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The Restaurant Group plc
Annual Report 2006

The Restaurant Group plc operates 284 branded restaurants predominantly in leisure locations and airports. Its primary brands are Frankie & Benny's, Chiquito, Garfunkel's and Blubeckers.

Contents

Operating and financial review
Highlights

> Incorporating strong 2nd half year sales, total like-for-like sales were +5% for 2006

> Further good progress in margin growth with adjusted operating profit margin increasing 140 basis points to 12.5%

> Cash generated from operations up 14% to £63m

* Results are stated excluding non trading items and excluding the results of Deep Pan Pizza in the prior year comparatives Further information is provided in note 2 of the financial statements

Leisure (235 units)
Frankie & Benny's (139 units)
> EBITDA and operating profit grew more than 20%
> 25 new units opened during 2006 including nine Little Frankie's
> Returns from new units compare favourably with earlier years' openings
> Strong pipeline with 15 – 20 to open in 2007

Chiquito (45 units)
> Highest like-for like sales and operating profit growth in the Group
> EBITDA +38%, operating profit +44%, operating profit margin up 120 basis points
> 11 new restaurants opened during 2006
> 5 – 10 new restaurants to open in 2007

Garfunkel's (29 units)
> Strong like-for like sales, operating profits up 15%
> Operating profit margins up 140 basis points
> Refurbishment programme delivering strong sales growth

Blubeckers (22 units)
> Strong like-for like growth
> Five units opened in 2006, including one conversion
> Pipeline building with 5-10 new units to open in 2007

Concessions (49 units)
> Very pleasing performance
> Solid like-for like performance and six new openings increased sales 21%
> EBITDA +23%, operating profit +24%, operating profit margin up 40 basis points
> Between two and five new concessions for 2007, building work for Terminal 5 to commence in 2007

Current trading
> Like-for like sales for the first nine weeks +5%

Adjusted EBITDA (£m)

Adjusted profit before tax (£m)

Adjusted EPS (p)

Dividend per share (p)

+11.3%

Adjusted EBITDA
Adjusted EBITDA grew by 11 3% in 2006 reflecting the strong cash generative performance of the business

+18.5%

Adjusted profit before tax
Following on from a 21% increase in 2005, this is a very satisfactory result

+26.6%

Adjusted earnings per share
Adjusted earnings per share increased by 26 6%, evidence of the success of the focused Group

+26.3%

Proposed full year ordinary dividend
The Directors propose a final dividend of 4 95p per share to be paid on 4 July 2007 making the full year dividend 6 00p per share

At a glance

> Our locations

Scotland 27
13 Frankie & Benny's
04 Chiquito
09 Garfunkel's
01 TRG Concessions

North East 26
18 Frankie & Benny's
06 Chiquito
02 TRG Concessions

Midlands 35
25 Frankie & Benny's
07 Chiquito
03 TRG Concessions

East 35
19 Frankie & Benny's
02 Chiquito
03 Blubeckers & Edwinns
11 TRG Concessions

London 24
01 Frankie & Benny's
01 Chiquito
19 Garfunkel's
03 TRG Concessions

South East 78
25 Frankie & Benny's
09 Chiquito
19 Blubeckers & Edwinns
25 TRG Concessions

North West 34
21 Frankie & Benny's
09 Chiquito
04 TRG Concessions

Wales 06
04 Frankie & Benny's
02 Chiquito

South West 16
10 Frankie & Benny's
05 Chiquito
01 Garfunkel's

In addition the Group operates 3 restaurants outside the UK

> Frankie & Benny's

An unbeatable combination of classic American & traditional Italian dishes

Among the most popular family restaurant brands in the UK today, Frankie & Benny's now trades successfully in leisure, retail and airport locations nationwide It remains a favourite with families, couples, friends and business diners 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, BBQ ribs and seafood dishes 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 Music is classic 50's American swing With more than 130 outlets across the UK, Frankie & Benny's delivers a family restaurant appealing and familiar to everyone

Growing our brands

+25
new restaurants

Frankie & Benny's opened 25 new restaurants in 2006 (including nine Little Frankie's) and will open a further 15 20 in 2007

> Chiquito

The best of traditional Mexican and Tex Mex cuisine

With its unique blend of sizzling food and cooling margaritas, Chiquito takes you across the Rio Grande! Now with well over 40 outlets, Chiquito features a sunny, spicy extravaganza of Mexican cuisine, tasty Tex Mex and classic American favourites, all served in a fun and lively atmosphere There are burritos, chilli, nachos, wraps and meatballs – never forget the famous sizzling fajitas, smoking on a red hot skillet! Or you can overload on Texas BBQ ribs, juicy burgers or steaks The Kids' Menu offers a wide range of (less spicy) dishes for children that are tasty and nutritious, ensuring that Chiquito appeals to all ages The bar showcases signature margaritas, classic tequilas and cocktails alongside refreshing ice-cold beers and soft drinks Cantina inspired interiors and lively Latin American music add to the atmosphere, whether you visit for lunch, a lazy afternoon, an exciting evening, a family party or fiesta occasion!

> Blubeckers

Friendly people serving fresh food in delightful surroundings

Friendly, professional service from the moment you arrive, ensuring that all your needs are taken care of Our chefs are busy, from early each morning to the last pudding of the night, preparing fantastic food using the best, freshest ingredients we can find The menu combines traditional favourites with contemporary influences Seasonal & local specials regularly feature, but our signature burger and ribs have been there since Day 1! Blubeckers mixes the best of the past with the best of the present to create a relaxing, welcoming restaurant for every day

Edwinns Brasseries are known for attentive service and creative menus featuring traditional English food with a contemporary twist Taken together, Blubeckers and Edwinns provide TRG with a platform to develop into an area of the eating out market which is set to appeal to an increasing number of customers

> Garfunkel's

Legendary & Loved

How many restaurant brands have traded successfully in the UK's most competitive locations for more than 25 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

> TRG Concessions

Our Concessions division has an established reputation for its ability to deliver catering solutions across a range of market sectors

Operating in the UK's busiest airports and shopping centres, TRG Concessions has over 15 years of experience with a diverse brand portfolio covering a wide range of market sectors including table service, counter service, sandwich shops, pubs and bars Using existing TRG brands, creating entirely new brands and establishing partnerships to franchise with third parties, we are established operators delivering excellence through a clear understanding of the unique trading patterns within these specialised areas Currently operating at seven major UK airports, and within shopping centres and railway stations, our Concessions Division is creating new and exciting dining experiences

We are a market leader in this exciting sector

+44%

increase in operating profit

Chiquito saw the highest rate of growth in the Group for like for like sales and operating profits

+5

new restaurants

Added to our Blubeckers and Edwinns portfolio

27

years and still improving

Still popular and successful after 27 years Garfunkel's saw increased revenues and profits in 2006

+24%

operating profit growth in Concessions

Despite challenging operating conditions, the Concessions team delivered an impressive 24% growth in operating profit in 2006

"2006 was, in many ways, a watershed year for The Restaurant Group – the first full twelve months of trading in its new form. These results demonstrate the strength and potential of our business and our brands."

Alan M. Jackson
Chairman

Prospering in a challenging marketplace

I am delighted to report that the Group has enjoyed another successful year of profitable growth 2006 was, in many ways, a watershed year for The Restaurant Group – the first full twelve months of trading in its new form You will recall that 2005 was a year of considerable change for the Group on the corporate front, as we continued to direct our focus away from the increasingly crowded high street marketplace and positioned our business firmly in the out of town segments of the eating out market This was in line with our strategy of focusing on markets with distinct barriers to entry, good growth prospects and high returns on investment The impact of these changes is clear to see in this set of results

For 2006 we delivered a like for like sales increase of 5% which was a fantastic performance As a result, our adjusted profit before tax grew by 19% on the prior year In addition, our strong cash generation enabled the Group to add 47 new restaurants (including rebranding former DPP units) to its portfolio during the year, taking the total number of outlets to 284

Building on a strong first half performance we made further good progress during the second six months to produce excellent full year results Full year adjusted pre tax profit increased by 19% to £35 0m (2005 £29 5m) with turnover from our principal trading brands increasing by 24% to £308 7m (2005 £248 8m) Adjusted earnings per share increased by 27% to 11 50p (2005 9 08p)

As a result of this excellent performance the Board is recommending an increased final dividend of 4 95p per share (2005 3 84p), an increase of 29%, giving a total dividend for the year of 6 00p (2005 4 75p) per share Subject to approval at the Annual General Meeting, the final dividend will be payable on 4 July 2007 to shareholders on the register on 8 June 2007 and the shares will be marked ex dividend on 6 June 2007 As detailed in my interim statement, we also paid a special dividend of £34 8m during the first half of the year

Our Leisure Division which incorporates Frankie & Benny's, Chiquito, Blubeckers and Garfunkel's enjoyed another excellent year, recording a 27% increase in operating profit All of the brands delivered strong like for like growth during 2006 and we look forward to a continuation of this trend in 2007 During the year we opened 41 new restaurants in this division and we expect to open approximately 30 more units in the Leisure Division during 2007 Our new openings are performing well and we continue to enjoy high levels of return on investment The performance of our co-located units (Frankie & Benny's and Chiquito) has been particularly pleasing and we believe that there is scope to continue this pattern of dual roll out

* Results are stated excluding non trading items and excluding the results of Deep Pan Pizza in the prior year comparatives Further information is provided in note 2 of the financial statements

Our Concessions Division delivered a terrific set of results with operating profits for this division increasing by 24% Against a very challenging backdrop for parts of 2006, this was an outstanding performance We opened six new units during the year and we are pleased with the initial performance This year we expect to open a further 2 5 new units in the Concessions Division

During 2006 we concluded the conversion programme for 13 of the DPP sites which we acquired in early 2006 and the results from these have been pleasing The remaining sites have been, or will be, sold or closed Although the performance of our associate company, Living Ventures, was disappointing we are encouraged that the actions being taken by their management are beginning to impact positively on performance Notwithstanding this, we have made a provision of £9 5m against our carrying value of the loan note, which has no cash impact, following an impairment review of our investment and loan note

Overall, this is an outstanding set of results and demonstrates both the strength and potential of our business and its brands However, none of this would have been possible without the hard work and dedication of our senior management team and staff We have a fantastic team at The Restaurant Group and on behalf of the Board I would like to thank them all for their valued contribution over the past year

We have started the current year well, with like for like sales for the first nine weeks 5% ahead This year our target will be to open 30 35 new restaurants, we will be seeking to deliver further improvement in margins and our people will be looking to match or exceed the expectations of our customers and shareholders

I am confident that we will continue to make further good progress during the coming year

Alan M Jackson
Chairman
4 April 2007

+5%
like for like sales growth

Our like for like sales growth is a key performance indicator and this growth demonstrates the continuing appeal of our brands

Frankie & Benny's Gunwharf Key
A real jewel in the crown

Blubeckers, Sevenoaks
The latest addition to the estate

Chief Executive Officer's review of operations

"2006 was a very satisfactory year for The Restaurant Group with earnings increasing by 27% on the previous year. Our strategy is designed to deliver sustainable and growing cash flows combined with consistently high returns on investment and these results reflect that."

Andrew Page
Chief Executive Officer

Focused on our core business

Introduction

The Restaurant Group ("TRG") performed strongly throughout 2006 with the benefits from the strategic repositioning undertaken during the previous year evident in all of our key performance metrics All of our businesses performed well, delivering a 19% increase in adjusted profit before tax We have also made further good progress in terms of margin growth with a 140 basis point increase in our operating profit margin This improvement resulted from, inter alia, increased trading levels, driving further economies through scale, enhanced operating practices and other Group initiatives to improve efficiency

Our core objective continues to be growth in shareholder value and the strategy we have deployed to achieve this is to build a business capable of delivering long term, sustainable and growing cashflows Cash generation is a key area of focus for the team at TRG and I am delighted that we have, again, converted our profits into cash at a very healthy rate and that both earnings and operating cashflow per share have grown strongly

Our model for generating value is straightforward and robust It has five key components, as follows

> 1 Strong underlying like for like profit growth from our existing estate through focusing on our customers and as a result of initiatives to secure further operational improvements and efficiencies,

> 2 Incremental profit improvements through economies of scale,

> 3 Clear and sustainable conversion of those growing profits into cash,

> 4 A new unit rollout programme funded from those internally generated cashflows, and

> 5 Consistently high returns from those new openings, significantly ahead of our cost of capital, to generate further growth in profits and cashflow

This virtuous circle enables the Group to continue its growth in a predominantly organic and value-accretive way The quality of our cashflow is a distinctive feature of TRG's model, with our businesses occupying leading positions within our chosen market segments Since the beginning of 2006 our focus has been on markets away from the high streets, concentrating on edge of town, out of town, rural, semi rural and concessions locations We believe that these segments have distinct barriers to entry, offer the opportunity for significant further growth and enable us to generate high returns Going forward we intend to continue our development along these lines

All of the key performance metrics improved during 2006

> A 5% increase in like for like sales – the bulk of which was as a result of more customers using our restaurants as opposed to price or spend increases – combined with our new openings resulted in turnover increasing by 10%,

> Adjusted EBITDA increasing by 11% and adjusted operating profit increasing by 23%, and

> Margins improved at both divisional and group levels with our Group operating profit margin rising by 140 basis points to 12 5% – a very satisfactory result particularly against the background of a 90 basis point operating profit margin improvement in the previous year

Again, the increase in profit was the product of three principal components – like for like profit increases from the existing estate, profitable contribution from new openings and further cost savings from purchasing initiatives and operational improvements and efficiencies This combination represents a healthy background to our continuing profitable development

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+10%

increase in revenue

>27m

customers served in 2006

We continue to see more customers using our restaurants both in new sites and existing units

2.5m

children's meals served in Frankie & Benny's

Chief Executive Officer's review of operations continued

Leisure

> Total turnover **£236 3m**
> Profit **£50.7m**
> Operating margin **21 5%**

> **Frankie & Benny's**
> 139 units

Frankie & Benny's had an excellent year with both EBITDA and profit growing by more than 20% The brand delivered strong growth in like for like sales and yet again produced further growth in both EBITDA and operating profit margins This brand forms a key part of TRG's future plans for growth and it is encouraging that we were able to open 25 new units during 2006 Of these, 11 were conversions of former Deep Pan Pizza sites, nine of which are branded as "Little Frankie's", a derivative concept of Frankie & Benny's designed to operate on a smaller footprint than a standard Frankie & Benny's restaurant The performance of the new openings has been very good and it is particularly encouraging to see that the returns from the new Frankie & Benny's are consistently high both in absolute terms and also, very importantly, in comparison with the returns derived from earlier years' openings This gives us much confidence for the future as we look to continue our rollout at a rate of 15 20 new Frankie & Benny's restaurants per annum Our pipeline of new sites is strong with good visibility on rollout to the end of the decade

Frankie & Benny's
Trafford Centre by night
Chiquito Castleford
An extensive back bar!

