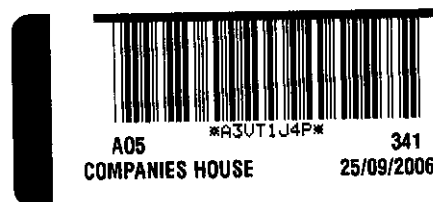




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LEADER IN LATE NIGHT
ENTERTAINMENT

ANNUAL REPORT 2006

OUR MISSION

TO ACHIEVE THE HIGHEST STANDARD OF CUSTOMER SERVICE AND ENTERTAINMENT IN THE LEISURE INDUSTRY BY OFFERING VALUE FOR MONEY WITHIN OUR VENUES.

TO SUPPORT OUR EMPLOYEES AND DEVELOP THEIR POTENTIAL, TO ACHIEVE AND EXCEED OUR INCOME TARGETS AND MAXIMISE SHAREHOLDER VALUE.

... ENJOY A FUN, SAFE NIGHT OUT.

WE STRIVE TO ACHIEVE THE HIGHEST LEVELS OF SAFETY WITHIN OUR VENUES BY INVESTING IN THE BEST POSSIBLE SECURITY.

CONTENTS

1	Financial Highlights
2	Chairman's Statement
6	Operating Review
10	Financial Review
18	Corporate Social Responsibility
20	Board of Directors
22	Corporate Governance Statement 2006
26	Remuneration Report
31	Report of the Directors

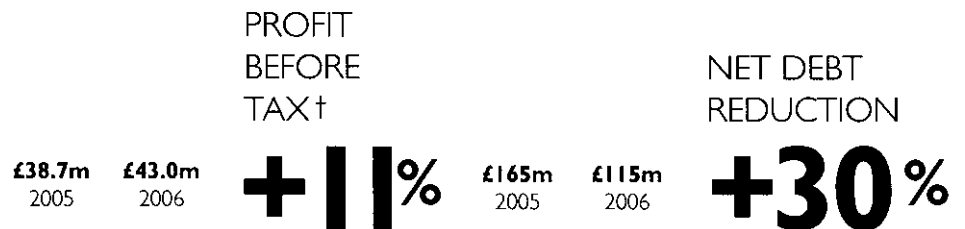
LUMINAR PLC IFRS CONSOLIDATED FINANCIAL STATEMENTS

34	Independent Auditors' Report
35	Consolidated Income Statement
36	Consolidated Statement of Changes in Shareholders' Equity
37	Consolidated Balance Sheet
38	Consolidated Cash Flow Statement
39	Principal Accounting Policies for the Consolidated Financial Statements
44	Notes to the Consolidated Financial Statements

LUMINAR PLC COMPANY FINANCIAL STATEMENTS

80	Independent Auditors' Report
81	Company Balance Sheet
82	Principal Accounting Policies
84	Notes to the Financial Statements
94	Notice of Annual General Meeting
95	Explanation of Resolutions
97	Shareholder Information

FINANCIAL HIGHLIGHTS



PERFORMANCE

- Sales up 3% — like-for-like sales excluding non-core operations down 1%, with Dancing like-for-like sales up 3%
- Pre-tax profits on continuing operations pre-exceptional items up £4m to £43m (2005: £39m)
- Strong cash flows from continuing operating activities before exceptional cash items up 19% to £72m (2005: £61m) — cash flow from continuing operating activities after exceptional cash items up 9% to £66m (2005: £61m)

RETURN OF CAPITAL AND DIVIDEND

- Following the de-gearing of the Company over the last two years the Board has decided to return capital to shareholders through a total of £70m of buybacks over three years with the majority expected in the first eighteen months
- The Entertainment division will either be sold or demerged and any net cash proceeds will be returned to shareholders in addition to the planned buybacks
- 10% increase in the level of the final dividend to 10.74p, giving a dividend for the full year of 15.18p: it is the Board's intention to introduce a policy of progressively moving to a dividend cover of two times

† for continuing operations before exceptional items

CHAIRMAN'S STATEMENT

"The Company is the leader in its sector, has good cash flows, some outstanding assets and experienced staff. I am confident that the policies being followed should transform Luminar."

STRATEGY

The sector in which the Company trades has been experiencing a challenging environment for several years and this has continued in the year to 2 March 2006. The challenges have arisen from sector over-capacity, market and economic trends and a significant regulatory tightening compared with previous practice. The Company has reacted to this by:

- Following a strategy of developing a high quality differentiated nightclub business which will be predominantly on a branded basis. This strategy has included the disposal of units which do not fit with this objective.
- Significantly reducing debt levels in order to safeguard the position of the business and to focus investment on its strategic objectives.

By 2 March 2006 the Company had developed 43 branded nightclub units, 13 of which had been developed during the year. These will represent approximately 45% of annualised continuing revenue from core Dancing units. The new units are generally performing well. The Company has also acquired ten larger capacity units which are suitable for conversion to branded units for a consideration of £11m.

Over the last two years the Company has disposed of 79 units which did not fit its strategy, realising proceeds of £46m. A further £17m was also raised from a sale and leaseback transaction for a continuing unit. Further disposal transactions are planned for the current year.

At the year end the Company's net debt was £115m, representing a reduction in debt during the year of £50m. During the three years to 2 March 2006, the Company's net debt has been reduced by over £110m. Sufficient progress has been made with the debt position to enable the Board to announce that it has decided to return capital to shareholders through a programme of £70m of share buybacks over three years, with the majority expected within the next 18 months.

The Board has also reviewed the position of the Entertainment division, which remains a strong business but is experiencing adverse trends in the high street bars sector. In order to allow the Company to focus on its strategy and to enable the Entertainment division to develop, it has been decided that it will be separated and either sold or demerged. Any net cash proceeds will be returned to shareholders in addition to the planned buybacks.

An explanation of the Company's plans and a summary of progress to date are set out in the Operating Review on pages 6 to 9.

RESULTS

The results are set out in the Financial Statements on pages 35 to 38. They are also discussed in the Financial Review on pages 10 to 17.

As required as a result of regulatory changes, the Financial Statements have, for the first time, been prepared using International Financial Reporting Standards. The formats involved and accounting principles are more complex than those previously used and the change has required the application of considerable resources.

Revenues from continuing operations amounted to £296m. This included a growth in comparable sales for Dancing division units of approximately 3%. Profit before tax from continuing operations before exceptional items amounted to £43m (2005: £39m). The profit before tax contribution from discontinued operations was, however, reduced by £11m to £3m following the disposal of 64 units during the year. Earnings per share from continuing operations amounted to 25.8 pence (2005: 23.9 pence).

