). Consequently, in addition to the £10.4m loan note outstanding at 28 December 2008, £0.9m interest had accrued, of which £0.4m was overdue under the terms of the agreement. Further details are provided in note 14.

Living Ventures Limited was a related party of The Restaurant Group plc through the Group's 38% holding until 22 June 2007 when the Group disposed of its investment. In 2007, the Group received £1.5m of interest due from Living Ventures Limited, of which £1.0m had not been recognised in the financial statements and was recorded as interest income in the year ended 30 December 2007. Further details are provided in note 14.

Alan Jackson resigned as a director of Living Ventures Limited on 17 January 2007. For the year to 30 December 2007, Alan Jackson received a fee of £2,916 from Living Ventures Limited in respect of his duties as non-executive chairman of that company.

Alan Jackson is a non-executive director of Charles Wells Limited, an independent brewing, pub and distribution company. During 2005, The Restaurant Group plc entered into a lease for a site owned by Charles Wells Limited and subsequently this site was converted into a Frankie & Benny's restaurant. No premium was paid by the Group to Charles Wells Limited. The Group has entered into the lease with Charles Wells Limited, on an arm's length basis, with an annual rent of £73,850 per annum. In addition, the Group purchased products with a value totalling £0.9m (2007: £0.7m) from Charles Wells Limited during the year, on an arm's length basis. No balance was directly outstanding at the year end. Alan Jackson received no remuneration or compensation in respect of these transactions.

Remuneration in respect of key management personnel, defined as the Directors for this purpose, is disclosed in note 6. Further information concerning the Directors' remuneration is provided in the Directors' remuneration report on pages 26 to 31, of which pages 29 to 31 are audited.

Independent auditors' report to the members of The Restaurant Group plc

We have audited the parent company financial statements The Restaurant Group plc for the 52 weeks ended 28 December 2008 which comprise the balance sheet and the related notes i to v. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of The Restaurant Group plc for the 52 weeks ended 28 December 2008 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the parent company 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 parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the Directors is consistent with the parent company 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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the 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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the Directors is consistent with the parent company financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
4 March 2009

Company financial statements – under UK GAAP

Balance sheet

	Note	At 28 December 2008 £'000	At 30 December 2007 £'000
Fixed assets			
Investments in subsidiary undertakings	i	**141,089**	139,177
		141,089	139,177
Current assets			
Debtors			
Amounts falling due within one year from Group undertakings		**85,626**	48,529
		85,626	48,529
Creditors			
Amounts falling due within one year to Group undertakings	ii	**(103,740)**	(89,021)
Net current liabilities		**(18,114)**	(40,492)
Total assets less current liabilities		**122,975**	98,685
Net assets		**122,975**	98,685
Capital and reserves			
Called up share capital	v	**55,333**	55,295
Share premium account	v	**21,104**	21,004
Other reserves	v	**(5,348)**	(3,648)
Profit and loss account	v	**51,886**	26,034
Shareholders' funds		**122,975**	98,685

The financial statements on pages 60 and 61 were approved by the Board of Directors and authorised for issue on 4 March 2009 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Accounting policies and basis of preparation

Basis of accounting

The accounts for the Company have been prepared under UK GAAP, whilst the Group accounts have been prepared under International Financial Reporting Standards. The Company accounts have been prepared under the historical cost convention in accordance with applicable UK accounting standards and on a going concern basis.

Investments

Investments are valued at cost less any provision for impairment.

Dividend

In accordance with FRS 21, "Events after the Balance Sheet Date", dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

Share-based payment transactions

The share options have been accounted for as an expense in the company in which the employees are employed, using a valuation based on the Stochastic simulation model.

In accordance with an available election in FRS 20, share-based awards granted before 7 November 2002 have not been subject to a charge. An increase in the investment held by the Company in the subsidiary in which the employees are employed, with a corresponding increase in equity, is recognised in the accounts of the Company. Information in respect of the Company's share option schemes is provided in note 22 to the consolidated financial statements. The value is accounted for as a capital contribution in relevant Group subsidiaries that employ the staff members to whom awards of share options have been made.

i) Investment in subsidiary undertakings

	Shares £'000	Loans and other £'000	Total £'000
Cost			
At 31 December 2007	94,099	46,500	140,599
Additions – share option scheme	–	1,897	1,897
Acquisition of Brunning and Price Limited	15	–	15
At 28 December 2008	**94,114**	**48,397**	**142,511**
Amounts written off			
At 31 December 2007 and 28 December 2008	888	534	1,422
Net book value at 28 December 2008	**93,226**	**47,863**	**141,089**
Net book value at 31 December 2007	93,211	45,966	139,177

The Company's operating subsidiaries are:

	Holding	Proportion of voting rights and shares held at 28 December 2008
City Centre Restaurants (UK) Limited*	Ordinary shares	100%
Chiquito Limited	Ordinary shares	100%
Blubeckers Limited	Ordinary shares	100%
Frankie & Benny's S.L.*	Ordinary shares	100%
DPP Restaurants Limited*	Ordinary shares	100%
Brunning and Price Limited**	Ordinary shares	100%

* Held by subsidiary undertakings
** On 17 October 2007, the Group acquired 100% of the share capital of Brunning and Price Limited. Further details are given in note 11 of the consolidated accounts

Other than Frankie & Benny's S.L., the Company's principal operating subsidiaries are registered in England and Wales, and operate restaurants in the United Kingdom. Frankie and Benny's S.L. is registered and operates three restaurants in Spain.