Leading positions within our chosen market segments

> Chiquito
> 45 units

2006 was another good year for Chiquito with the highest like for like sales and operating profit growth within the Group EBITDA increased by 38% and operating profit was up 44% Margins also improved significantly with the EBITDA margin up 90 basis points and operating profit margin up 120 basis points Against a background of significant profit growth and margin enhancement in 2005 this is a terrific performance and one that the Chiquito team are keen to build on in 2007 During the year we opened 11 new restaurants and we are expecting to open 5 10 new restaurants in the current year, a rate which we expect to maintain for the next few years Returns from the new openings are good and this gives us confidence as we grow this brand We are particularly encouraged by the performance of our restaurants co located with Frankie & Benny's and we will continue to pursue dual roll out opportunities

> Blubeckers
> 22 units

2006 was the first full year of operating Blubeckers within TRG and we are encouraged with the results Blubeckers delivered strong growth in like for like sales and delivered a very good level of EBITDA and operating profit During 2006 Blubeckers became fully integrated into TRG and since June we have begun to roll out new Blubeckers restaurants We added five new units during 2006, one of which was a conversion of a Garfunkel's restaurant in Cambridge

We are encouraged by the performance of these new sites where typically the build up in trade takes longer (approximately two to three years) than it does for our other brands We expect to earn good returns from these new openings and this has encouraged us to step up the openings programme in 2007 to 5 10 new restaurants Blubeckers is well placed to benefit from the trends towards increased eating out and its widespread appeal across most socio economic and age groups makes it particularly attractive to much of the UK population

> Garfunkel's
> 29 units

Garfunkel's produced a very solid performance during 2006 with operating profits up by 15% It enjoyed strong like for like sales growth and delivered significant improvements in margins with the operating profit margin increasing by 140 basis points

During the second half of 2006 we commenced a refreshment and refurbishment programme within Garfunkel's The first site to undergo these changes was our restaurant at Northumberland Avenue followed by the unit at Irving Street The results have been extremely pleasing with strong growth in sales and a widening of the customer base We are currently planning to refresh and refurbish approximately 10 sites during 2007 and we anticipate that this will deliver a significant level of incremental cashflow at each site to generate very satisfactory levels of return on investment In December 2006 a former Deep Pan Pizza site on Oxford Street was converted into a Garfunkel's and we are pleased with its performance since opening

+25%

growth in revenue in our Leisure division

Garfunkel's Northumberland Avenue
The first of the new look

Blubeckers, Odiham
A stunning venue loved by all

Chief Executive Officer's review of operations
continued

Concessions

> 49 units

> Total turnover **£72 5m**
> Profit **£11 1m**
> Operating margin **15 3%**

Our Concessions business faced some very challenging operating conditions for parts of 2006 The increasing focus on airport security initiated by the Department of Transport during the first quarter followed by further disruption during the summer meant that our Concessions team at the major UK airports faced some demanding conditions Our team responded superbly to produce a very satisfactory set of results

Solid like for like sales growth together with a contribution from the six new openings delivered a 21% increase in turnover, and EBITDA and operating profit growth of 23% and 24% respectively It is particularly pleasing to report that both EBITDA and operating profit margins grew, by 20 and 40 basis points respectively

Our six new openings included three sites at Birmingham airport and a new unit at Victoria Station We are pleased with the performance of these new sites and we anticipate opening between two and five new concessions units in 2007 We recently announced that we have won concessions for four new units at the new Terminal 5 at Heathrow, building work will commence during 2007 and the units are scheduled to open in March 2008 We are delighted to have secured these sites and to be able to participate in this landmark UK airport project

Garfunkel's Norwich
The Dining Terrace
Est Bar Deli
Heathrow Terminal 4

Strong finances, great team, focused strategy

Non core brands and associate
During the year losses from non core activities increased from £0 9m to £2 0m This largely reflects the workout from the old Deep Pan Pizza estate We anticipate a significant reduction in these losses going forward

Losses from our investment in Living Ventures amounted to £0 9m and the returns from this investment have fallen below our expectations at the time the investment was made in March 2005 However, we are encouraged that the actions initiated by their management during 2006 are now starting to yield some benefits and we are looking for further improvement during 2007 Nevertheless, in the light of the recent poor performance of this investment we have carried out an assessment of its balance sheet carrying value and concluded that it is appropriate to make an impairment provision for the amount of £9 5m Further details are contained in the Group Finance Director's review

Corporate
During 2006 we completed the transfer of all of our operations and administrative functions into one site in Borough, London This exercise ran very smoothly and was carried out in a highly professional manner by our people The positive impact of bringing everyone together as one team is already very evident and I am confident that we will continue to derive further benefits in the future

Market dynamics and economic backdrop
The prospects for the UK eating out market look favourable on both short and medium term bases Socio-economic factors such as an ageing population, more females in work and levels of disposable income significantly higher than for previous generations augur well for our industry Lifestyle changes are also positive with an increasing level of consumer spending on leisure activities Projections for future growth in eating out spend indicate a continuation of recent trends for a rate of growth ahead of GDP growth

We believe that interest rates and employment levels are two key drivers of consumer spend which can potentially impact our marketplace We have seen interest rates rise three times in the past nine months and whilst we are encouraged by the resilience of our business in the face of such rises, we remain vigilant to the potential impact of significant further increases in the cost of borrowing In terms of the outlook for employment we are encouraged by the high levels of employment and believe that the increases seen in recent years have provided some underpinning for consumer-facing businesses such as ourselves

Cost inflation in our sector has been an issue for the past twelve to eighteen months and TRG has clearly demonstrated its ability to cope with this On balance, we believe that the macro economic backdrop remains broadly favourable for our sector

Against a backdrop of positive demand side dynamics, a key concern for some time has been supply side risk In this regard we believe that we have positioned TRG in market segments which afford some protection from supply side risk whilst benefiting significantly from the positive demand trends in our marketplace This has resulted in a more resilient business with the potential to deliver higher-quality, long term, sustainable and growing cash flows

Future prospects
2006 was another good year for the Group but our attention is now focused on 2007 and beyond We have a superb portfolio of brands, good visibility on rollout of new restaurants, occupy leading market positions in our chosen segments and have a fantastic team of people The year has started well with like for like sales for the first nine weeks 5% ahead of last year and we are confident of continuing our progress in 2007

Andrew Page
Chief Executive Officer
4 April 2007

>7,500
individuals contributing to the success of the Group, every day

5
years of like for like revenue growth

+26%
increase in the proposed full year dividend

"The Group continues to be strongly cash generative with a very healthy and transparent conversion of operating profits into cash. This enables us to finance our substantial new site development programme."

Stephen M A. Critoph
Group Finance Director

Generating sustainable and growing cash flows

Results

As described in the Chairman's statement the Group has had another excellent year Total Group turnover increased by 9 6% to £314 7m and turnover of the principal trading brands increased by 24 1% to £308 7m This strong level of turnover growth reflects an impressive level of 5% like for like sales growth in the principal brands, a full year impact of new openings in 2005 and a part year impact of openings during 2006 Group EBITDA increased by 11 3% to £55 6m, and Group adjusted operating profit increased by 22 6% to £39 2m These levels of growth would have been even stronger had it not been for a higher level of losses in non core brands and discontinued operations (relating respectively to Deep Pan Pizza and the Caffe Uno sites not sold to Paramount at the end of 2005)

Total adjusted profit before tax excluding Living Ventures was £35 9m, an increase of 19 2% on the prior year After accounting for our share of the losses of Living Ventures, which amounted to £0 9m, total reported Group profit before tax and non trading items amounted to £35 0m, an increase of 18 5% on the prior year

Non trading items

The Group results include a net charge before taxation of £13 4m in respect of non trading items This is made up of the following items

	2006 £m	2005 £m
Impairment of loan note due from Living Ventures	**(9 5)**	–
DPP integration and rationalisation	**(4 6)**	–
Interest rate swap impact	**0 7**	(0 1)
Other items (net)	**–**	(1 2)
	(13 4)	(1 3)

In the light of the continuing poor performance of the Living Ventures business we have conducted a detailed review of the current carrying value of this investment As a result of this review we have concluded that it is appropriate to make a provision of £9 5m against our balance sheet carrying value Going forward we will continue to encourage the executive management of Living Ventures to improve the financial performance of the business It continues to be our very firm intention to maximise the value of our investment in this business

The one off charge relating to the Deep Pan Pizza rationalisation process is a little higher than the initial estimate of up to £4m We have adopted a prudent approach regarding provision for onerous lease conditions for certain Deep Pan Pizza properties

Non trading items also include a credit relating to the Group's interest rate swap arrangements New swap arrangements were put in place in January 2006 Under IFRS this swap is re valued at each accounting date The upward movement of interest rates over the course of the last twelve months has resulted in this positive revaluation

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£55.6m

EBITDA in 2006

Frankie & Benny's Ipswich
Smiling staff and great food equals happy customers

Joe's Kitchen, Marshalsea Road SE1
Something new in the café market

Group Finance Director's review
continued

Profit on disposal of businesses
We are pleased to report further profits relating to the Caffe Uno disposal in December 2005 The additional profit after taxation of £3 8m (profit before taxation of £2 7m), which is in addition to the profit after taxation of £3 5m reported in 2005 (profit before taxation of £3 7m) relates to cost and potential warranty accruals no longer required and the completion of significantly better than anticipated deals on disposal of the residual Caffe Uno sites not sold to Paramount in December 2005 Including the profit before taxation of £3 7m recognised last year, this brings the cumulative profit on disposal before taxation of the Caffe Uno business to £6 4m

Capital expenditure
During 2006 the Group invested a total of £40 8m (2005 £40 9m) in capital additions This consisted of the following

> £28 6m invested in 47 new units (16 Frankie & Benny's and nine Little Frankie's, 11 Chiquito, six Concession outlets, four Blubeckers and one Garfunkel's) This includes an amount of £3 7m spent on converting 13 former Deep Pan Pizza sites, with the balance spent on 34 brand new locations

> £8 5m on refurbishment and maintenance expenditure

> £3 7m on completing the new head office development referred to in last year's report

The Frankie & Benny's family
Stansted airport

Strong pipeline for further growth

The Group continues to be focused on optimising financial returns from our capital investments As we have described in previous reports the Group operates a rigorous investment appraisal process with the financial viability of all new developments being subject to a detailed review This review covers all aspects of proposed new developments including financial projections, socio economic and demographic analysis, and local competitor and market analysis All significant projects are subject to approval by the Group Board and we conduct post completion appraisals which confirm that we are consistently achieving the expected levels of financial return

Cash flow
The Group continues to be strongly cash generative with a very healthy and transparent conversion of operating profits into cash flow Net cash flow from operations of £63 4m grew by 14% compared to the previous year Free cash flow (defined as cash flow from operating activities less interest, tax and maintenance capital expenditure) was £42 4m, an increase of 19% compared to the prior year (2005 £35 7m)

Once again, the Group's substantial new site development programme, as well as the ordinary dividend, has been entirely financed out of internally generated cash flow

Balance sheet & key financial ratios
Total Group net assets in the year reduced from £91 4m to £65 2m This reduction is due to the special dividend of £34 8m paid in March Total non current assets increased from £181 7m to £194 0m, reflecting the Group's strong capital expenditure programme net of depreciation charges

The key financial ratios for the year were as follows

	2006	2005
Interest cover	**12 0x**	17 5x
Fixed charge cover	**2 3x**	2 3x
Balance sheet gearing	**73%**	14%

Interest cover has reduced significantly as a result of the much higher levels of average net debt during 2006 compared to 2005 For TRG, given that this is a primarily lease based business model, fixed charge cover is the key financial ratio that we focus on For 2006 the Group's fixed charge cover was 2 3 times, in line with 2005

Taxation
The total taxation charge (excluding the impact of disposal of businesses) for the year is £11 2m compared with £8 6m in the prior year The taxation charge on the trading business reflects a normalised tax rate in 2006 of 34% (2005 33%) The total taxation charge of £11 2m (2005 £8 6m) consists of a corporation tax charge of £8 5m (2005 £9 0m) and a deferred tax charge of £2 7m (2005 £0 4m credit)

Stephen M.A. Critoph
Group Finance Director
4 April 2007

+47
new units opened in 2006

£42.4m
free cash flow

30-35
new units planned for 2007

>1 Alan M Jackson, Non executive Chairman

Aged 63, 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, Randalls Vaultier Limited and Charles Wells Limited and he is a non executive Director of Playtech plc

>2 Andrew Page, Chief Executive Officer

Aged 48, 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

>3 Stephen M A Critoph, Group Finance Director

Aged 46, 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 and Touche

>4 Kevin J Bacon, Executive Director, Leisure

Aged 47, he joined The Restaurant Group plc in 1996 as an Area Manager for Frankie & Benny's, becoming Operations Manager in 1998, Operations Director in 2000 and Managing Director in 2002 In June 2003, he was appointed to the Board of The Restaurant Group plc Prior to joining The Restaurant Group plc, he had retail experience with Granada Motorway Services Ltd, Forte Roadside Restaurants Ltd and Currys Ltd (Dixons plc)

>5 Patricia A Corzine, Executive Director, TRG Concessions

Aged 49, 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 Haagen Dazs then managed the Atacama Restaurant Group

Making the right decisions

>6 **John E Jackson,** Non executive

Aged 60, he was appointed a non executive Director of the Company in October 1996 He is Chairman of Virgin Retail Limited, Virgin Cosmetics Limited, Victory Corporation plc and various other Virgin companies He 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 and Chairman and Managing Director of Chesebrough Ponds Limited

>7 **Andrew Thomas,** Non executive

Aged 64, he was appointed a non executive Director of the Company in May 2001 He was formerly Executive Chairman of The Greenalls Group plc He is currently a non executive Director of JJB Sports plc, together with a number of non-quoted companies, and a Partner in Moors, Andrew Thomas and Company, Chartered Accountants

>8 **David H Richardson,** Non executive

Aged 55, he was appointed as a non executive Director of the Company in February 2007 He was Finance Director of Whitbread plc from 2001 to 2005 He is currently non executive Chairman of Sports Direct International plc and a non executive Director of Serco Group plc, Dairy Crest Group plc, Tomkins plc and Forth Ports plc

>9 **Robert J. Morgan,** Company Secretary

Aged 35, 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

The Directors present their annual report and the Group accounts for the year ended 31 December 2006

Results and dividends
The results for the year ended 31 December 2006 are presented under International Financial Reporting Standards ("IFRS") The report and accounts are drawn up on a 52 week reporting basis (ending on 31 December 2006) The results for the year are set out in the Group consolidated income statement on page 35 This shows a Group profit after taxation of £14,366,000 (2005 £23,345,000)

An interim dividend of 1 05p per share was paid on 19 October 2006 The Directors propose a final dividend of 4 95p per share to be paid on 4 July 2007 bringing the ordinary dividend payable in respect of 2006 to 6 00p (2005 4 75p) In addition, a special dividend of 16p per share was paid to shareholders on 9 March 2006, following the disposal of the Caffe Uno business in December 2005