As in previous years the Company has reported significant exceptional losses, which in the current year amounted to £13m (after tax credits of £7m) relating to continuing operations and £18m (after tax credits of £7m) relating to discontinued operations. These losses predominantly relate to non-cash write-offs and asset impairments against amounts previously stated in the Financial Statements for property, plant and equipment and goodwill stated at amounts reflecting the cost of past acquisitions. After exceptional items and discontinued operations, profits attributable to equity shareholders amounted to £2m, net of exceptional items of £31m.

Underlying cash performance remains strong. Earnings before interest, tax and depreciation ("EBITDA") and exceptional items for total operations amounted to £87m (2005: £99m) and cash flow from operating activities amounted to £70m (2005: £78m). Investment in capital expenditure was £57m.

BOARD

During the year Nick Beighton joined the Board as Finance Director. Nick has already made a substantial favourable impact on the Company and is building a team which will strengthen the Company's financial controls and effectiveness.

On 2 March 2006 Linda Wilding retired as a Non-Executive Director. Linda served as a Director from 1998 and had previously been involved with the Company prior to its flotation in 1997. She made a major contribution to the Company's affairs.

Martin Gatto has taken over as Chairman of the Audit Committee and David Longbottom has taken over as Chairman of the Remuneration Committee.

CORPORATE SOCIAL RESPONSIBILITY

The Company's Corporate Social Responsibility Statement is set out on pages 18 to 19.

The Company's activities are principally in the late night sector with the sale of alcoholic drink being a significant ancillary activity. The Company places considerable emphasis on developing, maintaining and monitoring policies and processes designed to protect the well-being and welfare of customers and employees. The Company is also committed to taking account of the interests of the communities in which it operates.

CURRENT TRADING

Like-for-like sales for the first ten weeks of the financial year have been disappointing with total like-for-like sales from core businesses down by

8%. The current performance includes trading from the Easter period which was disappointing due to the timing of Easter. The Dancing segment has shown good top line growth but the Entertainment division sales have further declined.

During the first ten weeks gross margins have strengthened following the results of management's operational effectiveness work. Admissions income, although down on last year, has strengthened as a proportion of total income.

Subsequent to Easter there has been an improving trend. Management do not believe the first ten weeks to be indicative of the likely outcome for the full year.

DIVIDEND

The Board is proposing a final dividend of 10.74 pence, giving a dividend for the year of 15.18 pence, an increase of 10%. The Board has announced a policy of progressively moving to a dividend cover of two times.

SUMMARY

My second three year term of office as Chairman comes to an end in December and I have told the Board that I am not in a position, due to other interests, to be available for a further term. In accordance with the provisions of the Combined Code of Corporate Governance, the Nominations Committee led by the Senior Independent Director, David Longbottom, is responsible for recruiting a new Chairman and has commenced the process of doing so.

The Company is by a significant margin the leader in its sector, has good cash flows, some outstanding assets and able and experienced staff. I am confident that it is following the right strategy; it has announced substantial measures to deliver shareholder value and the Company is continuing to follow its policy of strengthening management. In addition, although it continues to face regulatory and other challenges, the sector has experienced cyclical characteristics in the past from which it has recovered. I am confident that the policies being followed should transform Luminar.

KEITH HAMILL

Chairman
17 May 2006

LIQUID

Taking cool 'London' clubbing to the mass market. In the main room, you'll find state-of-the-art lighting, sound and laser technology combined in a cutting-edge environment providing the perfect atmosphere for today's generation of clubbers. In addition, Liquids also feature a mellow chill-out room and a VIP lounge to complement the high energy of the main room.

OCEANA

Five bars, two clubs, one amazing night. Cruise through seven destinations including a futuristic Tokyo Vodka Bar, a 1970s New York disco, and a sexy Parisian boudoir. A venue offering wonderfully different 'ports of call' all under one roof.

CHICAGO ROCK CAFÉ

The place to eat, drink and party. Appealing to a mature 20-something age group with a mix of food, drink and entertainment based around music, comedy, memories and nostalgia. Tasty Tex-Mex food is served all day, whilst our bartenders mix the most tantalising cocktails. Whether you choose to eat, drink or dance, Chicago Rock Cafés offer an alternative to the high street pub to club scene.

LAVA & IGNITE

The classic twin-scene format updated for the 21st Century. The main room includes amazing sound and lighting technology, and is flexible enough to be the perfect venue for corporate events, live music and televised sporting events. The themed bar sitting alongside caters for the 'pre-club' drink market and two other rooms provide a change of atmosphere and music for a variety of moods.

LIFE

Local pub, local club, local people. Life is a bar and club concept designed to appeal to young and old alike — from local business folk relaxing after work to a local group of girls on a hen night. Designed to fit into smaller towns and become a major part of that town's community, Life is a versatile brand and can cater for meetings and corporate events as well as the traditional pub and club market. Open seven days a week, at the weekend a screen is drawn back to reveal Club Life, where customers can dance the night away.

JUMPIN JAKS

The place to be for real entertainment. Live entertainment is staged every night the doors are open and Jumpin Jaks is a huge hit with people of all ages, thanks to its unique party atmosphere. Featuring all genres of the UK's best live acts along with guest performances from celebrities. The key to success is the music — the songs you will hear are those you love to sing along to, dance to and the ones that set the tempo for a great atmosphere, good feeling and real interaction.

OPERATING REVIEW

"The company continues to strengthen its position as a leader in the late night market"

STRATEGY

The Company's strategy has continued to build on the position of the Company in the late night market for drinking and dancing. This strategy is based largely on branded concepts which the Company has already developed and proven, together with the conversion of existing units wherever appropriate.

The principal late night brands are:

OCEANA — Five bars, two clubs, one restaurant, "one amazing night"

LAVA & IGNITE — Classic twin-scene format updated for the 21st century

LIQUID — Clubbing for the mass market

Since 2003/4 the Company has focused its management and capital resources on a portfolio of branded Dancing venues. This policy is intended to build on the Company's considerable operational strengths in the late night market to provide a differentiated product in a less competitive market segment and deliver sustainable high returns and reduced volatility. It will also result in the Company having a strong base of properties organised in a way to give sufficient flexibility to sustain refurbishment at acceptable costs, whilst ensuring a quick response to changing customer demand.

In addition to properties retained for future conversion, the Company intends to retain other good quality nightclub venues, which are not suitable for conversion but which achieve high returns, together with certain units which are of strategic value for reasons such as licensing.

The Company has conducted a strategic review of the Entertainment division, with a view to maximising value to shareholders. Whilst this review has been carried out, the Company has operated a "holding" strategy with respect to the division, looking to maximise profitability in light of the strategic review and regulatory changes affecting the sector.

The Company has also set out to stabilise results while these significant changes are taking place and to continue to invest capital only in projects in line with its strategy, as well as significantly reducing debt levels.