All other subsidiary undertakings are wholly owned by the Company or one of its subsidiaries, and are dormant.

ii) Creditors – amounts falling due within one year

In accordance with FRS 21, the proposed dividend payable in respect of 2008 is not recognised as a liability in these accounts as it has not yet been approved by shareholders. The creditors falling due within one year are in respect of intercompany balances.

iii) Profit attributable to members of the holding Company

As permitted by section 230(3) of the Companies Act 1985, a separate profit and loss account has not been presented for the holding Company. During the year the Company made a profit of £40.039m which included dividends of £40.000m received from subsidiary undertakings (2007: profit of £10.5m which includes dividends of £12.0m received from subsidiary undertakings). Remuneration of the auditors is borne by subsidiary undertakings (refer to note 4 in the consolidated accounts).

iv) Employee costs and numbers

All costs of employees and Directors are borne by subsidiary undertakings. At 28 December 2008 the Company employed five persons (30 December 2007: six persons).

v) Share capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	**Total £'000**
As at 31 December 2007	**55,295**	**21,004**	**(3,648)**	**26,034**	**98,685**
Issue of shares	38	100	–	–	**138**
Profit for the year	–	–	–	40,039	**40,039**
Employee share option schemes	–	–	1,897	–	**1,897**
Employee benefit trust – purchase of shares	–	–	(3,597)	–	**(3,597)**
Dividends	–	–	–	(14,187)	**(14,187)**
As at 28 December 2008	**55,333**	**21,104**	**(5,348)**	**51,886**	**122,975**

Details of share issues during the year are given in notes 20 and 22 of the consolidated financial accounts and details of the dividends paid and proposed during the year are given in note 10 of the consolidated accounts.

Group financial record

	2008 IFRS £'000	2007 IFRS £'000	2006 IFRS £'000	2005 IFRS £'000	2004 IFRS £'000	2004 UK GAAP £'000
Revenue	**416,530**	366,710	314,748	302,328	255,446	255,446
Trading business excluding DPP	**54,231**	48,207	39,187	31,962	26,070	25,904
Underlying interest	**(5,306)**	(3,978)	(3,254)	(1,823)	(1,667)	(1,179)
Share of associate	**–**	(749)	(917)	(600)	–	–
Adjusted profit before taxation	**48,925**	43,480	35,016	29,539	24,403	24,725
Loss before taxation made by DPP	**–**	–	–	(1,733)	–	–
Non-trading items	**(1,794)**	(660)	(13,437)	(1,348)	(3,390)	(2,597)
Profit on ordinary activities before taxation	**47,131**	42,820	21,579	26,458	21,013	22,128
Taxation	**(14,914)**	(13,644)	(11,163)	(8,617)	(6,942)	(7,039)
Profit on ordinary activities after taxation	**32,217**	29,176	10,416	17,841	14,071	15,089
Profit on sale of businesses net of tax	**–**	–	3,950	5,504	–	–
Profit for the year	**32,217**	29,176	14,366	23,345	14,071	15,089
Basic earnings per share	**16.38p**	14.90p	7.26p	10.78p	6.59p	7.06p
Adjusted earnings per share	**16.67p**	14.64p	11.50p	9.08p	7.84p	7.95p
Proposed total dividend per share for the year	**7.70p**	7.25p	6.00p	4.75p	4.20p	4.20p
Dividend cover (excluding non-trading items)	**2.16**	2.02	1.92	1.91	1.87	1.89
Employment of finance						
Property, plant & equipment	**250,722**	228,757	174,035	151,337	154,678	149,683
Other non-current assets	**26,241**	26,516	19,960	30,377	–	–
Net current liabilities	**(66,092)**	(67,524)	(59,612)	(61,848)	(51,014)	(55,111)
Long term liabilities	**(91,054)**	(85,207)	(52,932)	(14,459)	(12,056)	(7,625)
	119,817	102,542	81,451	105,407	91,608	86,947
Financed by:						
Equity shareholders' funds	**93,606**	77,154	65,204	91,436	75,883	70,855
Deferred tax	**26,211**	25,388	16,247	13,971	15,725	16,092
	119,817	102,542	81,451	105,407	91,608	86,947
Net debt	**(78,884)**	(76,573)	(47,482)	(12,419)	(11,652)	(11,294)
Gearing	**84.3%**	99.2%	72.8%	13.6%	15.4%	15.9%
Interest cover before non-trading items (times)	**10.2**	12.1	12.0	17.5	15.6	22.0

Shareholder information

Directors
Alan Jackson
Non-executive Chairman

Andrew Page
Chief Executive Officer

Stephen Critoph
Group Finance Director

Trish Corzine
Executive Director, TRG Concessions

John Jackson
Non-executive

Tony Hughes
Non-executive

Company Secretary
Robert Morgan

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One Bunhill Row
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Brokers
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20 Moorgate
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Financial calendar
Annual General Meeting
6 May 2009

Proposed final dividend – 2008
Announcement 4 March 2009
Ex-dividend 10 June 2009
Record date 12 June 2009
Payment date 8 July 2009

Notes