Principal activity
The principal activity of the Group is the operation of restaurants Further information relating to the business is given in the Chief Executive Officer's review on pages 6 to 11

Directors
Full details of the Directors of the Company are given on pages 16 and 17 The Directors who held office during 2006 were as follows

Alan M Jackson
Andrew Page
Stephen M A Critoph
Kevin J Bacon
Patricia A Corzine
John E Jackson
Andrew Thomas
Robert Ivell (resigned 8 September 2006)

David H Richardson was appointed as a non executive Director of the Company with effect from 1 February 2007

In respect of 2006, each of the non executive Directors (excluding the Chairman) is considered by the Board to be independent Alan M Jackson transitioned from Executive Chairman to non executive Chairman on 1 January 2006, and 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 Directors retiring by rotation are Kevin J Bacon and Patricia A Corzine who, being eligible, offer themselves for re election at the Annual General Meeting John E 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 E Jackson to remain independent and recommends his re election as an independent non executive Director In accordance with the Articles of Association of the Company, David H Richardson offers himself for election at the Annual General Meeting of the Company to be held on 16 May 2007, being the first opportunity for shareholders to approve his appointment

During the year the Audit Committee comprised the following non executive Directors

John E Jackson (Chairman)
Andrew Thomas
Robert Ivell (resigned 8 September 2006)

David H Richardson was appointed as a member of the Audit Committee with effect from 1 February 2007

During the year the Remuneration Committee comprised the following non executive Directors

Andrew Thomas (Chairman)
John E Jackson
Robert Ivell (resigned 8 September 2006)

David H Richardson was appointed as a member of the Remuneration Committee with effect from 1 February 2007

During the year the Nominations Committee comprised the following Directors

John E Jackson (Chairman)
Alan M Jackson
Andrew Page
Andrew Thomas
Robert Ivell (resigned 8 September 2006)

David H Richardson was appointed as a member of the Nominations Committee with effect from 1 February 2007

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 24 to 29

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

	At 4 April 2007	At 31 December 2006	At 1 January 2006*
Executive Directors			
Andrew Page	250,173	**183,950**	156,449
Stephen M A Critoph	38,250	**26,250**	3,737
Kevin J Bacon	108,140	**95,566**	49,421
Patricia A Corzine	85,275	**74,400**	48,601
Non executive Directors			
Alan M Jackson	370,198	**350,198**	319,774
John E Jackson	49,166	**49,166**	52,500
Andrew Thomas	48,888	**48,888**	50,000
David H Richardson	5,000	**n/a**	n/a
Robert Ivell	n/a	**n/a**	10,000

* Following the share consolidation on 27 February 2006, the Directors' shareholdings were reduced by a factor of eight new shares for every nine existing shares held prior to the consolidation Details of the Directors' share options are disclosed in the Directors' remuneration report on pages 28 and 29 The market price of the ordinary shares on 31 December 2006 was 309 25 pence and the range during the year was 148 pence to 309 25 pence

Substantial shareholdings
At 27 March 2007 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
NewSmith Asset Management	16,126,427	8 2%
JP Morgan Asset Management	14,682,268	7 5%
Barclays Global Investors	11,807,878	6 0%
Capital International	10,275,443	5 2%
Legal & General Investment Management	8,839,914	4 5%
M & G Investment Management	8,616,578	4 4%
F&C Asset Management	8,376,065	4 3%
Old Mutual Asset Managers	7,458,236	3 8%
Aberforth Investment Managers	7,357,438	3 8%

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 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 Leisure division, the Executive Director of the Concessions division and three non executive Directors Their biographies appear on pages 16 and 17 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 E 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

The Board (continued)
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 executive Directors with constructive challenges 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 met 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 to enhance their understanding of the Group's business, its brands, employees and processes During 2006 there were nine Board meetings Overall attendance at meetings was 100% by Board members

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 Officer's review and Group Finance Director's review on pages 4 to 15 include a detailed review of the business and the Chief Executive Officer's review on pages 6 to 11 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 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 the non executive Directors There was 100% attendance of the two Remuneration Committee meetings during 2006 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 24 to 29

Nominations Committee
The Nominations Committee consists of the non executive Directors, the non executive Chairman and the Chief Executive Officer It met once during 2006 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

Kevin J Bacon and Patricia A Corzine offer themselves for re election at the Annual General Meeting to be held on 16 May 2007 The Board have confirmed that they are satisfied that each of the Directors continues to contribute effectively and has demonstrated commitment to the role

It was not felt necessary to employ an external search consultant in the recruitment of David H Richardson, given his profile, experience and professional background This does not mean the Company would not use external search consultants for future appointments of Directors to the Board

John E 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 at the Annual General Meeting The Chairman and Board are satisfied that John E Jackson is considered to be independent in his role as senior non executive Director notwithstanding his length of service on the Board, and that he continues to provide valuable experience, judgement and insight to the Board and its Committees

Audit Committee
The Audit Committee consists of the three non executive Directors The Committee is chaired by John E Jackson who is a qualified accountant It meets on a regular basis under its terms of reference, and 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 independence and objectivity are not compromised

Andrew Thomas is a partner in an independent firm of Chartered Accountants The other members of the Audit Committee are non executive Directors The Audit Committee met twice during 2006 with full attendance

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, and 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 set to deliver further organic growth through the roll out of our brands, in particular Frankie & Benny's, Chiquito and Blubeckers We have a robust 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 continually 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 by its very nature is subject to change

- Increased supply of new restaurant concepts into the market
- Adverse economic conditions and decline in consumer confidence in the UK
- Increase in prices of key raw materials, wages and overheads (including utilities)
- Impact of terrorism in key locations (including airports)
- Increased regulation of industry leading to higher costs
- Possible health pandemic that may cause customers to stay away or prevent restaurants being adequately staffed
- Failure to provide customers with brand standard value for money offerings and service levels
- Failure of key suppliers to deliver products into branches
- Damage to brand image due to failures in environmental health in the branches or from contamination of products
- The loss of key personnel or failure to manage succession planning
- Breakdown in internal controls through fraud or error

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 During 2006, the Group like for like sales increased by 5%, which followed a 3% increase in 2005

New sites opened
The expansion of our brands is a key driver of Group's profitability As noted in the Group Finance Director's review, 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 2006 the Group opened 47 new sites (including 13 conversions *of former Deep Pan Pizza units) and plans to open 30 35 new restaurants during 2007*

EBITDA
The ability of the Group to finance its roll out programme is aided by strong cash flows from the existing business EBITDA serves as a useful proxy for cash flows generated by operations and is closely monitored During 2006 the Group generated £55 6m EBITDA, an increase of 11% on 2005

Operating profit margin
The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group During 2006 the Group adjusted operating margin improved by 140 basis points to 12 5%

In addition, the Group closely scrutinises the returns on invested capital from new site openings and the average EBITDA generated by restaurants

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

Internal control (continued)
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 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, Living Ventures Limited, does not fall under the same internal controls as the Group The internal controls within Living Ventures Limited are discussed with management of that company on a regular basis 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, and
- an internal audit function headed by an experienced internal auditor has access to all areas of the Company and Group's business and reports to the Board

Statement of Directors' responsibilities in relation to the accounts
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Report of the Directors and Directors' remuneration report which comply with the requirements of the Companies Act 1985

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Group's website is the responsibility of the Directors The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985 The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulations and have chosen to prepare financial statements for the Company in accordance with UK GAAP

Group financial statements
Company law requires the Directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that 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 International Financial Reporting Standards A fair presentation also requires the Directors to

- consistently select and apply appropriate 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Parent company financial statements
Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

Information provided to auditors
All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any 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 audit information of which the auditors are unaware

Going concern
Based on the Group's plans for 2007 and after making enquiries, 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

Employees
The Restaurant Group plc is committed to the fair treatment and development of all employees Wherever possible, the Directors aim to promote talent from within by reviewing succession plans and offering development opportunities Through the application of appropriate policies, the Directors and their management teams ensure employees are not mistreated or discriminated against on the grounds of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation, religion or part time employment status The Company's performance in these areas (regarding employment practices) is tracked and reported at Board level The Directors also ensure regular communication happens throughout the business through written material, team briefings and one to one reviews

Environment
The Restaurant Group plc acknowledges the importance of environmental matters within its role in the community The Group has established an environmental committee to develop initiatives to reduce the impact on the environment from the operations of the Group and is working with several key suppliers, partners and external agencies to ensure environmental concerns are considered in conjunction with economic factors In particular, the Group looks to reduce the production of waste in its operations and to maximise efficiency of water consumption and the use of non renewable fuels

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

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 31 December 2006 the Company had no trade creditors The Group had an average of 52 days (2005 54 days) purchases outstanding in trade creditors

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 complicated 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 24 to the accounts

Effective from 16 January 2006, the Group entered into a new three year interest rate swap, for an initial notional amount of £20,000,000, rising to £50,000,000 from 18 April 2006 until 16 January 2008, when it reduces to £30,000,000 until 16 January 2009, at which date it terminates The fixed rate for the duration of the three years is 4 695%

Before the impact of the interest rate swap, the average rate of interest charged during the year on the Group's debt was 5 76% (2005 5 32%), and the average year end rate was 6 30% (2005 5 50%) On 2006 results, net interest was covered 12 0 times (2005 17 5 times) by profit before tax, interest and exceptional items Based on year end debt and profits for 2006, a 1% rise in interest rates would reduce profits before tax and exceptional items by 0 1% (2005 0 1%) and interest cover would remain at 12 0 times (2005 17 4 times) At 31 December 2006 the Group had gross borrowings (including overdraft) of £48 2 million (2005 £12 8 million) and cash balances of £0 7 million (2005 £0 4 million)

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 on at 11am on 16 May 2007 at the offices of Dresdner Kleinwort Investment Bank, 30 Gresham Street, London EC2P 2XY

The Board believes that the proposed resolutions to be put to the Annual General Meeting to be held on 16 May 2007 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
BDO Stoy Hayward LLP have expressed their willingness to continue as auditors, and a resolution will be proposed at the Annual General Meeting for their reappointment
By order of the Board,

Robert Morgan

Robert J Morgan
Company Secretary
4 April 2007

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 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 will be approved

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report 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 E Jackson, Andrew Thomas, and Robert Ivell (until his resignation from the Board on 8 September 2006), who were all independent non executive Directors David H Richardson was appointed to the Remuneration Committee on 1 February 2007 The Committee is chaired by Andrew Thomas

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 M Jackson (Chairman) about its proposals

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 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 (including Directors' fees) and benefits,
- Annual bonus payments which cannot exceed 100% (2006 75%) of basic salary 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, executive Directors may earn annual incentive payments of up to 100% of their basic salary together with the benefits of the participation in the Long Term Incentive Plan

During 2006, the Company undertook a review of its remuneration and incentive arrangements for executive Directors and other senior management, with the advice of New Bridge Street Consultants LLP (appointed independent advisers who provided no other services to the Group during the year), encompassing all elements of the remuneration packages

The Committee believes that this management team will be highly attractive to other listed companies as well as private equity backed businesses The retention of this team is critically important and the Committee has made some significant adjustments to their remuneration packages to ensure that there is adequate lock in and reward for continued excellent performance and shareholder value creation

Following the review of the remuneration and incentive arrangements of executive Directors, base salary levels have been increased and the maximum level of bonus payable has been increased from 75% to 100% of base salary The incremental 25% that is potentially payable to executive Directors is based on a more stretching outperformance against budget by the Group Furthermore, any bonus earned in excess of 75% of salary must be invested in shares in The Restaurant Group plc as part of the Long Term Incentive Plan The Remuneration Committee has been advised that the potential maximum level of bonus payable, as well as the total level of cash remuneration, is in line with comparable companies and the tougher targets and share based deferral element make the plan tougher than those found in most companies

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 Company or Group

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 2005 with increases taking effect from 1 January 2006 They were again reviewed in December 2006 with increases from 1 January 2007 Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting

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

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 2007 is 100% of basic annual salary and for significant bonuses to be paid, performance must be outstanding

Long term incentives
The Company operates the 2005 Long Term Incentive Plan ("LTIP"), and the 2003 SAYE Scheme under which awards may be granted to Directors No further awards may be granted under the 1998 Executive Share Option Scheme or 2003 Executive Mirror Option Scheme following the introduction of the LTIP in 2005

Long Term Incentive Plan
The 2005 Long Term Incentive Plan ("LTIP"), approved by shareholders at an Extraordinary General Meeting on 9 November 2005, 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 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

The Committee considers that Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") are the most appropriate measures of performance, with EPS targets rewarding significant and sustained earnings growth and TSR providing a balance to the financial performance and retaining a share price discipline in the remuneration package

For the Conditional Awards to executive Directors to be made in 2007, two separate performance conditions apply to a proportion of the award These have been reviewed to ensure their continued appropriateness

- The performance condition attached to 50% of the Conditional Awards requires average annual EPS growth from 1 January 2007 to 31 December 2009 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 Total Shareholder Return ("TSR") performance measured against the constituents of the FTSE SmallCap Index over a single three-year period from 1 January 2007 to 31 December 2009 for 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 will be 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

Following the approval of the LTIP, shareholding guidelines for executive Directors have been 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 until a shareholding with a market value equal to 100% of base salary is achieved

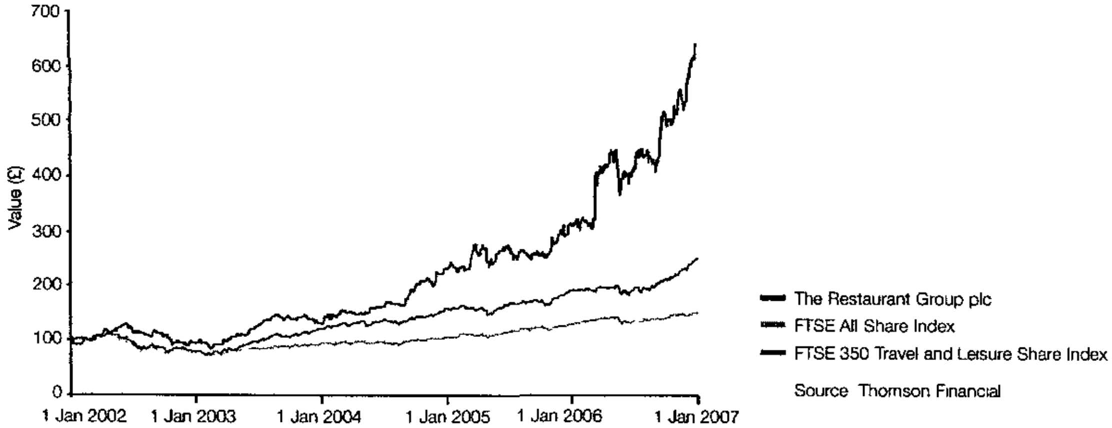
SAYE Scheme
The Company also operates a SAYE Share Option Scheme, the 2003 SAYE Scheme, for eligible employees under which options may be granted at a discount of up to 20% of market value Eligible employees are full time employees and executive Directors who have worked for the Group for at least one 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 and 2006 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