PROGRESS IN IMPLEMENTING STRATEGY

During the financial year the Company has made considerable progress in realigning its business, to focus on a portfolio of branded Dancing venues to lead the late night market.

(A) RE-BRANDING

As a result of focussing the investment capital on re-branding the Dancing estate, the Company has branded a further 13 units during the year; (2 Oceana, 9 Lava & Ignite and 2 Liquid), bringing the total number of branded units at the year end to 43 (2005: 30). The momentum on the re-branding programme will be sustained over the next three years.

The Company also acquired 10 large capacity clubs from The Nightclub Company (UK) Limited ("The Nightclub Company") during the year for a consideration of £11m, increasing the licensed capacity of the Company by 10%. The Company intends to re-brand these sites to its existing brands of Oceana, Lava & Ignite and Liquid, within the existing capital expenditure budget, over the next three years.

(B) WITHDRAWAL FROM NON-CORE OPERATIONS

During the year the Company completed the disposal of 64 units for £30m cash proceeds. The disposal of the Enterprise division realised £25m cash consideration, with a further £1m received post-year end. This transaction comprised 49 of the 64 units initially ring-fenced in November 2003. The Company has similarly continued to divest of surplus Non-Core sites, with the disposal during the year of 15 single sites, realising £5m in cash with an additional £5m recognised within receivables at the balance sheet date, which was received after the year end.

The Company has continued to focus on disposing of Non-Core assets, with the objective of completing the process of rationalisation of the estate during the current financial year. The Company expects to complete the disposal of a further 5 properties for a total consideration of £4m to be received during the first half. The Company has unconditionally exchanged on the disposal of its Southsea complex for consideration of £5m, which will complete in August 2007. A further 5 properties are targeted for disposal in 2006/7 for proceeds of £5m. The Company is also holding other Non-Core units, which are currently trading, for sale at the year end.

(C) REVIEW OF THE ENTERTAINMENT DIVISION

Over the previous two years the Company has been operating a "holding" strategy with the division, withholding significant capital investment until the impact of Licensing reform is known.

The division has nevertheless remained profitable with significant cash generation.

New management for the division have been appointed, and during the year the Company has focused on controlling the cost base and restoring the Chicago Rock Café proposition. To effect this the Company is currently trialling two low-cost developments at Yeovil and Newbury. Since the year end, the Company has updated

its review of the Entertainment division. Following this review the Company has concluded that it does not believe that the Entertainment division forms part of its future strategy of late night, branded units. During 2006/7 the Company will continue to improve the operational effectiveness of the division in the short term whilst finalising plans to realise appropriate value from the division for shareholders.

(D) REDUCTION OF NET DEBT

The Company has continued to focus on the reduction of the level of debt, and as a result has completed the sale and leaseback of three properties during the year, realising a total consideration of £28m. These sale and leasebacks, together with the disposals outlined above, have contributed to the significant reduction in net debt during the year, down £50m to £115m (2005: £165m).

FUTURE BUSINESS STRUCTURE

Following implementation of the above strategy, the future composition of the Company's business is anticipated to be as follows:

	February 05 Units	March 06* Units	Strategy	Future Units
Dancing	120	110	Re-brand 70% to core brands (Oceana, Liquid, Lava & Ignite)	120
Entertainment	72	79	Review short-term operational effectiveness to realise shareholder value (Chicago Rock Café, Jumpin Jaks)	—
Non-Core	91	41	Realise value from sales of Non-Core assets	—
	<u>283</u>	<u>230</u>		<u>120</u>

* The units presented above represent the total of continuing and discontinued operations: of the total 230 units, 107 within Dancing, 74 within Entertainment and 9 within Non-Core represent continuing operations, (total continuing units being 190).

The future Luminar business will be a high quality, predominantly branded, nightclub business, offering a product that will differentiate it from other products in our marketplace to enable and aid the business through the current difficult trading environment and period of regulatory change. The future business will have approximately 70% of Dancing units being branded.

MARKET

The core market the Company aims to attract to its venues is in the 18–30 year old age range — a target market that faces many competing attractions for its disposable income. Of this market, 41% visit nightclubs more than once per month, although 37% of 18–30 year olds visit clubs less regularly than once every six months. The Company is targeting its efforts to develop

its group branding and strategy and align its customer experiences through all of its customer touch points to ensure that Luminar differentiates itself from its direct and indirect competition.

REGULATORY ENVIRONMENT

The Company is facing a period of significant challenge from recent regulatory changes, most

OPERATING REVIEW CONTINUED

importantly the changes to the licensing regime through implementation of the Licensing Act 2003, from 24 November 2005, and from the smoking ban to be introduced following the vote in February 2006 to amend the Health Bill to ban smoking in pubs and private members clubs from the summer of 2007, together with the introduction of the Scottish Executive's ban on smoking introduced from 26 March 2006.

The changes to the licensing regime have intensified the competitive pressure on the late night market, specifically in the high street sector. As a result the Company is observing additional competition in the Entertainment division, although the Company's Dancing units, especially the branded units, are continuing to perform strongly.

The introduction of a no-smoking environment, specifically in the Scottish units, brings additional challenges to the sector. Current experience of the impact of the smoking ban in Scotland, albeit in the limited time that the changes have been introduced, indicates that the Company's performance has been positive, particularly in our Dancing units with outside smoking areas.

Although it is too early to conclude on the effect of no-smoking legislation on the business, recent experience of the introduction of similar legislation (in Ireland and New York) indicates that any downward pressure on sales is reversible over the medium term.

The Company will continue to invest in re-branding and all the Dancing units have the capability for outdoor smoking areas. The

existence of outside smoking areas is key to future performance and our plans are well advanced for implementation during the next financial year.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section, although not a comprehensive analysis of all the potential risks that could affect the business, outlines the principal risks and uncertainties that could affect the Company's business.

ECONOMIC DOWNTURN

The Company is exposed to the risks of an economic downturn in the UK, which would result in a fall in consumer spending, lower revenue and resultant lower income.

REGULATORY CHANGES AFFECTING THE BUSINESS: SMOKING & LICENSING REFORM

The industry in which the Company operates is subject to regulation, and future changes in the regulations affecting the industry could lead to lower revenues or higher costs levels. The principal regulatory changes that could affect both the revenues and cost base of the Company are the Licensing Act 2003, which came into effect on 24 November 2005, and the no-smoking legislation following the vote to amend the Health Bill to legislate for an outright ban on smoking in all pubs and private members clubs from the summer of 2007.