Performance graph
As required by the Regulations, the graph below compares the Company's total shareholder return 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

Total Shareholder Return



This graph shows the value, by 1 January 2007, of £100 invested in The Restaurant Group plc on 1 January 2002 compared with the value of £100 invested in the FTSE All Share Index and the FTSE 350 Travel and Leisure Share Index

As can be seen, performance against these two indices has been excellent An investment in shares in The Restaurant Group plc on 1 January 2002 would have generated a return of 542% by 1 January 2007 (assuming dividends were reinvested into the shares on a net basis over the period)

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, 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 M A Critoph	7 July 2004	1 year
Kevin J Bacon	17 March 2003	1 year
Patricia A. 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 Alan M Jackson, Andrew Thomas and John E Jackson were re elected in 2006 In accordance with the Articles of Association of the Company, David H Richardson offers himself for election at the Annual General Meeting of the Company to be held on 16 May 2007, being the first opportunity for shareholders to approve his appointment

In accordance with best practice, John E Jackson is standing for re election at the Annual General Meeting to be held on 16 May 2007 as he has served on the Board for more than nine years

Their appointments were made as follows

	Date of appointment as non executive Director	Notice period
Alan M Jackson*	9 November 2005	1 year
John E Jackson	1 October 1996	nil
Andrew Thomas	1 May 2001	nil
David H Richardson	1 February 2007	nil

* Alan M 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 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 M Jackson) in the year was £40,000

Audited information
Aggregated Directors' remuneration
The total amounts for Directors' remuneration were as follows

	2006 Executive £'000	2006 Non executive £'000	2006 Total £'000	2005 Total £'000
Emoluments	**1,416**	**394**	**1,810**	2,232
Money purchase pension contributions	**284**	**–**	**284**	178
	1,700	**394**	**2,094**	2,410

(a) Emoluments
(i) Executive

	2006 Basic salary £'000	2006 Bonus £'000	2006 Bonus waived £'000	2006 Benefits in kind £'000	2006 Total £'000	2005 Total £'000
Andrew Page	**340**	**255**	**(115)**	**26**	**506**	478
Stephen M A Critoph	**180**	**135**	**–**	**18**	**333**	292
Kevin J Bacon	**185**	**139**	**–**	**21**	**345**	327
Patricia A Corzine	**160**	**120**	**(60)**	**12**	**232**	274
Alan M Jackson[1]	**–**	**–**	**–**	**–**	**–**	741
	865	**649**	**(175)**	**77**	**1,416**	2,112

[1] Alan M Jackson was Executive Chairman during 2005, and on 1 January 2006 became non executive Chairman

The annual bonuses were at the maximum level of 75% of salary reflecting the excellent profit performance of the Group Of the bonus amounts disclosed above, Andrew Page and Patricia A Corzine elected to waive £114,750 and £60,000 of their bonus respectively and they received additional pension contributions from the Group equivalent to the amount (which are included in the pension contribution table below)

(ii) Non executive

	2006 Fees £'000	2006 Benefits in kind £'000	2006 Total £'000	2005 Total £'000
Alan M Jackson	**240**	**37**	**277**	–
John E Jackson	**40**	**–**	**40**	40
Andrew Thomas	**40**	**–**	**40**	40
Robert Ivell	**37**	**–**	**37**	40
	357	**37**	**394**	120

(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

	2006 Pension contribution (£'000)	2006 Salary supplement (£'000)	2006 Total (£'000)	2005 Pension contribution (£'000)	2005 Salary supplement (£'000)	2005 Total (£'000)
Andrew Page	**141**	**28**	**169**	20	33	53
Stephen M A Critoph	**17**	**–**	**17**	14	–	14
Kevin J Bacon	**19**	**–**	**19**	14	–	14
Patricia A Corzine	**79**	**–**	**79**	16	–	16
Alan M Jackson[1]	**–**	**–**	**–**	81	–	81
	256	**28**	**284**	145	33	178

As noted above in respect of the financial year ended 31 December 2006, Andrew Page and Patricia A Corzine elected to waive part of their bonus They received additional pension contributions (grossed up by 6%) from the Group of £121,635 and £63,600 respectively (which are included in the pension contribution table)

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors The Company operates a number of share option schemes 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 2 January 2006	Granted	Exercised	Lapsed	At 31 December 2006	Exercise price	Date from which exercisable	Expiry date
Alan M Jackson	Note (1)	800,000	–	(400,000)	–	400,000	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 SAYE	11,993	–	–	–	11,993	79 0p	1 12 2007	1 6 2008
	2003	250,000	–	–	–	250,000	134 4p	4 4 2008	4 4 2015
	LTIP (1)	137,755	–	–	–	137,755	–	Publication of 2008 results	6 months after vesting
	LTIP (2)	103,316	–	–	–	103,316	–	Publication of 2008 results	6 months after vesting
Andrew Page	2003	716,223	–	–	–	716,223	67 4p	4 7 2006	4 7 2013
	2003	200,000	–	–	–	200,000	97 7p	4 10 2007	4 10 2014
	2003 SAYE	11,993	–	–	–	11,993	79 0p	1 12 2007	1 6 2008
	2003	250,000	–	–	–	250,000	134 4p	4 4 2008	4 4 2015
	LTIP (1)	180,272	–	–	–	180,272	–	Publication of 2008 results	6 months after vesting
	LTIP (2)	67,602	–	–	–	67,602	–	Publication of 2008 results	6 months after vesting
Stephen M A 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	–	Publication of 2008 results	6 months after vesting
	LTIP (2)	42,091	–	–	(4,924)	37,167	–	Publication of 2008 results	6 months after vesting
	2006 SAYE	–	5,843	–	–	5,843	160 0p	1 6 2009	1 12 2009
Kevin J Bacon	2003	427,071	–	(427,071)	–	–	67 4p	4 7 2006	4 7 2013
	2003	100,000	–	–	–	100,000	97 7p	4 10 2007	4 10 2014
	2003 SAYE	11,993	–	–	–	11,993	79 0p	1 12 2007	1 6 2008
	2003	140,000	–	–	–	140,000	134 4p	4 4 2008	4 4 2015
	LTIP (1)	119,047	–	–	–	119,047	–	Publication of 2008 results	6 months after vesting
	LTIP (2)	44,642	–	–	(4,700)	39,942	–	Publication of 2008 results	6 months after vesting
Patricia A Corzine	2003	200,974	–	(200,974)	–	–	67 4p	4 7 2006	4 7 2013
	2003	100,000	–	–	–	100,000	97 7p	4 10 2007	4 10 2014
	2003 SAYE	11,993	–	–	–	11,993	79 0p	1 12 2007	1 6 2008
	2003	100,000	–	–	–	100,000	134 4p	4 4 2008	4 4 2015
	LTIP (1)	102,040	–	–	–	102,040	–	Publication of 2008 results	6 months after vesting
	LTIP (2)	38,265	–	–	(4,028)	34,237	–	Publication of 2008 results	6 months after vesting

Following the year end date of 31 December 2006, the following share options have been granted

Name of Director	Scheme	Granted on 8 March 2007	Exercise price	Date from which exercisable	Expiry date
Andrew Page	LTIP (3)	145,929	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	23,110	–	Publication of 2009 results	6 months after vesting
Stephen M A Critoph	LTIP (3)	69,124	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	20,737	–	Publication of 2009 results	6 months after vesting
Kevin J Bacon	LTIP (3)	73,732	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	21,313	–	Publication of 2009 results	6 months after vesting
Patricia A Corzine	LTIP (3)	64,516	–	Publication of 2009 results	6 months after vesting
	LTIP (4)	18,433	–	Publication of 2009 results	6 months after vesting

Under the 2003 Mirror Scheme the performance criteria that must be met requires the Company's earnings per share 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 earnings per share growth of the 2008 results compared with the 2005 results

LTIP (2) these are Matching Shares awarded under the LTIP scheme They are free shares and are conditional on the Directors acquiring 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

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 earnings per share growth of the 2009 results compared with the 2006 results

LTIP (4) these are Matching Shares awarded under the LTIP scheme They are free shares and are conditional on the Directors acquiring 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

Those options awarded under LTIP (3) and LTIP (4) were granted on 8 March 2007

Note (1) Alan M 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, Mr 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 M Jackson has exercised all of those options available to him under the first and second tranches, and has exercised half of the third tranche

During 2006 certain Directors exercised share options that had vested Details of the exercises are noted below

	2006				2005
Name of director	**Number of options exercised**	**Exercise price**	**Market price at date of exercise**	**Gain on exercise (before tax) £000**	Gain on exercise (before tax) £000
Alan M Jackson	**400,000**	**45 0p**	**205 0p**	**640**	426
Kevin J Bacon	**427,071**	**67 4p**	**233 5p**	**709**	177
Patricia A Corzine	**200,974**	**67 4p**	**233 5p**	**334**	–

Following the year end date of 31 December 2006, Andrew Page has exercised 716,223 options at a grant price of 67 4 pence and Alan M Jackson has exercised 200,000 options at a grant price of 45 0p

Approval
This report was approved by the Board of Directors on 4 April 2007 and signed on its behalf by

Andrew Thomas
Chairman of the Remuneration Committee

Report of the independent auditors

Report to the shareholders of The Restaurant Group plc
We have audited the Group and parent company financial statements (the "financial statements") of The Restaurant Group plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the related notes These 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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and for preparing the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited 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 financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the report of the Directors including the corporate governance statement, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Chief Executive Officer's review of operations, the Group Finance Director's review, the financial highlights and the Group financial record We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 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 31 December 2006 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 parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006,
- the parent company financial statements and the part of the Directors' remuneration report to be audited 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 financial statements

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
4 April 2007

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 31 December 2006 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) Basis of preparation
For accounting periods commencing on or after 1 January 2005, 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 are prepared on the historical cost basis except derivative financial instruments which are held at their fair value Non current assets and disposal groups 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 judgements 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
IFRS 7 "Financial instruments disclosures" will be mandatory for the Group for the year ending 30 December 2007 This will require the Group to amend certain disclosures in relation to its financial instruments, but will have no impact on the results presented IAS 1 Amendment – Capital Disclosures will also be mandatory for the Group for the year ending 30 December 2007, and this will not have any impact on the results presented but will amend certain disclosures IFRS 8 "Operating Segments" will be mandatory for the Group for the 2009 year end results, and again will provide amendments to disclosures but will not change the Group's result The Group does not consider that any other standards or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements

(c) 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

(d) 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 All other translation differences are taken to the income statement

(e) 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

(f) 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 k)

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 k) Lease payments are accounted for as described in accounting policy r

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 within 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 25 years, whichever is lower
Fixtures and equipment	3 10 years
Motor vehicles	4 years
Computer equipment	3 5 years

(g) Intangible assets – goodwill
All business combinations are accounted for by applying the purchase method Goodwill represents amounts arising on acquisition of subsidiaries 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 tested annually for impairment (see accounting policy k) 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

(h) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses (see accounting policy k)

(i) 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

(j) Cash and cash equivalents
Cash and cash equivalents comprises 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

(k) 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 If any such indication exists, the asset's recoverable amount is estimated 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

Accounting policies for the consolidated accounts
continued

(l) 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

(m) 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

(n) Deferred tax
Deferred tax is recognised in respect of all temporary differences identified 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

(o) 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

(p) 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

(q) 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)

(r) 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

(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 year in which they are incurred Promotional and training costs are written off to the income statement in the year in which they are incurred

(s) 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 the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements

(a) Impairment of carrying value of loan note from associate
Following a detailed review of the carrying value of Living Ventures, and in light of current trading performance, the Board has concluded that it is appropriate to make a provision of £9 5m against the loan note repayable in 2008

(b) Impairment of goodwill
The Group determines whether goodwill is impaired at least on a twice-annual basis This requires an estimate of the value in use of the assets to which goodwill is ascribed 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 Note 11 provides further information on assumptions used

(c) DPP Restaurants Limited
DPP Restaurants Ltd ("DPP") was consolidated as a subsidiary under IAS 27 throughout 2005 even though The Restaurant Group plc ("TRG" or "The Group") legally only held 19 9% of the issued share capital due to the existence of an option to take full control of DPP which became exercisable on 31 December 2004 The additional income statement segregates the results of DPP in 2005 when the business was not under the direct control of the Board TRG acquired full control of DPP on 12 January 2006 for a nominal sum and therefore the Group results include those of DPP in 2006 (as detailed further in note 2)

Consolidated income statement

	Note	Year ended 31 December 2006 Continuing £'000	Discontinued £'000	Total £'000	Year ended 1 January 2006 Continuing £'000	Discontinued £'000	Total £'000
Revenue	3	**314,018**	730	314,748	263,878	38,450	302,328
Cost of sales	4	(256,060)	(1,026)	**(257,086)**	(218,049)	(34,528)	**(252,577)**
Gross profit/(loss)		**57,958**	**(296)**	**57,662**	**45,829**	**3,922**	**49,751**
Administration costs	4	(18,475)	–	**(18,475)**	(19,019)	(777)	**(19,796)**
Release of accrual for property exit costs	5	–	–	–	1,700	–	**1,700**
Provision against carrying value of loan note from associate	5	(9,500)	–	**(9,500)**	–	–	–
Loss on integration of DPP	5	(4,582)	–	**(4,582)**	–	–	–
Loss and provision for loss on disposal of fixed assets	5	–	–	–	(2,594)	–	**(2,594)**
Operating profit/(loss)		**25,401**	**(296)**	**25,105**	**25,916**	**3,145**	**29,061**
Interest payable	7	(3,308)	–	**(3,308)**	(2,692)	–	**(2,692)**
Interest receivable	7	699	–	**699**	689	–	**689**
Profit/(loss) before share of associate and tax		**22,792**	**(296)**	**22,496**	**23,913**	**3,145**	**27,058**
Share of post tax result in associated undertaking	13	(917)	–	**(917)**	(600)	–	**(600)**
Profit/(loss) before tax		**21,875**	**(296)**	**21,579**	**23,313**	**3,145**	**26,458**
Profit/(loss) before tax, analysed as							
Trading business – managed		35,312	(296)	**35,016**	26,394	3,145	**29,539**
DPP Restaurants Limited trading result – not managed		–	–	–	(1,733)	–	**(1,733)**
Non trading items	5	(13,437)	–	**(13,437)**	(1,348)	–	**(1,348)**
		21,875	(296)	**21,579**	23,313	3,145	**26,458**
Tax on profit/(loss) from ordinary activities	8	(11,264)	101	**(11,163)**	(7,567)	(1,050)	**(8,617)**
Profit/(loss) on ordinary activities after tax		**10,611**	**(195)**	**10,416**	**15,746**	**2,095**	**17,841**
Profit on sale of businesses net of tax	5	–	3,950	**3,950**	–	5,504	**5,504**
Profit for the financial year attributable to equity shareholders		**10,611**	**3,755**	**14,366**	**15,746**	**7,599**	**23,345**
Earnings per share (pence)							
Basic	9	5 36	1 90	**7 26**	7 27	3 51	**10 78**
Diluted	9	5 34	1 89	**7 23**	7 22	3 48	**10 70**
Dividend per share (pence) – ordinary	10			6 00			4 75
– special	10			16 00			–