HIGH STREET SECTOR OVER-CAPACITY

A number of the Company's units, principally in the Entertainment division, operate in the high street sector, which has experienced significant additional competition over the past years. This

sector has seen substantial expansion in the number of pubs and venues operating on the high street, resulting in increased numbers of units in competition for the same customer base. The expansion of operators in the high street sector has stabilised. However, a return to the trend of high numbers of pubs and venues opening could have a material effect on the operations of the Entertainment division.

SEASONALITY AND WEATHER

The level of admissions in the Company's venues is considerably increased during holiday periods, especially Christmas and New Year, and over bank holiday periods. Similarly, the admissions and revenue levels are generally lower in the early months of the year and over the summer compared to during the autumn and spring periods. The Company's revenues can be impacted by extremes of weather which could deter consumers from attending the Company's venues.

FAILURE TO ENSURE BRANDS EVOLVE IN RELATION TO CHANGES IN CONSUMER TASTE

The market in which the Company operates is subject to changes in fashions and trends, and the Company is exposed to the risk that its innovations in venue format and content do not keep up with changes in consumer tastes.

FLUCTUATIONS IN THE PROPERTY MARKET

The Company has 191 of its units held under short leaseholds, which are subject to regular rent reviews. These rent reviews could either significantly increase or decrease the level of the Company's fixed cost base, which could affect the economic viability of any of the Company's units.

OUR VENUES

● Oceana	5
● Liquid	25
● Life	3
● Lava & Ignite	10
● Jumpin Jaks	21
● Chicago Rock Café	56

The Company holds 60 freehold units; therefore, any changes to the UK property market could lead to changes in the value of the Company's property portfolio.

HIGH PROPORTION OF FIXED OVERHEADS AND VARIABLE REVENUES

A significant proportion of the Company's cost base remains constant notwithstanding changes to the level of revenues; therefore, any significant changes in the level of the Company's revenues could significantly affect the level of earnings and cash flows.

PEOPLE

During the year, the Company commissioned a "Talk to Us" employee survey, which was completed by 6,200 employees across the Company. This survey revealed 80% of employees got satisfaction from their work, and that 79% would recommend Luminar as a good place to work.

During the year Nick Beighton has joined the Board as Finance Director from Matalan plc, and David Crabtree joined the Company as Managing Director for the Entertainment division.

Since the year end the Company has reorganised its internal management structure, to reflect the strategic objectives of the Company around a branded estate.

CHICAGO ROCK CAFE SWANSEA WREXHAM PETERBOROUGH SUTTON EPSOM TROWBRIDGE LIVINGSTON BISHOPS STORTFORD NORTHAMPTON CHELMSFORD STRATFORD UPON AVON LANCASTER NUNEATON HANLEY MANSFIELD BANBURY MIDDLESBROUGH YEOVIL BURY NORWICH SALISBURY ST HELENS LINCOLN AYLESBURY WINDSOR STAFFORD GRIMSBY WIGAN BURTON ON TRENT NEWPORT WALSALL WARRINGTON WOLVERHAMPTON BARNLEY TAMWORTH REDDITCH SOUTHSEA JUMPIN JAKS HALIFAX CARLISLE GLASGOW NOTTINGHAM ABERDEEN STEVENAGE BRADFORD GLOUCESTER HARLOW WIGAN CARDIFF DUMFRIES BASILDON BOURNEMOUTH COVENTRY DUNSTABLE HEMEL MAIDSTONE SOUTHAMPTON SWANSEA DUNDEE OCEANA KINGSTON UPON THAMES MILTON KEYNES NOTTINGHAM LEEDS BRISTOL LIQUID LUTON HANLEY PETERBOROUGH MANSFIELD LANCASTER WIGAN SHREWSBURY WREXHAM ABERDEEN SUNDERLAND NUNEATON ROTHERHAM ASHFORD GLOUCESTER BASINGSTOKE IPSWICH SUTTON CARDIFF NORWICH JERSEY NEWBURY HARLOW REDHILL WINDSOR OLDHAM LIFE LEICESTER WELLINGBOROUGH ANDOVER LAVA & IGNITE BURNLEY CHESTERFIELD MIDDLESBROUGH EDINBURGH BLACKBURN COVENTRY NORTHAMPTON BASILDON HEMEL NORWICH BRIDGEND

FINANCIAL REVIEW

PERFORMANCE

CONTINUING OPERATIONS*					
	Year to 2 March 2006 £m	Year to 27 February† 2005 £m	£m	Change %	
TURNOVER	296.1	288.1	8.0	3	
EBITDA	82.7	81.2	1.5	2	
Profit from trading operations†	50.8	40.1	10.7	27	
PBT before exceptional items	43.0	38.7	4.3	11	
PBT after exceptional items	22.9	24.5	(1.6)	(7)	
* Continuing operations represent the Dancing and Entertainment segments, together with those Non-Core units not currently classified as held for sale. † Profit from trading operations excludes exceptional items relating to the closure of properties, which although not meeting the criteria for presentation as discontinued operations of the Company, have been excluded from profit from trading operations as these charges do not reflect the ongoing profitability of the Company's business. ‡ Restated following introduction of IFRS.					

Sales from continuing operations are up £8.0m (3%) to £296.1m (2005: £288.1m), including sales of £5.8m (2005: £nil), relating to the acquired Nightclub Company units. Sales growth excluding the contribution of The Nightclub Company units was 1%. Like-for-like sales, excluding Non-Core operations, were down 1%.

Gross margin, excluding fair value adjustments associated with the acquisition of The Nightclub Company units, remained stable at 83%, although operating margin before exceptional items from continuing operations is slightly diluted at 17% (2005: 18%) as a result of a 27% increase in utilities costs together with the impact of closure periods in units undergoing re-branding. EBITDA before exceptional items from continuing operations is, however, up £1.5m (2%) to £82.7m (2005: £81.2m), following increases in the level of depreciation to 11% of continuing sales (2005: 10%). Total EBITDA before exceptional items is down £12.1m to £87.1m (2005: £99.2m).

Profit from trading operations before exceptional items is broadly flat on prior year. However, profit from trading operations after exceptional items is up £10.7m to £50.8m (2005: £40.1m), boosted by profits arising on sale and leasebacks and the reversal of impairment charges on properties awaiting re-branding.

Total profit before tax before exceptional items is £45.6m (2005: £52.6m), comprising profit before tax from continuing operations before exceptional items of £43.0m (2005: £38.7m) and profit before tax from discontinued operations before exceptional items of £2.6m (2005: £13.9m).

Profit before tax from continuing operations before exceptional items is up £4.3m (11%) to £43.0m (2005: £38.7m); the increase helped by lower interest costs as result of lower average net debt levels than in 2005. Earnings per share from continuing operations before exceptional

items is up 14% to 43.9p (2005: 38.5p) as a result of a lower effective tax rate on continuing operations of 25% (2005: 27%).