Consolidated statement of changes in equity

	Note	Year ended 31 December 2006 £'000	Year ended 1 January 2006 £'000
Opening equity (IFRS, excluding IAS 32 and IAS 39)		**91,436**	75,883
Adjustment to opening equity for inclusion of swaps under IAS 32 and IAS 39		–	127
Opening equity (IFRS, including IAS 32 and IAS 39)		**91,436**	76,010
Profit for the year		**14,366**	23,345
Foreign exchange translation differences		**1**	(165)
Deferred tax credit on share-based payments taken directly to equity		**1,529**	411
Total recognised income and expense for the year		**15,896**	23,591
Dividends – ordinary	10	**(9,490)**	(9,277)
Dividends – special	10	**(34,793)**	–
Issue of new shares	19, 21	**1,096**	604
Share based payments – credit to equity	20	**1,059**	508
Total changes in equity in the year		**(26,232)**	15,426
Closing equity		**65,204**	91,436

Consolidated balance sheet

	Note	At 31 December 2006 £'000	At 1 January 2006 £'000
Non current assets			
Intangible assets	11	**11,275**	11,275
Property, plant and equipment	12	**174,035**	151,337
Investment in associate	13	**7,810**	8,727
Trade and other receivables	13	**875**	10,375
		193,995	181,714
Current assets			
Stock	14	**2,992**	2,763
Financial assets – derivative financial instruments	24	**652**	7
Trade and other receivables	15	**5,170**	5,498
Prepayments		**12,138**	11,094
Cash and cash equivalents	23	**683**	426
		21,635	19,788
Total assets		**215,630**	201,502
Current liabilities			
Short term borrowings	23	**(1,165)**	(1,845)
Income tax liabilities		**(4,947)**	(8,315)
Trade and other payables	16	**(74,864)**	(71,476)
		(80,976)	(81,636)
Net current liabilities		**(59,341)**	(61,848)
Non current liabilities			
Long term borrowings	23	**(47,000)**	(11,000)
Other payables	25	**(2,737)**	(2,696)
Deferred tax liabilities	18	**(16,247)**	(13,971)
Provisions	17	**(3,466)**	(763)
		(69,450)	(28,430)
Net assets		**65,204**	91,436
Equity			
Share capital	19	**54,863**	54,366
Share premium	21	**20,346**	19,747
Foreign currency reserve	21	**81**	80
Other reserves	21	**1,823**	764
Retained earnings	21	**(11,909)**	16,479
Total equity shareholders' interests		**65,204**	91,436

The financial statements on pages 32 to 56 were approved by the Board of Directors and authorised for issue on 4 April 2007 and were signed on its behalf by

Alan M Jackson
Non-executive Chairman

Stephen M A. Critoph ACA
Group Finance Director

Consolidated cash flow statement

	Note	Year ended 31 December 2006 £'000	Year ended 1 January 2006 £'000
Cash flows from operating activities			
Cash generated from operations	22	**63,374**	55,484
Interest received		**68**	219
Interest paid		**(2,906)**	(2,076)
Tax paid		**(9,656)**	(8,199)
Net cash flows from operating activities		**50,880**	45,428
Cash flows from investing activities			
Acquisition of associate		**-**	(10,186)
Acquisition of subsidiary, net of cash acquired		**-**	(26,889)
Disposal of business, net of cash disposed		**(1,455)**	32,982
Disposal of subsidiary, net of cash disposed		**-**	5,630
Integration of business		**(584)**	–
Purchase of property, plant and equipment		**(40,775)**	(39,767)
Proceeds from sale of property, plant and equipment		**58**	708
Net cash used in investing activities		**(42,756)**	(37,522)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**1,096**	604
Net proceeds from issue of bank loan		**36,000**	4,000
Dividends paid to shareholders		**(44,283)**	(9,277)
Net cash used in financing activities		**(7,187)**	(4,673)
Net increase in cash and cash equivalents		**937**	3,233
Cash and cash equivalents at start of year	23	**(1,419)**	(4,652)
Cash and cash equivalents at end of year	23	**(482)**	(1,419)

1 Segmental analysis

	Year ended 31 December 2006 Turnover £'000	EBITDA £'000	EBITDA Margin %	Profit £'000	Profit Margin %
Leisure	236,258	62,703	26 5%	50,745	21 5%
Concessions	72,479	15,154	20 9%	11,088	15 3%
Principal trading brands	**308,737**	**77,857**	**25 2%**	**61,833**	**20 0%**
Non core brands	5,281	(1,789)	(33 9%)	(1,999)	(37 8%)
Continuing operations	**314,018**	**76,068**	**24 2%**	**59,834**	**19 1%**
Discontinued operations	730	(296)	(40 6%)	(296)	(40 6%)
Total all brands	**314,748**	**75,772**	**24 1%**	**59,538**	**18 9%**
Pre opening costs (included in cost of sales)		(1,876)	(0 6%)	(1,876)	(0 6%)
Administration		(17,192)	(5 5%)	(17,416)	(5 5%)
Share based payments		(1,059)	(0 3%)	(1,059)	(0 3%)
EBITDA/operating profit	**314,748**	**55,645**	**17 7%**	**39,187**	**12 5%**
Release of accrual for property exit costs				–	
Provision against carrying value of loan note from associate				(9,500)	
Loss on integration of DPP				(4,582)	
Restructuring costs				–	
Loss and provision for loss on disposal of fixed assets				–	
Operating profit				**25,105**	

	Year ended 1 January 2006 Turnover £'000	EBITDA £'000	EBITDA Margin %	Profit £'000	Profit Margin %
Leisure	189,009	49,541	26 2%	39,974	21 1%
Concessions	59,771	12,360	20 7%	8,919	14 9%
Principal trading brands	**248,780**	**61,901**	**24 9%**	**48,893**	**19 7%**
Non core brands	15,098	(785)	(5 2%)	(1,553)	(10 3%)
Continuing operations	**263,878**	**61,116**	**23 2%**	**47,340**	**17 9%**
Discontinued operations	38,450	6,977	18 1%	3,922	10 2%
Total all brands	**302,328**	**68,093**	**22 5%**	**51,262**	**17 0%**
Pre opening costs (included in cost of sales)		(1,511)	(0 5%)	(1,511)	(0 5%)
Administration		(17,179)	(5 7%)	(18,954)	(6 3%)
Share based payments		(508)	(0 2%)	(508)	(0 2%)
EBITDA/operating profit	**302,328**	**48,895**	**16 2%**	**30,289**	**10 0%**
Release of accrual for property exit costs				1,700	
Provision against carrying value of loan note from associate				–	
Loss on integration of DPP				–	
Restructuring costs				(334)	
Loss and provision for loss on disposal of fixed assets				(2,594)	
Operating profit				**29,061**	

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

1 Segmental analysis continued

	Year ended 31 December 2006 Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	11,958	31,628	167,970	43,086
Concessions	4,066	5,087	19,099	11,504
Principal trading brands	**16,024**	**36,715**	**187,069**	**54,590**
Non core brands	210	–	2,233	7,112
Continuing operations	**16,234**	**36,715**	**189,302**	**61,702**
Discontinued operations	–	–	–	2,568
Total all brands	**16,234**	**36,715**	**189,302**	**64,270**
Central items	224	4,060	10,920	10,614
Unallocated items	–	–	15,408	75,542
DPP Restaurants Limited	–	–	–	–
Total Group	**16,458**	**40,775**	**215,630**	**150,426**

	Year ended 1 January 2006 Depreciation £'000	Capital additions £'000	Segment assets £'000	Segment liabilities £'000
Leisure	9,567	26,980	145,293	31,518
Concessions	3,441	6,794	17,431	9,371
Principal trading brands	**13,008**	**33,774**	**162,724**	**40,889**
Non core brands	210	–	3,538	2,837
Continuing operations	**13,218**	**33,774**	**166,262**	**43,726**
Discontinued operations	3,055	864	–	5,603
Total all brands	**16,273**	**34,638**	**166,262**	**49,329**
Central items	1,775	6,272	7,562	16,169
Unallocated items	–	–	25,444	42,845
DPP Restaurants Limited	558	147	2,234	1,723
Total Group	**18,606**	**41,057**	**201,502**	**110,066**

Segmental assets are allocated to divisions where possible Unallocated segmental assets include the investment in associate, non current and current trade and other receivables, derivative financial instruments, cash and cash equivalents and certain prepayments

Unallocated liabilities include borrowings, provisions, income and deferred tax and certain accruals and other creditors

Note 2 – Additional income statement
Additional income statement information is provided as a useful guide to underlying trading performance The adjustments from the statutory income statement are to aid understanding of the income statement and should be read in conjunction with, rather than as a substitute for, the reported information

DPP Restaurants Ltd ("DPP") was consolidated as a subsidiary under IAS 27 throughout 2005 even though The Restaurant Group plc ("TRG" or "The Group") legally only held 19 9% of the issued share capital due to the existence of an option to take full control of DPP which became exercisable on 31 December 2004 The additional income statement segregates the results of DPP in 2005 when the business was not under the direct control of the Board TRG acquired full control of DPP on 12 January 2006 for a nominal sum and therefore the Group results include those of DPP in 2006

The 2006 and 2005 results include a number of items which are of a one off nature and not representative of the underlying trading performance of the business These have been separately identified in the additional income statement as non trading items

For the purposes of the additional income statement, a normalised tax rate of 34% has been applied to the trading business to reflect the underlying effective tax rate

Note 2a – Additional income statement

			Year ended 31 December 2006			
	Continuing operations £'000	Discontinued operations £'000	**Trading business £'000**	Non trading £'000	DPP trading £'000	**Total £'000**
Revenue	314,018	730	314,748	–	–	314,748
Cost of sales·						
Excluding pre opening costs	(254,184)	(1,026)	(255,210)	–	–	(255,210)
Pre opening costs	(1,876)	–	(1,876)	–	–	(1,876)
	(256,060)	(1,026)	(257,086)	–	–	(257,086)
Gross profit/(loss)	57,958	(296)	57,662	–	–	57,662
Administration costs						
Excluding one off costs	(18,475)	–	(18,475)	–	–	(18,475)
Restructuring costs	–	–	–	–	–	–
	(18,475)	–	(18,475)	–	–	(18,475)
Trading profit/(loss)	39,483	(296)	39,187	–	–	39,187
Release of accrual for property exit costs	–	–	–	–	–	–
Provision against carrying value of loan note from associate	–	–	–	(9,500)	–	(9,500)
Loss on integration of DPP	–	–	–	(4,582)	–	(4,582)
Loss and provision for loss on disposal of fixed assets	–	–	–	–	–	–
Operating profit/(loss)	39,483	(296)	39,187	(14,082)	–	25,105
Interest payable	(3,308)	–	(3,308)	–	–	(3,308)
Interest receivable	54	–	54	645	–	699
Profit/(loss) before share of associate and tax	36,229	(296)	35,933	(13,437)	–	22,496
Share of post tax result in associated undertaking	(917)	–	(917)	–	–	(917)
Profit/(loss) on ordinary activities before tax	35,312	(296)	35,016	(13,437)	–	21,579
Tax on profit/(loss) from ordinary activities	(12,364)	101	(12,263)	1,100	–	(11,163)
Profit/(loss) on ordinary activities after tax	22,948	(195)	22,753	(12,337)	–	10,416
Profit on sale of businesses net of tax	–	–	–	3,950	–	3,950
Profit/(loss) for the year	22,948	(195)	22,753	(8,387)	–	14,366
Earnings per share (pence)						
Basic			11 50			7 26
Diluted			11 45			7 23
Dividend per share (pence) – ordinary						6 00
– special						16 00

Note 2a – Additional income statement continued

	Year ended 1 January 2006					
	Continuing operations £'000	Discontinued operations £'000	**Trading business £'000**	Non trading £'000	DPP trading £'000	**Total £'000**
Revenue	**248,843**	**38,450**	**287,293**	-	**15,035**	**302,328**
Cost of sales						
Excluding pre opening costs	(200,851)	(34,528)	**(235,379)**	–	(15,687)	**(251,066)**
Pre opening costs	(1,511)	–	**(1,511)**	–	–	**(1,511)**
	(202,362)	(34,528)	**(236,890)**	–	(15,687)	**(252,577)**
Gross profit/(loss)	**46,481**	**3,922**	**50,403**	–	**(652)**	**49,751**
Administration costs						
Excluding one off costs	(17,664)	(777)	**(18,441)**	–	(1,021)	**(19,462)**
Restructuring costs	–	–	–	(334)	–	(334)
	(17,664)	(777)	**(18,441)**	(334)	(1,021)	**(19,796)**
Trading profit/(loss)	**28,817**	**3,145**	**31,962**	**(334)**	**(1,673)**	**29,955**
Release of accrual for property exit costs	–	–	–	1,700	–	**1,700**
Provision against carrying value of loan note from associate	–	–	–	–	–	–
Loss on integration of DPP	–	–	–	–	–	–
Loss and provision for loss on disposal of fixed assets	–	–	–	(2,594)	–	**(2,594)**
Operating profit/(loss)	**28,817**	**3,145**	**31,962**	**(1,228)**	**(1,673)**	**29,061**
Interest payable	(2,512)	–	**(2,512)**	(120)	(60)	**(2,692)**
Interest receivable	689	–	**689**	–	–	**689**
Profit/(loss) before share of associate and tax	**26,994**	**3,145**	**30,139**	**(1,348)**	**(1,733)**	**27,058**
Share of post tax result in associated undertaking	(600)	–	**(600)**	–	–	**(600)**
Profit/(loss) on ordinary activities before tax	**26,394**	**3,145**	**29,539**	**(1,348)**	**(1,733)**	**26,458**
Tax on profit/(loss) from ordinary activities	(8,817)	(1,050)	**(9,867)**	470	780	**(8,617)**
Profit/(loss) on ordinary activities after tax	**17,577**	**2,095**	**19,672**	**(878)**	**(953)**	**17,841**
Profit on sale of businesses net of tax	–	–	–	5,504	–	**5,504**
Profit/(loss) for the year	**17,577**	**2,095**	**19,672**	**4,626**	**(953)**	**23,345**
Earnings per share (pence)						
Basic			9 08			**10 78**
Diluted			9 01			**10 70**
Dividend per share (pence) – ordinary						4 75
– special						–

Note 2b – Additional information

Year ended 31 December 2006	Turnover £'000	EBITDA £'000	EBITDA Margin %	Profit £'000	Profit Margin %
Leisure	236,258	62,703	26 5%	50,745	21 5%
Concessions	72,479	15,154	20 9%	11,088	15 3%
Principal trading brands	**308,737**	**77,857**	**25 2%**	**61,833**	**20 0%**
Non core brands	5,281	(1,789)	(33 9%)	(1,999)	(37 8%)
Continuing operations	**314,018**	**76,068**	**24 2%**	**59,834**	**19 1%**
Discontinued operations	730	(296)	(40 6%)	(296)	(40 6%)
Total all brands	**314,748**	**75,772**	**24 1%**	**59,538**	**18 9%**
Pre opening costs (included in cost of sales)		(1,876)	(0 6%)	(1,876)	(0 6%)
Administration		(17,192)	(5 5%)	(17,416)	(5 5%)
Share based payments		(1,059)	(0 3%)	(1,059)	(0 3%)
EBITDA/operating profit	**314,748**	**55,645**	**17 7%**	**39,187**	**12.5%**
Total net interest charges				(3,254)	
Profit before taxation and share of associate's result				**35,933**	
Share of losses of associated undertaking				(917)	
Profit before taxation				**35,016**	
Taxation				(12,263)	
Profit after taxation				**22,753**	
Earnings per share (pence) – trading business					
Basic				**11 50**	
Diluted				**11 45**	

Year ended 1 January 2006	Turnover £'000	EBITDA £'000	EBITDA Margin %	Profit £'000	Profit Margin %
Leisure	189,009	49,541	26 2%	39,974	21 1%
Concessions	59,771	12,360	20 7%	8,919	14 9%
Principal trading brands	**248,780**	**61,901**	**24 9%**	**48,893**	**19 7%**
Non core brands	63	(691)	–	(901)	–
Continuing operations	**248,843**	**61,210**	**24 6%**	**47,992**	**19 3%**
Discontinued operations	38,450	6,977	18 1%	3,922	10 2%
Total all brands	**287,293**	**68,187**	**23 7%**	**51,914**	**18 1%**
Pre opening costs (included in cost of sales)		(1,511)	(0 5%)	(1,511)	(0 5%)
Administration		(16,158)	(5 6%)	(17,933)	(6 2%)
Share based payments		(508)	(0 2%)	(508)	(0 2%)
EBITDA/operating profit	**287,293**	**50,010**	**17 4%**	**31,962**	**11 1%**
Total net interest charges				(1,823)	
Profit before taxation and share of associate's result				**30,139**	
Share of losses of associated undertaking				(600)	
Profit before taxation				**29,539**	
Taxation				(9,867)	
Profit after taxation				**19,672**	
Earnings per share (pence) – trading business					
Basic				**9 08**	
Diluted				**9 01**	

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

3 Revenue

	2006 £'000	2005 £'000
Revenue consists of the following		
Continuing business – owned and managed during the year	**314,018**	248,843
DPP Restaurants Limited	**–**	15,035
Continuing operations	**314,018**	263,878
Discontinued operations	**730**	38,450
Total revenue for the year	**314,748**	302,328

DPP Restaurants Ltd ("DPP") was consolidated as a subsidiary under IAS 27 throughout 2005 even though The Restaurant Group plc ("TRG" or "The Group") legally only held 19 9% of the issued share capital due to the existence of an option to take full control of DPP which became exercisable on 31 December 2004 The results of DPP in 2005 are segregated as the business was not under the direct control of the Board TRG acquired full control of DPP on 12 January 2006 for a nominal sum and therefore the Group results include those of DPP in 2006

4 Profit from operations

	2006 £'000	2005 £'000
Included in cost of sales are the following		
Continuing business – owned and managed during the year	**254,184**	200,851
Pre opening costs	**1,876**	1,511
DPP Restaurants Limited	**–**	15,687
Continuing operations	**256,060**	218,049
Discontinued operations	**1,026**	34,528
Total cost of sales for the year	**257,086**	252,577
Included in administration costs are the following		
Continuing business – owned and managed during the year	**18,475**	17,664
Restructuring costs	**–**	334
DPP Restaurants Limited	**–**	1,021
Continuing operations	**18,475**	19,019
Discontinued operations	**–**	777
Total administration costs for the year	**18,475**	19,796
Other amounts included within operating expenses are		
Depreciation	**16,458**	18,606
Operating lease rentals of land and buildings	**44,102**	41,813
Rental income	**(5,960)**	(3,406)
Auditor's remuneration		
Audit services	**113**	105
Audit related regulatory reporting	**25**	23
Tax compliance services	**58**	36
Further assurance reviews	**14**	13
Fees in respect of transactions	**–**	110
Audit services by overseas affiliate	**5**	5
Other advisory fees	**33**	5

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking Of the total fees paid to auditors, £248,000 was expensed as administration costs In 2005, of the total fees paid to auditors, £187,000 was expensed as administration costs, £73,000 was expensed as professional fees incurred on disposal of businesses and £37,000 was capitalised as part of the professional fees incurred on acquisition

5 Non trading items

	2006 £'000	2005 £'000
a) Items classified as non trading within ordinary activities.		
i) Provision against carrying value of loan note from associate	**(9,500)**	–
ii) Loss on integration of DPP	**(4,582)**	–
iii) Finance gain/(charge) arising from remeasurement of interest rate swap	**645**	(120)
iv) Release of accrual for property exit costs	–	1,700
iv) Loss and provision for loss on disposal of fixed assets	–	(2,594)
iv) Restructuring costs	–	(334)
	(13,437)	(1,348)

i) Following a detailed review of the carrying value of Living Ventures, and in light of current trading performance, the Board has concluded that it is appropriate to make a provision of £9 5m against the loan note repayable in 2008

ii) The loss on integration of the Deep Pan Pizza business is in relation to costs incurred on employee and contract terminations and a number of property costs including the write down of the carrying value of the business on integration, provisions for onerous leases and premiums on disposal of some of the properties

iii) The Group has taken a credit of £0 6m (2005 £0 1m charge) in respect of the remeasurement of its interest rate swap (more detail is provided in note 24)

iv) In 2005, the Group incurred a net charge of £0 9m in respect of loss and provision for loss on disposal of assets and a charge of £0 3m on restructuring costs

	2006 £'000	2005 £'000
b) Profit on sale of business		
i) Profit on disposal of Est Est Est Restaurants Limited	**184**	1,582
ii) Profit on disposal of the Caffe Uno business	**2,696**	3,692
iii) Share of profit made on disposal of business by associate	–	400
	2,880	5,674
Tax on sale of businesses	**1,070**	(170)
Profit on sale of business after tax	**3,950**	5,504

i) On 31 March 2005, the Group sold Est Est Est Limited to Living Ventures Limited and a profit of £1 6m was recognised A further profit of £0 2m has been recognised in 2006

ii) On 12 December 2005, the Group disposed of 53 of the 59 sites that formed the Caffe Uno brand to Paramount for a profit of £3 7m In 2006, a further £2 7m profit has been recognised following the release of accruals in respect of dilapidations and warranty claims that are no longer required as they have become time lapsed, and following the completion of better than anticipated deals on disposal of some of the sites not sold to Paramount

iii) In 2005, a profit of £0 4m was recognised in respect of the share of profit on disposal of part of the business by Living Ventures Limited

6 Staff costs and numbers

	2006	2005
a) Staff costs (including Directors) comprise	**£'000**	£'000
Wages and salaries	**86,403**	84,123
Social security costs	**6,759**	6,482
Share based payments	**1,059**	508
Pension costs	**258**	333
	94,479	91,446
b) Staff numbers		
United Kingdom	**7,579**	7,430
Europe	**84**	92
	7,663	7,522
c) Directors' remuneration	**£'000**	£'000
Emoluments	**1,810**	2,232
Money purchase (and other) pension contributions	**284**	178
	2,094	2,410
Charge in respect of share options	**586**	232
	2,680	2,642

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 24 to 29, of which the information on pages 27 to 29 has been audited

7 Net finance charges

	2006 £'000	2005 £'000
Bank interest receivable	**11**	15
Interest receivable on loan note due from Living Ventures (net of provision)	**–**	522
Other interest receivable	**43**	152
Fair value credit on interest rate swap	**645**	–
Interest receivable	**699**	689
Bank interest payable	**2,816**	1,833
Other interest payable	**149**	290
Interest on obligations under finance leases	**343**	449
Fair value charge on interest rate swap	**–**	120
Total borrowing costs	**3,308**	2,692
Net finance charges	**2,609**	2,003

8 Taxation

	2006 £'000	2005 £'000
a) The taxation charge comprises		
Current taxation		
UK corporation tax at 30%	**8,594**	9,202
Adjustments in respect of previous periods	**(115)**	(187)
	8,479	9,015
Deferred taxation		
Origination and reversal of timing differences	**2,684**	15
Adjustments in respect of previous periods	**–**	(413)
	2,684	(398)
Taxation charge on ordinary activities	**11,163**	8,617
Taxation (credit)/charge on disposal of businesses	**(1,070)**	170
Total taxation charge for the year, including impact of disposal of businesses	**10,093**	8,787

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 30% due to the following factors

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	**21,579**	26,458
Profit on ordinary activities before taxation multiplied by the standard UK corporation tax rate of 30% (2005 30%)	**6,474**	7,937
Effects of		
Loss made by associate, with no tax credit available	**276**	60
Depreciation on non qualifying assets	**1,555**	1,373
Expenses not deductible for tax purposes	**3,110**	150
Loss on disposal of non qualifying assets	**710**	152
Rolled over gain	**–**	113
Tax deduction for exercise of share options	**(847)**	(308)
Recognition of tax losses in DPP Restaurants Limited not previously recognised	**–**	(260)
Adjustment in respect of previous years	**(115)**	(600)
Taxation charge on ordinary activities	**11,163**	8,617
Tax credit/(charge) on disposal of businesses	**(1,070)**	170
Total taxation charge for the year, including impact of disposal of businesses	**10,093**	8,787

Current tax on ordinary activities consists of £8,568,000 (2005 £8,056,000) for continuing activities and a credit of £89,000 (2005 £959,000 charge) in respect of discontinued activities Deferred tax on ordinary activities consists of £2,696,000 (2005 £489,000 credit) in respect of continuing activities and a credit of £12,000 (2005 £91,000 charge) in respect of discontinued activities In addition, a tax credit of £1,070,000 (2005 £170,000 charge) has been recognised in respect of disposal of businesses

9 Earnings per share

	2006	2005
a) Basic earnings per share		
Weighted average ordinary shares in issue during the year	**197,790,404**	216,576,330
Total basic profit for the year (£'000)	**14,366**	23,345
Basic earnings per share for the year (pence)	**7 26**	10 78
Effect of non trading items on earnings for the year (£'000)	**8,387**	(4,626)
Effect of consolidation of DPP Restaurants Limited for the year (£'000)	**–**	953
Earnings excluding non trading items (£'000)	**22,753**	19,672
Adjusted earnings per share (pence)	**11 50**	9 08
b) Continuing and discontinued activities		
Profit for the year from continuing activities (£'000)	**10,611**	15,746
Basic earnings per share from continuing activities (pence)	**5 36**	7 27
Profit for the year from discontinued activities (£'000)	**3,755**	7,599
Basic earnings per share from discontinued activities (pence)	**1 90**	3 51
c) Diluted earnings per share		
Weighted average ordinary shares in issue during the year	**197,790,404**	216,576,330
Dilutive shares to be issued in respect of options granted under the share option scheme	**953,597**	1,668,454
	198,744,001	218,244,784
Diluted earnings per share (pence)	**7 23**	10 70
Diluted adjusted earnings per share (pence)	**11.45**	9 01
Diluted earnings per share from continuing activities (pence)	**5 34**	7 22
Diluted earnings per share from discontinued activities (pence)	**1 89**	3 48

The additional earnings per share information (where non trading items for 2005 and 2006, and the performance of DPP Restaurants Limited for 2005 when it was not managed by The Restaurant Group plc, 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 2006 and 2005

10 Dividend

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders during the year		
Final dividend for the year ended 1 January 2006 of 3 84p (2004 3 375p) per share	**7,442**	7,306
Interim dividend for the year ended 31 December 2006 of 1 05p (2005 0 91p) per share	**2,048**	1,971
	9,490	9,277
Special dividend of 16p per share paid on 9 March 2006	**34,793**	–
	44,283	9,277
Proposed final dividend for the year ended 31 December 2006 of 4 95p (2005 3 84p) per share	**9,656**	7,442

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 16 May 2007 and is not recognised as a liability in these financial statements The proposed final dividend payable reflects the number of shares in issue on 31 December 2006 In addition, a special dividend of 16p per share (totalling £34 8m) was paid to shareholders on 9 March 2006 This is in respect of the return of value to shareholders following the disposal of Caffe Uno in December 2005

11 Intangible assets

	Goodwill £'000
Cost	
At 2 January 2006 and 31 December 2006	**11,275**

The goodwill in respect of the acquisition of Blubeckers is considered to have an indefinite life As such, it is not amortised but is subject to an annual impairment review This impairment review is based on a value in use calculation, whereby the discounted cash flow projections of the business are reviewed against the carrying value of the goodwill Cash flow projections are based on budgeted information and as approved by the Board and with reference to the Group's three year business plan, with discount rates of 8% applied A growth rate beyond the cycle of 2 5% has been applied

12 Property, plant & equipment

	Land and buildings £'000	Fixtures, equipment & vehicles £'000	Total £'000
Cost			
At 1 January 2005	176,956	85,366	262,322
Exchange movement	(110)	(107)	(217)
Acquisitions	18,270	3,850	22,120
Additions	28,113	12,944	41,057
Disposals	(52,277)	(21,557)	(73,834)
At 1 January 2006	**170,952**	**80,496**	**251,448**
Depreciation			
At 1 January 2005	60,439	47,205	107,644
Exchange movement	(64)	(5)	(69)
Acquisitions	474	1,798	2,272
Provided during the year	10,396	8,210	18,606
Impairment	2,890	470	3,360
Disposals	(18,463)	(13,239)	(31,702)
At 1 January 2006	**55,672**	**44,439**	**100,111**
Cost			
At 2 January 2006	170,952	80,496	251,448
Exchange movement	1	1	2
Acquisitions	–	–	–
Additions	27,344	13,431	40,775
Disposals	(3,439)	(8,142)	(11,581)
At 31 December 2006	**194,858**	**85,786**	**280,644**
Depreciation			
At 2 January 2006	55,672	44,439	100,111
Exchange movement	1	–	1
Acquisitions	–	–	–
Provided during the year	12,207	4,251	16,458
Impairment	359	1,225	1,584
Disposals	(3,439)	(8,106)	(11,545)
At 31 December 2006	**64,800**	**41,809**	**106,609**
Net book value as at 1 January 2006	115,280	36,057	151,337
Net book value as at 31 December 2006	**130,058**	**43,977**	**174,035**

The impairment made in 2005 is in respect of Caffe Uno sites which were not sold to Craftbutton Limited on 12 December 2005, and the write down of certain finance leases in respect of DPP units The impairment in 2006 is the write down of the carrying value of the Deep Pan Pizza units on integration