Total net exceptional charges before tax of £45.6m (2005: £53.5m) were recognised during the year, primarily relating to impairment of goodwill of £33.7m (2005: £4.9m) and net impairment charges of property, plant and equipment of £12.2m (2005: £42.5m).

Profit before tax from continuing operations after exceptional items is down 7% to £22.9m (2005: £24.5m) as a result of increased exceptional items relating to the closure of properties. Earnings per share after exceptional items is up 8% to 25.8p (2005: 23.9p), following a lower effective tax rate on continuing operations of 17% (2005: 29%).

SEGMENTAL PERFORMANCE

DANCING DIVISION				
	Year to 2 March 2006 £m	Year to 27 February* 2005 £m	Growth %	
TURNOVER	188.6	171.7	10	
EBITDA†	72.6	70.7	3	
Operating profit†	54.7	54.4	1	
Number of units at year end	107			
* Restated following introduction of IFRS. † Before exceptional items.				

The Dancing segment has experienced strong sales growth during the period, although this growth has been coupled with increasing pressure on operating margins.

Sales were up £16.9m (10%) to £188.6m (2005: £171.7m), driven by the newly opened re-branded units. The acquired Nightclub Company units contributed £5.8m in the year, and total

sales growth excluding The Nightclub Company units was 6%. Like-for-like sales were up 3%, which was lower than total segment growth as recent re-brands and the acquired Nightclub Company units are excluded from the like-for-like measure.

Operating profit is up £0.3m on prior year levels, with EBITDA up £1.9m to £72.6m

(2005: £70.7m). However, operating margin has declined from 32% by 3% to 29% in the year to 2 March 2006. Operating costs have increased as a result of the higher utilities costs experienced in the second half, coupled with fixed costs associated with units closed for re-branding during the period.

ENTERTAINMENT DIVISION

	Year to 2 March 2006 £m	Year to 27 February* 2005 £m	Growth %
TURNOVER	99.3	102.3	(3)
EBITDA†	27.4	28.8	(5)
Operating profit†	19.3	20.4	(5)
Number of units at year end	74		

* Restated following introduction of IFRS.

† Before exceptional items.

Sales for the Entertainment segment are down 3% to £99.3m (2005: £102.3m), with like-for-like sales down 6%. The decline in sales results predominantly from Jumpin Jaks units, which have experienced difficult trading conditions during the year. Additionally, since the changes to the licensing regime, the segment has experienced strong competition from other high street operators across both the Chicago Rock Café and Jumpin Jaks brands, and consequently the Company anticipates trading conditions for the segment to remain difficult.

Following the appointment of a new management team during the year good progress has been made in controlling the cost base. Profitability across the segment has fallen in line with the difficult trading conditions, despite approximately 50% of Chicago Rock Café units recording increased earnings over the prior year. Overall, the segment's operating profit is down £1.1m to £19.3m (2005: £20.4m), with EBITDA down £1.4m to £27.4m (2005: £28.8m). Decreased earnings have resulted from a decline in sales levels in Jumpin Jaks units, coupled with increased utilities costs. Nevertheless, control of variable costs, especially remuneration costs, has maintained operating margin at 19%, close to the prior year level (2005: 20%).

HEAD OFFICE AND MANAGEMENT COSTS

Head office and management costs comprise the head office and administrative functions, area and divisional management costs, central depreciation, together with information technology costs for the Group.

During the year the Company initiated the rationalisation of its administration and back-office functions onto one site in Milton Keynes, with the closure of the Company's former administration centres in Luton and Preston being completed since the year end. All costs relating to the Preston property, which has been marketed since the year end, have been provided for the duration of the lease. The Luton property has been sold subsequent to the year end.

Costs have increased year-on-year by £0.6m to £21.4m (2005: £20.8m), predominantly from double running costs relating to the back-office rationalisation and other one-off costs. During 2006/7 the Company will focus on the further rationalisation of its head office and management costs following completion of the relocation of its back-office functions to one site, and has targeted cost reductions of £4m over three years with £2m in the next twelve months.

DISCONTINUED OPERATIONS

Discontinued operations comprise Non-Core units, which are either held for sale or have been disposed of during the year. Other Non-Core units yet to be marketed for sale are presented within continuing operations, for although these units form part of the Company's strategy to dispose of Non-Core, these units do not meet the criteria to be classified as discontinued operations under IFRS 5.

The number of units comprising discontinued operations total 120, with 49 relating to the disposed Enterprise division, a further 28 units disposed or unconditionally exchanged in the current and prior year, with the remaining 43 units relating to other trading or closed Non-Core operations held for sale.

Sales relating to discontinued operations total £42.1m (2005: £87.0m), with operating profit before exceptional items of £2.7m (2005: £14.0m).

FINANCIAL REVIEW

CONTINUED

CAPITAL EXPENDITURE

Cash outflows relating to capital expenditure, including intangible assets, has increased to £57.2m (2005: £50.1m), and is analysed between the following components:

	2006 £m	2005 £m
New developments	6.5	4.6
Re-branding	17.4	22.5
Refurbishments	7.4	8.7
Replacement capital	20.7	14.3
	<u>52.0</u>	<u>50.1</u>
Capital expenditure relating to acquisition of head office	5.2	—
Total	<u>57.2</u>	<u>50.1</u>

During the year £5.2m was incurred on the acquisition of the Company's new head office premises in Milton Keynes, in anticipation of a sale and leaseback of the property. This sale and leaseback of the freehold interest was completed in February 2006, realising cash proceeds of £8.6m.

Returns on branded units continue to be strong, generating post-tax returns of 25% and the

Company expects a similar level of returns from its planned re-brands in 2006/7.

EXCEPTIONAL ITEMS

CONTINUING OPERATIONS

The Company has recognised exceptional items before taxation relating to continuing operations of £20.1m (2005: £14.2m), as outlined below.

Exceptional items recognised within continuing

operations have been split between those items relating to the ongoing operations of the Company, and those items relating to the closure of properties which have arisen primarily as a result of the Company's re-branding strategy and the resultant exit from Non-Core operations and relocation of the head office. This split has been presented to enhance the visibility of exceptional items relating to the ongoing business of the Company.

	2006 £m	2005 £m
EXCEPTIONAL ITEMS RELATING TO TRADING UNITS		
Impairment of goodwill	(15.7)	(2.0)
Impairment of property, plant and equipment	(0.3)	(9.1)
Reversal of prior years impairment of property, plant and equipment	9.5	—
Profit on sale and leaseback of property, plant and equipment	7.7	—
Cost relating to rationalisation and reorganisation	(2.5)	—
Other exceptional items	0.6	(0.6)
	<u>(0.7)</u>	<u>(11.7)</u>
EXCEPTIONAL ITEMS RELATING TO THE CLOSURE OF PROPERTIES		
Impairment of property, plant and equipment	(11.2)	(2.4)
Impairment of goodwill	(3.3)	—
Provision for onerous lease commitments	(4.9)	(0.1)
	<u>(19.4)</u>	<u>(2.5)</u>
TOTAL EXCEPTIONAL ITEMS RELATING TO CONTINUING OPERATIONS	<u>(20.1)</u>	<u>(14.2)</u>

(A) EXCEPTIONAL ITEMS RELATING TO TRADING UNITS

An impairment charge of £15.7m (2005: £2.0m) has been recognised against the carrying value of goodwill following the annual impairment test required by IFRS 3, *Business Combinations*. This impairment has been recognised following the re-segmentation of the Company's business, which has resulted in additional goodwill being allocated to the Entertainment and Non-Core segments that previously was allocated to the Dancing segment. The goodwill allocated to the Entertainment segment has been written down by £9.6m and Non-Core goodwill has been written down by £6.1m, as a result of declines in the performance of Jumpin Jaks and Non-Core units respectively.

The reversal of the prior years impairment of property, plant and equipment of £9.5m (2005: £nil) has arisen as the trigger causing the original impairment to be recognised has reversed, i.e. where it is now planned to re-brand a unit. The impairment of property, plant and equipment of £0.3m (2005: £9.1m) principally reflects the difference between the value-in-use of cash generating units (i.e. discrete trading units) and their carrying amount.

The Company has recognised gains on the sale and leaseback of properties during the year totalling £7.7m, receiving a cash consideration of £28.0m. Further exceptional items relate to costs associated with rationalisation and reorganisation of £2.5m (2005: £nil) principally costs associated with the strategic review of the Entertainment division, together with charges and releases of provisions for onerous lease commitments, £0.6m credit (2005: £0.6m charge).

(B) EXCEPTIONAL ITEMS RELATING TO THE CLOSURE OF PROPERTIES

The Company has recognised total exceptional charges before taxation relating to the closure of properties from within the Non-Core division and former administration centres of £19.4m

(2005: £2.5m). These charges primarily relate to the impairment of property, plant and equipment and goodwill, together with the recognition of provisions for onerous lease commitments relating to the closure of these properties.

These charges have been recognised against units which the Company intends to dispose of in the future. However, these units have not been included in discontinued operations as they do not meet the criteria to be presented as held for sale operations at the balance sheet date.

DISCONTINUED OPERATIONS

The Company has recognised net exceptional charges before taxation of £25.5m (2005: £39.3m) relating to discontinued operations. Net exceptional charges after taxation are £18.1m (2005: £34.5m). These exceptional charges have arisen from the remeasurement of units held for sale to their fair value less costs of sale, £24.9m (2005: £35.4m) and the recognition and release of provisions for onerous lease commitments relating to closed properties, £0.8m (2005: £3.1m).

A loss on the disposal of the Enterprise division of £3.0m (2005: £nil) and profits of £3.2m (2005: £0.8m loss) in respect of the disposal of single sites held for sale have been recognised.

BALANCE SHEET

The net assets fell by £8.7m, with net assets per share falling by £0.12 to £5.17 (2005: £5.29).

PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment fell by £30.4m to £383.1m (2005: £413.5m), with depreciation and impairment charges, together with the reclassification of Non-Core properties to assets held for sale and the disposal of Non-Core properties during the year, more than offsetting the higher level of cash outflow on capital investment, including intangible assets, of £57.2m (2005: £50.1m).

Property, plant and equipment and assets held for resale include £76.7m relating to freehold properties (2005: £96.0m). The proportion of freehold assets to total net assets has reduced to 20% (2005: 25%).

GOODWILL AND INTANGIBLE ASSETS

Goodwill on the acquisition of The Nightclub Company units totalled £8.1m. However, an impairment charge recognised against Non-Core and Entertainment units of £33.7m (2005: £4.9m) contributed to a decrease in the value of goodwill to £177.5m (2005: £203.1m).

RECEIVABLES

Receivables have increased by £7.9m to £13.0m (2005: £5.1m) as a result of receivables recognised on property disposals completing before the year end where the cash has been received since the year end.

TAXATION

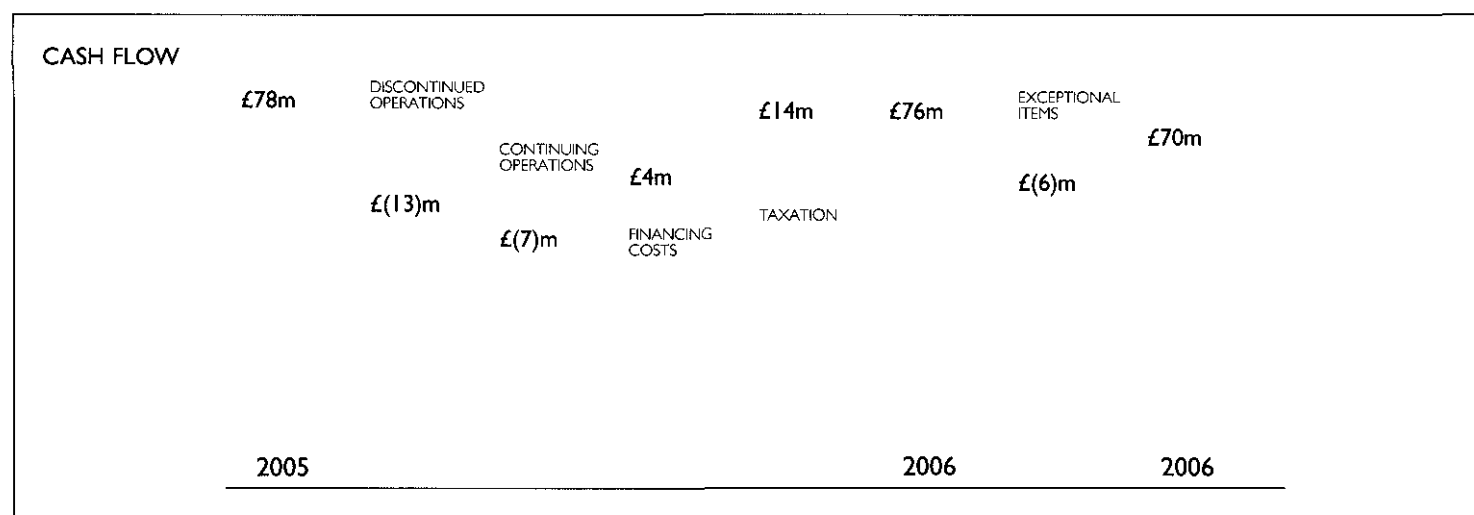
Liabilities relating to current taxation have increased by £18.4m to £30.2m (2005: £11.8m), as a result of refunds received totalling £7.1m (2005: £nil) relating to the settlement and submission of prior years tax computations. The Company has additionally not taken benefit from arrangements where the treatment adopted is yet to be agreed by the taxation authorities. The total liability relating to arrangements not yet agreed totals £30.2m.