	2006 £'000	2005 £'000
Net book value of land and buildings		
Freehold	**29,986**	27,242
Long leasehold	**1,739**	1,807
Short leasehold	**98,333**	86,231
	130,058	115,280
Assets held under finance leases		
Cost		
At start of year	**1,961**	3,438
Disposals	**–**	(1,477)
At end of year	**1,961**	1,961
Depreciation		
At start of year	**982**	661
Provided during the year	**41**	61
Impairment	**–**	520
Disposals	**–**	(260)
At end of year	**1,023**	982
Net book value at end of year	**938**	979

13 Investment in Living Ventures Limited

The 40% investment in Living Ventures Limited is accounted for using the equity method Living Ventures Limited has an accounting year end date of 31 March The Group's share of the total recognised profit or loss in Living Ventures Limited for the twelve month period to 31 December 2006 was a loss of £917,000 (nine months of 2005 following acquisition £200,000 loss) Summarised financial information on Living Ventures Limited for the year is as follows

	2006 £'000	2005 £'000
Non current assets	**34,857**	36,216
Current assets	**3,606**	6,850
Non current liabilities	**(29,478)**	(29,344)
Current liabilities	**(9,458)**	(11,951)
Equity	**(473)**	1,771
Revenue	**47,567**	35,647
Loss before disposal of brand	**(2,292)**	(1,501)
Net loss	**(2,292)**	(500)

At 31 December 2006 Living Ventures was contractually committed to £25,000 (2005 £30,000) of capital expenditure The trade and other receivable disclosed as a non current asset in the consolidated balance sheet is in respect of a loan note due from Living Ventures Limited in 2008 Interest is receivable from Living Ventures Limited at a rate of LIBOR No interest receivable from Living Ventures Limited has been recognised in the income statement of The Restaurant Group plc in 2006 Following a detailed review of the carrying value of the investment, and in light of current trading performance, the Board has concluded that it is appropriate to make a provision of £9 5m against the loan note

14 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 31 December 2006 is considered by the Directors not to be materially different from the balance sheet value The Group recognised £75,362,000 of purchases as an expense in 2006 (2005 £73,118,000)

15 Trade and other receivables

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade debtors	**2,583**	2,642
Other debtors	**2,587**	2,856
	5,170	5,498

16 Trade and other payables

	2006 £'000	2005 £'000
Amounts falling due within one year		
Trade creditors	**30,110**	24,399
Other tax and social security	**9,511**	9,005
Other creditors	**8,964**	8,648
Accruals	**26,279**	29,424
	74,864	71,476

17 Provisions

	2006 £'000	2005 £'000
Provision for onerous lease contracts		
Balance at start of year	**763**	625
Charged to the income statement during the year	**3,009**	431
Utilised during the year	**(306)**	(293)
Balance at end of year	**3,466**	763

The provision for onerous contracts is in respect of lease agreements and covers the onerous element of expenditure over the life of those contracts which are considered onerous, expiring in 2 to 34 years A discount rate of 7 5% has been approved in calculating the provision

18 Deferred taxation

	2006 £'000	2005 £'000
Balance at start of year	**13,971**	15,725
Capital allowances in advance of depreciation charged to the income statement	**2,845**	599
Deferred tax recognised on losses from DPP Restaurants Limited	–	(814)
Other timing differences	**(161)**	(187)
Rolled over gains recognised during the year	–	113
Held over gains released to the income statement	–	(413)
Deferred tax adjustment arising on disposal of business assets of Caffe Uno	**12**	(1,518)
Deferred tax taken directly to the income statement	**2,696**	(2,220)
Share options deferred tax credit, taken directly to equity	**(1,529)**	(411)
Deferred tax adjustment on sale of Est Est Est Restaurants Limited	–	(1,719)
Deferred tax arising on acquisition of Blubeckers Limited	–	2,596
	(1,529)	466
Transfer to corporation tax	**1,109**	–
Balance at end of year	**16,247**	13,971

	2006 £'000	2005 £'000
Deferred tax consists of		
Capital allowances in advance of depreciation	**18,183**	14,229
Capital gains held over	**460**	460
Capital gains rolled over	**633**	633
Other timing differences	**(3,029)**	(1,351)
	16,247	13,971

19 Share capital

	Number	£'000
Authorised		
At 1 January 2005 and 2006 (ordinary shares of 25p each)	**320,000,000**	**80,000**
Share consolidation on 27 February 2006	(35,555,556)	–
At 31 December 2006 (ordinary shares of 28⅛p each)	**284,444,444**	**80,000**
Allotted, called up and fully paid		
At 1 January 2005	216,346,706	54,087
Exercise of share options	1,115,863	279
At 1 January 2006 (25p ordinary shares)	**217,462,569**	**54,366**
Share consolidation on 27 February 2006	(24,162,505)	–
Revised number of shares (28⅛p ordinary shares)	**193,300,064**	**54,366**
Exercise of share options	1,767,199	497
At 31 December 2006	**195,067,263**	**54,863**

On 27 February 2006 The Restaurant Group plc undertook a share consolidation, whereby nine existing shares were exchanged for eight new shares Following the share consolidation the nominal value of an ordinary share of The Restaurant Group plc is 28⅛p The authorised share capital is 284,444,444 shares and the allotted, called up and fully paid up number of shares was 193,300,064 immediately after the share consolidation

During the year, 1,767,199 ordinary shares of 28⅛p were allotted and fully paid (2005 1,115,863 ordinary shares of 25p) The nominal value received was £497,000 (2005 £279,000) and total consideration received was £1,096,000 (2005 £604,000)

20 Share based payment schemes

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 is

	2006 £'000	2005 £'000
Share based payment schemes	**1,059**	508

The Group operates a number of share option schemes, details of which are provided in the Directors' remuneration report on pages 24 to 29

Options granted under the share option schemes and not exercised at 31 December 2006 were

Period during which options are exercisable.	Scheme	At 31 December 2006 Number	At 1 January 2006	Exercise price
2002 2009	1998	50,244	110,586	75 0p
2003 2010	1998	6,030	58,853	48 6p
2004 2011	Note (1)	400,000	800,000	45 0p
2006 2013	2003	967,742	2,231,825	67 4p
2007 2014	2003	1,667,500	1,760,000	97 7p
2007 2008	2003 SAYE	401,602	444,772	79 0p
2008 2015	2003	1,479,000	1,544,000	134 4p
2009	2003 SAYE	266,029	–	160 0p
2009	2005 LTIP	1,466,051	–	–

Note (1) The Scheme is in respect of Alan M Jackson's share options granted on 5 June 2001 Further details are provided in the Directors' remuneration report on page 29 During the year Mr Alan M Jackson exercised 400,000 share options at an exercise price of 45p, and as at 31 December 2006 there are 400,000 share options outstanding No charge to the income statement is recognised in respect of Mr Alan M Jackson's share options as they were granted prior to 7 November 2002

Note (2) To ensure comparability of the value of options to option holders, the exercise price and number of shares awarded were subject to amendment following the Placing on 14 January 2004

Executive Share Option Plans (ESOPs)

The Group has in place two ESOPs, the 1998 scheme and 2003 scheme Under these schemes the Remuneration Committee may grant options over shares in The Restaurant Group plc to employees of the Group The contractual life of an option is ten years Awards under the ESOPs are generally reserved for senior management level and above and 33 employees were eligible to participate at 31 December 2006 Options granted under the 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 2½% (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 As permitted by IFRS 2, only options granted since 7 November 2002 which were unvested at 1 January 2005 have been valued

A reconciliation of the movement in outstanding share options under the ESOPs is provided below

	At 31 December 2006 Number	At 31 December 2006 Weighted average exercise price (p)	At 1 January 2006 Number	At 1 January 2006 Weighted average exercise price (p)
Outstanding at the start of the year	**5,705,264**	**94 8p**	5,304,658	77 5p
Granted	–	–	1,629,000	134 4p
Exercised	**(1,367,199)**	**67 0p**	(715,863)	59 1p
Lapsed	**(167,549)**	**110 1p**	(512,531)	91 1p
Outstanding at the end of the year	**4,170,516**	**103 3p**	5,705,264	94 8p
Exercisable at the end of the year	**1,029,543**	**67 7p**	169,439	65 8p

During 2006, the weighted average market price at date of exercise was 227p per share (2005 137p)

During 2003 the Group adopted the 2003 Executive Share Option Mirror Scheme The 2003 Mirror Scheme was introduced on similar terms to the 1998 Scheme save for certain changes which are incorporated into the 2003 Mirror Scheme The 2003 Mirror Scheme was designed so that an option granted pursuant to the 2003 Mirror Scheme ("Mirror Options") could be issued to both existing holders of options under the 1998 Scheme ("1998 Options") and to new participants However holders of share options granted under the 1998 Scheme can only exercise either their mirror options or their 1998 options, but not both Mirror Options can only be exercised by 1998 Option holders if their 1998 Options have not already been exercised If their 1998 Options are exercised or lapse then the Mirror Options will lapse The Mirror Options held by 1998 Option holders have a life for the residue of the life of the existing 1998 Options

20 Share-based payment schemes continued

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 the LTIP are provided in the Directors' remuneration report on pages 24 to 29 Options were granted to Directors and selected employees on 7 December 2005 1,131,188 Conditional Award share options and 643,515 Matching Award share options were granted In respect of the Matching Award share options, the respective Director or employee is required to acquire a number of shares by 7 May 2006, known as "Deposited Shares", and retain these shares until the Matching Award share options vest, for those Matching Award share options to be valid During the period to 31 December 2006, a total of 308,652 options have lapsed and a total of 1,466,051 options were outstanding at 31 December 2006 and are not exercisable until 2009 The options from the LTIP scheme will be satisfied through share purchases via a trust The fair value of a share at the time of grant was £1 47 Vesting of share options under the LTIP is dependent on continuing employment None of the options under the LTIP scheme were exercisable at the year end

Following the year end, a further award was made to Directors and selected employees On 8 March 2007, 567,263 Conditional Award share options and 247,908 Matching Award share options were granted at a value of £3 255 per option The conditions pertaining to the 2007 award mirror those of the award made on 7 November 2005

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 salary into a savings account each month, for a 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 Options were valued using the Stochastic share pricing model As permitted by IFRS 2, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been valued None of the share options under the SAYE scheme were exercisable at 31 December 2006 and 1 January 2006

	At 31 December 2006		At 1 January 2006	
	2006 grant Number	2004 grant Number	2006 grant Number	2004 grant Number
Outstanding at start of the year	–	444,472	–	505,212
Granted	292,317	–	–	–
Exercised	–	–	–	–
Lapsed	(26,288)	(42,870)	–	(60,740)
Outstanding at end of the year	266,029	401,602	–	444,472

Assumptions used in valuation of share based payments

Scheme Grant date	SAYE 27/4/06	2005 LTIP Conditional Award TSR element 8/11/05	EPS element 8/11/05	2005 LTIP Matching Award 8/11/05	2003 ESOP 4/4/05
Average share price for five preceding days to grant date	200 0p	147 0p	147 0p	147 0p	134 4p
Exercise price	160 0p	–	–	–	134 4p
Number of options originally granted	292,317	340,113	791,075	643,515	1,629,000
Minimum vesting period (years)	3 years	3 years	3 years	3 years	3 years
Expected volatility	25%	23%	23%	23%	28%
Contractual life	3 5 years	3 5 years	3 5 years	3 5 years	10 years
Risk free rate	4 67%	4 35%	4 35%	4 35%	4 70%
Expected dividend yield	2 18%	0 00%	0 00%	0 00%	3 20%
Expected forfeitures	9%	5%	5%	5%	9%
Fair value per option	71 7p	95 1p	147 0p	147 0p	36 0p

The expected life of the options is based on the expected exercise behaviour linked to share price and period since grant assuming the options are exercisable during a period of 3 to 10 years

21 Reserves

	Share capital £'000	Share premium £'000	Foreign currency reserve £'000	Other reserves £'000	Retained earnings £'000
At 1 January 2005	**54,087**	**19,422**	**245**	**256**	**1,873**
Adjustment to opening reserves for inclusion of swaps under IAS 39	–	–	–	–	127
Revised reserves at 1 January 2005	**54,087**	**19,422**	**245**	**256**	**2,000**
Issue of shares	279	325	–	–	–
Profit for the year	–	–	–	–	23,345
Dividends	–	–	–	–	(9,277)
Share-based payments – credit to equity	–	–	–	508	–
Deferred tax credit on share based payments taken directly to equity	–	–	–	–	411
Foreign exchange translation differences	–	–	(165)	–	–
At 1 and 2 January 2006	**54,366**	**19,747**	**80**	**764**	**16,479**
Issue of shares	497	599	–	–	–
Profit for the year	–	–	–	–	14,366
Dividend – ordinary	–	–	–	–	(9,490)
Dividend – special	–	–	–	–	(34,793)
Share based payments – credit to equity	–	–	–	1,059	–
Deferred tax credit on share based payments taken directly to equity	–	–	–	–	1,529
Foreign exchange translation differences	–	–	1	–	–
At 31 December 2006	**54,863**	**20,346**	**81**	**1,823**	**(11,909)**

The 'other reserve' reflects the credit to equity made in respect of the charge for share options made through the income statement

Since 1 January 1989 the cumulative amount of goodwill written off against realised reserves is £50,400,000 (2005 £50,400,000) Records for periods prior to this date are not readily available

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

	2006 £'000	2005 £'000
Profit before tax	**21,579**	26,458
Net finance charges	**2,609**	2,003
Loss and provision for loss on disposal of fixed assets	–	2,594
Release of accrual for property exit costs	–	(1,700)
Loss on integration of DPP (net of operating cash flow)	**4,101**	–
Provision against carrying value of loan note from associate	**9,500**	–
Share of loss made by associate	**917**	600
Non cash charge reversed in reserves	**1,059**	508
Depreciation	**16,458**	18,606
Increase in stocks	**(229)**	(439)
Increase in debtors	**(1,295)**	(2,451)
Increase in creditors	**8,675**	9,305
Cash flows from operating activities	**63,374**	55,484

Discontinued operations had a negative EBITDA of £296,000 (2005 £6,977,000 contribution) and capital additions of £nil (2005 £864,000) No separate cash flow has been presented in respect of discontinued activities as it is not possible to separately identify working capital or financing payments and receipts in respect of these operations, as these are centrally managed EBITDA and capital additions approximately represent operating and investing cash flows

Major non cash transactions

As disclosed in notes 5 and 13, during the year the Group performed an impairment review on the carrying value of Living Ventures In light of the recent trading performance, the Board has concluded that it is appropriate to make a provision of £9 5m against the carrying value of the loan note payable in 2008 The impairment represents a significant non cash transaction

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

	2006 £'000	2005 £'000
At the beginning of the year	**(12,419)**	(11,652)
Movements in the year		
Loans taken out	**(36,000)**	(4,000)
Cash inflow	**937**	3,233
At the end of the year	**(47,482)**	(12,419)