CASH FLOW

The Company's continuing operations contributed cash flow from operating activities, pre-exceptional items, of £72.1m, up 19% on 2005. Cash generated from continuing operations remained strong at £76.1m, before net outflows for interest and tax of £4.0m following tax refunds received on settlement of prior years tax computations of £7.1m. A reconciliation of continuing cash flows to the amounts included in the consolidated cash flow statement is included in note 30 (C).

FINANCIAL REVIEW CONTINUED

Total cash flow from operating activities is down £7.8m to £70.1m (2005: £77.9m). The factors leading to the £7.8m decline in total cash from operating activities are outlined below:



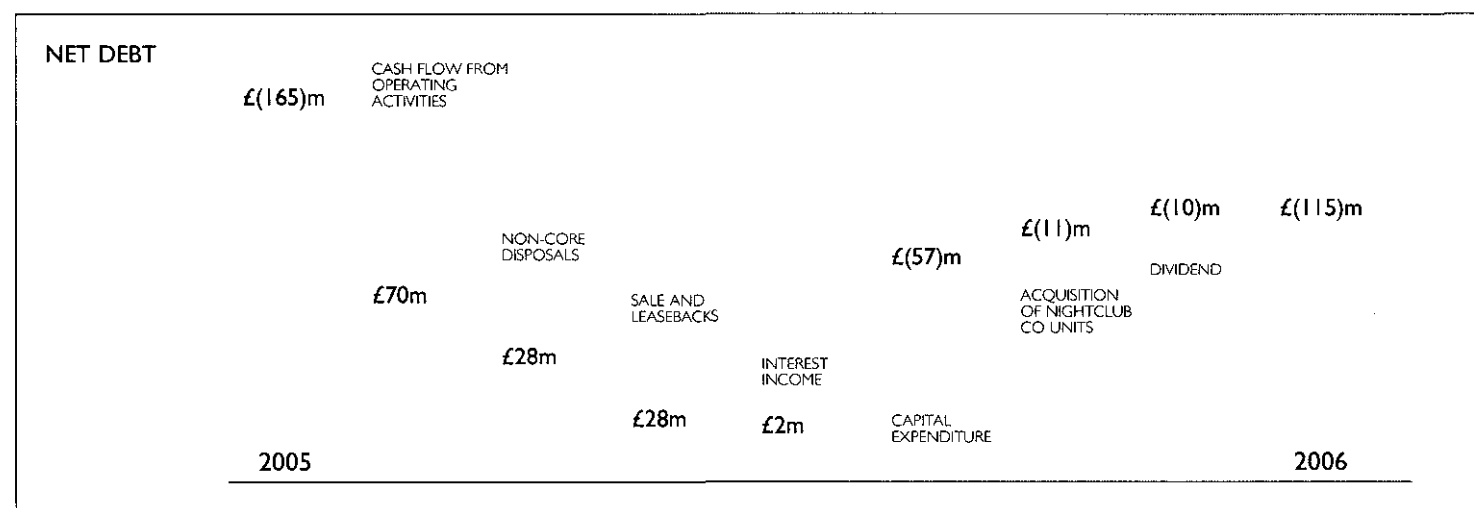
The Company has decreased its cash outflow on investing activities by £27.8m, as a result of the net proceeds received on the disposal of the Enterprise division and other Non-Core properties, £27.7m, together with the proceeds received on sale and leasebacks, £28.0m. These inflows of £55.7m offset capital expenditure of £57.2m (2005: £50.1m) and the outflow of £10.9m in respect of the acquisition of units from The Nightclub Company. Interest income

is £1.5m higher at £2.6m (2005: £1.1m) as a result of higher short-term cash deposits following disposals during the year. Cash flow prior to financing activities is up £20.0m to £60.3m (2005: £40.3m). The Company has utilised £10.3m of this inflow to fund the payment of the ordinary dividend, and has initially retained £50.0m to reduce net debt in line with the Company's stated strategy.

NET DEBT

The Company continues to be highly cash generative, and has continued to reduce its net debt through operating cash flow together with the disposal of Non-Core assets and sale and leasebacks. Net debt has reduced by £50.0m in the year to £115.0m (2005: £165.0m).

The significant elements of the decrease in net debt over the year are outlined below:



Cash and cash equivalents at the year end totalled £72.1m (2005: £23.0m). The Company intends to utilise this surplus to pay down its current borrowing facility and fund the capital investment anticipated in 2006/7. Subsequent to the year end the Company has repaid £30.0m of its drawings under its current facility. The utilisation of this surplus, together with future inflows from operations, is sufficient for the Company's present requirements.

The interest cover ratio for the year, before exceptional items for continuing operations, was

6.1 (2005: 4.0) from lower interest charges following net debt reduction. The net borrowings to EBITDA ratio before exceptional items at the year end was 1.3 (2005: 1.7). Fixed charge cover for the year was 2.9 (2005: 2.7). Gearing, measured as a percentage of shareholders' funds, was 30% at the year end (2005: 43%).

CAPITAL STRUCTURE & SHAREHOLDER RETURN

FINANCING STRUCTURE

The Company primarily funds its activities

through a revolving five year, syndicated £250.0m facility, secured by a fixed and floating charge over all the assets of the Company. At the year end the Company has drawn down £180.0m (2005: £180.0m) of this facility, with floating facilities of £75.0m (2005: £75.0m) undrawn at the year end. After the year end the Company has paid down £30.0m of the £180.0m drawings under its facility to utilise surplus cash on hand following the realisation of Non-Core assets during the year, to maintain debt at a level to obtain optimal leverage.

Details of the Company's contingent liabilities and commitments are outlined in notes 33 and 34 to the Financial Statements, and the Company's minimum contractual obligations as at the year end are set out below:

	Less than 1 year £m	1-5 years £m	Over 5 years £m	Total £m
Bank loans and other borrowings	—	180.0	—	180.0
Finance leases	—	0.1	7.0	7.1
Operating leases	24.0	93.6	336.5	454.1
Total	24.0	273.7	343.5	641.2

MARKET CAPITALISATION

At the year end the Company has 73.2m (2005: 73.2m) ordinary shares in issue, and a market capitalisation at the year end of £346.1m (2005: £387.8m). During the course of the year the Company's market capitalisation ranged from £328.9m to £418.6m.