	At 1 January 2005 £'000	Cash flow movements in the year £'000	At 2 January 2006 £'000	Cash flow movements in the year £'000	At 31 December 2006 £'000
Represented by					
Cash at bank and in hand	482	(56)	426	257	**683**
Overdrafts	(5,134)	3,289	(1,845)	680	**(1,165)**
		3,233		937	
Bank loans due within one year	–	–	–	–	–
Bank loans due after one year	(7,000)	(4,000)	(11,000)	(36,000)	**(47,000)**
		(4,000)		(36,000)	
	(11,652)	(767)	(12,419)	(35,063)	**(47,482)**

24 Financial instruments and derivatives

The report of the Directors on pages 18 to 23 provides an explanation of the Group's treasury objectives and policies with regard to financial instruments and the management of risk

(a) Interest rate risk and liquidity profile
Financial assets
The financial assets of the Group comprised

	2006 £'000	2005 £'000
Cash and cash equivalents – Sterling	**510**	368
Cash and cash equivalents – Euro	**173**	58
	683	426
Trade and other receivables	**5,170**	5,498
Current financial assets	**5,853**	5,924
Non current financial assets	**875**	10,375
Total financial assets	**6,728**	16,299

Cash and cash equivalents include balances held on which interest is received at floating rates in the overnight money market The loan note is secured on the assets of Est Est Est Restaurants Limited but is subject to a prior ranking behind Living Ventures Limited's bank Other details regarding interest and maturity are provided in note 13

24 Financial instruments and derivatives (continued)
Financial liabilities
The financial liabilities of the Group comprised

	2006 £'000	2005 £'000
Short term borrowings – at floating interest rates*	**1,165**	1,845
Trade and other payables	**74,864**	71,476
Short term financial liabilities	**76,029**	73,321
Long term borrowings – at floating interest rates*	**47,000**	11,000
Finance lease debt	**2,737**	2,696
Provisions	**3,466**	763
Long term financial liabilities	**53,203**	14,459
Financial liabilities	**129,232**	87,780

* Total financial liabilities attracting interest were £48,165,000 (2005 £12,845,000) Interest is payable at floating interest rates which fluctuate and are dependent on LIBOR or base rate The average weighted year end interest rate for these borrowings was 6 30% (2005 5 50%)

Effective from 16 January 2003, the Group entered into an interest rate swap for a notional amount of £20,000,000 to be fixed at 4 55% per annum for a period of three years, terminating on 15 January 2006 The Group also entered into an interest rate swap for a further notional amount of £20,000,000 to be fixed at 4 395% per annum for a period of three years, effective from 16 January 2003 which terminated on 15 January 2006 This second interest rate swap provided the counterparty with the right, but not the obligation, to enter into a further transaction to renew the interest rate swap on £20,000,000 at 4 395% for a further two years, terminating on 15 January 2008 This option was not taken up by the counterparty

Effective from 16 January 2006, the Group entered into a new interest rate swap for an initial notional amount of £20,000,000, rising to £50,000,000 from 18 April 2006 until 16 January 2008, when it reduces to £30,000,000 until 16 January 2009, when it terminates The fixed rate for the duration of the three years is 4 695%

The Group has £33,000,000 (2005 £69,000,000) of committed borrowing facilities in excess of gross borrowings at 31 December 2006 which are due to expire in 2008, when the bank loan of £47,000,000 (2005 £11,000,000) is also due to expire

(b) Foreign currency exposure profile as at 31 December 2006
The Group has invested in and operates three restaurants in Spain, where the currency is the Euro Consequently the Group has a potential currency exposure on the translation of results from its Spanish operations, and translating the assets and liabilities from Euros to the Group's reporting currency, Sterling This exposure is reviewed on a regular basis, and is not considered to be material to the performance of the Group, or to the balance sheet

(c) Fair value of financial assets and liabilities

Primary financial instruments held or used to finance the Group's operations	**Book value 2006 £'000**	**Fair value 2006 £'000**	Book value 2005 £'000	Fair value 2005 £'000
Cash and deposits	**683**	**683**	426	426
Overdraft/loan maturing within one year	**(1,165)**	**(1,165)**	(1,845)	(1,845)
Borrowings maturing after one year	**(47,000)**	**(47,000)**	(11,000)	(11,000)
	(47,482)	**(47,482)**	(12,419)	(12,419)

The Group does not hold any financial instruments for trading purposes The fair value of short term borrowings and cash in hand together with short term non interest bearing trade and other receivables and trade and other payables approximate to book values due to the short term maturity of these instruments As highlighted in note 13, book value approximates to fair value in respect of the non current receivable of £875,000 The Group has derivative instruments relating to interest rate swaps In accordance with IAS 39 this has been valued at 31 December 2006 The fair value of this instrument was £652,000 (2005 £7,000) and this is accounted for in the consolidated balance sheet Movements on the fair value are recorded through the consolidated income statement In accordance with the transitional provisions available under IFRS 1, the Group did not adopt IAS 39 until periods commencing after 1 January 2005 Consequently, opening reserves were adjusted by the fair value of the interest rate swap on 1 January 2005 and net assets of the Group increased by £127,000, with an equivalent increase in equity

(d) Credit risk
The Group has credit risks on its trade debtors and the long term receivable from Living Ventures Limited In light of the current trading performance of Living Ventures Limited, and following a detailed review of the carrying value of the business, including the loan note receivable, the Board has concluded it is appropriate to make a £9 5m provision against the long term receivable Due to the nature of the Group's business there are not significant exposures on underlying revenue trading Counterparties for cash and derivative balances are with financial institutions with strong credit ratings

25 Lease commitments
Future lease payments in respect of finance leases are due as follows

	Minimum lease payments 2006 £'000	**Interest 2006 £'000**	**Present value 2006 £'000**	Minimum lease payments 2005 £'000	Interest 2005 £'000	Present value 2005 £'000
Within one year	**271**	**271**	**-**	243	243	-
Within two to five years	**1,082**	**1,082**	**-**	1,214	1,214	-
After five years	**6,427**	**3,690**	**2,737**	6,748	4,052	2,696
	7,780	**5,043**	**2,737**	8,205	5,509	2,696

The total future minimum rentals payable under operating leases in respect of the total lives of the leases are

	Payable 2006 £'000	**Receivable 2006 £'000**	Payable 2005 £'000	Receivable 2005 £'000
Within one year	**1,942**	**-**	364	108
Within two to five years	**22,859**	**1,316**	25,730	1,559
After five years	**405,723**	**49,724**	371,215	34,753
	430,524	**51,040**	397,309	36,420

The Group has entered into a number of property leases on standard commercial terms 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 concession fees These arrangements are principally in the Group's Concessions division, which operates in UK airports Within these concession arrangements there is usually a concession fee for each unit which is based on the revenue derived from that unit

26 Capital commitments

	2006 £'000	2005 £'000
Authorised and contracted for	**15,948**	14,206

27 Related party transactions
Living Ventures Limited is a related party to The Restaurant Group plc through the Group's 40% holding During the year interest of £634,000 was accrued on the loan note between Living Ventures Limited and The Restaurant Group plc at the rate of LIBOR The Group recognised £nil (2005 £522,000) in respect of interest income due from Living Ventures Limited Under the terms of the loan note none of this interest was payable as at 31 December 2006, consequently in addition to the loan note of £10,375,000 outstanding at that date, £1,156,000 of interest receivable was also due from Living Ventures Limited Following a detailed review of the carrying value of Living Ventures, and in light of current trading performance, the Board has concluded that it is appropriate to make a provision of £9 5m against the loan note repayable in 2008

For the year to 31 December 2006, Alan M Jackson received a fee of £35,000 (2005 £35,000) from Living Ventures Limited in respect of his duties as non executive Chairman of that Company During 2005, Mr Jackson also received a fee of £222,000 from Bowmark Limited in respect of a previously agreed incentive arrangement which arose on Bowmark Limited's disposal of its stake in Living Ventures Limited, to TRG

Alan M 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 a lease with Charles Wells Limited, on an arms length basis, with an annual rent of £73,850 per annum In addition, the Group purchased products with a value totalling £576,000 (2005 £414,000) from Wells & Young's Limited, a subsidiary of Charles Wells Limited, during the year, on an arms length basis No balance was directly outstanding at the year end Alan M 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 24 to 29, of which pages 27 to 29 are audited

Company balance sheet – under UK GAAP

	Note	At 31 December 2006 £'000	At 1 January 2006 £'000
Fixed assets			
Investment in associated undertaking	i	**7,810**	10,186
Investments in subsidiary undertakings	ii	**110,242**	109,183
		118,052	119,369
Current assets			
Debtors – inter company balances		**36,529**	11,529
		36,529	11,529
Creditors			
Amounts falling due within one year – inter company balances	iii	**(49,810)**	(46,623)
Net current liabilities		**(13,281)**	(35,094)
Total assets less current liabilities		**104,771**	84,275
Net assets		**104,771**	84,275
Capital and reserves			
Called up share capital	vi	**54,863**	54,366
Share premium account	vi	**20,346**	19,747
Other reserves	vi	**1,823**	764
Profit and loss account	vi	**27,739**	9,398
Shareholders' funds – equity		**104,771**	84,275

The financial statements on pages 57 and 58 were approved by the Board of Directors and authorised for issue on 4 April 2007 and were signed on its behalf by

Alan M Jackson
Non Executive Chairman

Stephen M A Critoph ACA
Group Finance Director

Accounting policies and basis of preparation
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 accounting standards under UK GAAP and on a going concern basis

Investments are valued at cost less any impairment

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

The share options have been accounted for as an expense in the company in which the employees are employed, using a valuation based on a 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 Restaurant Group plc in the subsidiary in which the employees are employed, with a corresponding increase in equity, is recognised in the accounts of The Restaurant Group plc Information in respect of the Company's share option schemes is provided in note 20 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 associate	**£'000**
At 2 January 2006	10,186
Impairment of investment	(2,376)
At 31 December 2006	**7,810**

ii) Investment in subsidiaries

	Shares £'000	Loans £'000	Total £'000
Cost			
At 2 January 2006	83,972	26,633	110,605
Reclassification of investment	(17,070)	17,070	–
Additions – share option scheme	–	1,059	1,059
At 31 December 2006	**66,902**	**44,762**	**111,664**
Amounts written off			
At 2 January and 31 December 2006	**888**	**534**	**1,422**
Net book value at 31 December 2006	**66,014**	**44,228**	**110,242**
Net book value at 2 January 2006	66,014	26,099	109,183

The Company's operating subsidiaries are

	Holding	Proportion of voting rights and shares held at 31 December 2006
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%

* Held by subsidiary undertakings

** On 12 January 2006 the Group acquired the remaining 80 1% of the share capital of DPP Restaurants Limited for a nominal sum

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 restaurants in Spain

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

iii) Creditors – amounts falling due within one year
In accordance with FRS 21, the proposed final dividend payable in respect of 2006 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

iv) 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 £62,624,000 (2005 loss of £7,000) Included in the profit for 2006 are dividends received from subsidiary undertakings of £65,000,000 Remuneration of the auditors is borne by subsidiary undertakings

v) Employee costs and numbers
All costs of employees and Directors are borne by subsidiary undertakings At 31 December 2006 the Company employed five persons (1 January 2006 six persons)

vi) Share capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 2 January 2006	54,366	19,747	764	9,398	84,275
Issue of shares in respect of share options	497	599	–	–	1,096
Profit for the year	–	–	–	62,624	62,624
Employee share option schemes	–	–	1,059	–	1,059
Dividends paid	–	–	–	(44,283)	(44,283)
	54,863	20,346	1,823	27,739	104,771

Details of share issues during the year are given in notes 19 and 20 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

	2006 IFRS £'000	2005 IFRS £'000	2004 IFRS £'000	2004 UK GAAP £'000	2003 UK GAAP £'000	2002 UK GAAP £'000
Revenue	**314,748**	302,328	255,446	255,446	227,438	216,386
Trading business (excluding DPP in 2005)	**39,187**	31,962	26,070	25,904	21,793	20,099
Underlying interest	**(3,254)**	(1,823)	(1,667)	(1,179)	(2,539)	(3,284)
Share of associate	**(917)**	(600)	–	–	–	–
Adjusted profit before taxation	**35,016**	29,539	24,403	24,725	19,254	16,815
Loss before taxation made by DPP	**-**	(1,733)	–	–	–	–
Non trading items	**(13,437)**	(1,348)	(3,390)	(2,597)	(2,613)	(53)
Profit on ordinary activities before taxation	**21,579**	26,458	21,013	22,128	16,641	16,762
Taxation	**(11,163)**	(8,617)	(6,942)	(7,039)	(5,606)	(3,771)
Profit on ordinary activities after taxation	**10,416**	17,841	14,071	15,089	11,035	12,991
Profit on sale of business net of tax	**3,950**	5,504	–	–	–	–
Profit for the year	**14,366**	23,345	14,071	15,089	11,035	12,991
Basic earnings per share	**7 26p**	10 78p	6 59p	7 06p	5 68p	6 69p
Adjusted earnings per share	**11 50p**	9 08p	7 84p	7 95p	6 66p	6 71p
Proposed total dividend per share	**6 00p**	4 75p	4 20p	4 20p	3 65p	3 50p
Dividend cover (excluding non trading items)	**1 92**	1 91	1 87	1 89	1 82	1 91
Employment of finance						
Property, plant & equipment	**174,035**	151,337	154,678	149,683	146,220	143,799
Other non current assets	**19,960**	30,377	–	–	–	–
Net current liabilities	**(59,341)**	(61,848)	(51,014)	(55,111)	(43,617)	(79,753)
Long term liabilities	**(53,203)**	(14,459)	(12,056)	(7,625)	(35,687)	(1,208)
	81,451	105,407	91,608	86,947	66,916	62,838
Financed by:						
Equity shareholders' funds	**65,204**	91,436	75,883	70,855	50,144	46,560
Deferred tax	**16,247**	13,971	15,725	16,092	16,772	16,278
	81,451	105,407	91,608	86,947	66,916	62,838
Net debt	**(47,482)**	(12,419)	(11,652)	(11,294)	(38,163)	(44,600)
Gearing	**72 8%**	13 6%	15.4%	15 9%	76 1%	95 8%
Interest cover before non trading items (times)	**12 0**	17 5	15 6	22 0	8 6	6 1

The amounts stated for 2003 and earlier periods are stated on the basis of UK GAAP as it is not practicable to restate these periods for the transition to IFRS

Shareholder Information

Directors
Alan M Jackson
Non executive Chairman

Andrew Page
Chief Executive Officer

Stephen M A Critoph
Group Finance Director

Kevin J Bacon
Executive Director, Leisure

Patricia A Corzine
Executive Director, Concessions

John E Jackson
Non executive

Andrew Thomas
Non executive

David H Richardson
Non executive

Company Secretary
Robert J Morgan

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Financial Calendar
Annual General Meeting
16 May 2007

Final Dividend – 2006

Announcement	7 March 2007
Ex Dividend	6 June 2007
Record Date	8 June 2007
Payment Date	4 July 2007