DIVIDENDS AND CAPITAL STRUCTURE

The Board has proposed a 10% increase in the level of the final dividend, to 10.74p per share (2005: 9.76p). The increase in the level of the dividend reflects the Company's confidence in the re-branding strategy whilst retaining adequate funds for future capital investment, acknowledging the pressures the business faces through the trading environment and period of significant regulatory change. The future dividend policy will be tightened to provide a future dividend cover of two times.

Following the de-gearing of the Company over the last two years the Board has decided to

return capital to shareholders, mostly in the form of share buybacks, a total of £70.0m over three years with the majority in the next eighteen months.

Following this programme of return of capital, net debt is anticipated to be £150.0m to provide optimal leverage.

FINANCIAL RISK MANAGEMENT

TAXATION

The current approach of the UK tax authorities means that as a large corporate we are subject to regular tax audits, which by their very nature are often complex and take many years to complete. We draw a distinction between tax planning for non-commercial reasons, and optimising the tax treatment of transactions, and we only enter into tax planning in respect of the latter.

FUNDING AND LIQUIDITY

The Company's cash and debt balances are managed centrally. Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts to ensure the adequacy of debt facilities. Short-term liquidity risk is managed through overdraft facilities and short-term deposits.

The Company has positive cash flows, and the cash balances and undrawn funding are adequate to finance the ongoing working capital and capital investment requirements of the Company's operations.

FINANCIAL REVIEW CONTINUED

INTEREST RATE RISK

Interest rate risk is managed through swapping between floating rate debt into fixed rate debt. At the time of refinancing this has been achieved through the purchase of two £35.0m five year swaps and two £32.5m five year swaps callable by the counterparty after three years. These swaps matured in April 2006. However, the Company has taken out £60.0m of floating to fixed rate swaps to maintain the fixed to floating ratio per the Company's treasury policy.

CURRENCY RISK

The Company operates wholly within the United Kingdom and substantially all transactions are denominated in sterling; therefore, the Company does not suffer from a significant concentration of currency risk.

CREDIT RISK

The Company does not suffer from a significant concentration of credit risk. The majority of the Company's revenues are cash-based, with low levels of receivables relating to property transactions.

PENSIONS

The Company contributes to a defined contribution pension scheme for qualifying employees. The Company has no exposure to defined benefit pension schemes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

INCOME TAXES

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises the liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In addition, any reduction in corporation tax liability as a result of business activities undertaken in a tax efficient manner is

fully provided for until agreement is reached with the relevant tax authority. Where the final tax outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions in the period to which such determination is made.

DEFERRED TAX

The Company has made provision for deferred tax arising following the requirements of IAS 12, *Income Taxes*, using estimates based on the current manner of recovery of the assets' value, on property, plant and equipment not eligible for capital allowances, i.e. recovery of the depreciable amount through continued use in the business unless the assets are held for sale. This method assumes that no tax relief will be available until the value of the asset is recovered through sale rather than continued use.

Upon any change to the manner of recovery of the assets' value, the change to the level of deferred tax provided will be recognised through the income statement during the period in which the change in the method of recovery occurs. Any changes to the expected manner of recovery could result in a significant change to the deferred tax charge or credit to the income statement.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

The Company has tested property, plant and equipment and goodwill following the requirements of IAS 36, *Impairment of Assets*. These impairment tests are dependent on estimates of value-in-use and fair value less costs of sale to determine the recoverable amounts of cash generating units.

Fair value less costs of sale is determined using external and internal estimates of the value of the Company's units. Value-in-use is calculated using estimated earnings and cash flows derived by internal management estimates, and a

discount applied to these cash flows.

Any changes to the level of forecast earnings or cash flows could impact upon the value-in-use of these cash generating units. An impairment of £33.7m has been recognised following the annual goodwill impairment review in 2005/6, together with a net impairment charge of £12.2m on property, plant and equipment.

ONEROUS LEASE PROVISIONS

The Company provides for its onerous obligations under operating leases where the property is closed or vacant, and the Company believes that it is more likely than not that the property will not be redeveloped for use in the Company's business. Provision is made for rent and other property related costs for the period management believe a sub-let or assignment of the lease is not possible, for periods between two and eight years.

Where the Company believes the lease is likely to be assigned, provision is made for the Company's best estimate of the reverse lease premium payable, if this represents the least cost to the Company from exiting from the obligation.

The estimated timings and amounts of cash flows are determined using the experience of internal and external property experts. However, any changes to the estimated method of exiting from the property could lead to significant changes to the level of the provision recorded.

IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has previously prepared its Financial Statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). Following a directive by the European Commission in June 2002, the Company is required to prepare its 2005/6 Consolidated Financial Statements in accordance with IFRS.

The changes in income and net assets from UK GAAP to IFRS are outlined in the table below, and summarised as follows:

- **BUSINESS COMBINATIONS:** Goodwill was amortised annually under UK GAAP and tested for impairment when there were indications that the value may not be recoverable. Under IFRS 3, goodwill is no longer amortised but is instead tested annually for impairment by segment.
- **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT:** Following the provisions of IAS 36, *Impairment of Assets*, the Company has recognised an impairment charge of £21.9m at transition date (29 February 2004), to IFRS after testing all individual cash generating units for impairment because of a market capitalisation trigger.
- **DEFERRED TAXATION:** As a result of the introduction of IAS 12, *Income Taxes*, deferred tax has been recognised on temporary differences between the tax base cost and the carrying value of assets and liabilities in the Financial Statements. Under UK GAAP, FRS 19, *Deferred tax*, deferred tax was recognised on all timing differences expected to reverse in the future. An

additional liability of £46.8m has therefore been recognised at transition date.

- **DISCONTINUED OPERATIONS:** Following the requirements of IFRS 5, *Non-current assets held for sale and discontinued operations*, the Company has recognised as discontinued operations those units, either disposed or held for sale, which form part of a single plan to dispose of Non-Core units. Under UK GAAP, units only disposed of during the year or before the signing of the Financial Statements were presented as discontinued operations. Under IFRS 5, discontinued operations are presented as a single line in the income statement below profit after tax, rather than as a separate component of revenue and operating profit as under UK GAAP. This change in presentation has had the effect of reducing revenue and operating profit from that reported under UK GAAP, although net income is unaffected.
- **DIVIDENDS:** Dividends are accrued when declared under IFRS, whereas under previous UK GAAP they were accrued in the year to which they were deemed to relate.

The major areas which on an ongoing basis should impact both net profit and shareholders' equity are deferred taxation, and the impairment

of goodwill and property, plant and equipment.

On adoption of IFRS, the Company has taken the following exemptions from full retrospective restatement, as permitted by IFRS 1, *First Time Adoption of International Financial Reporting Standards*:

- **BUSINESS COMBINATIONS (IFRS 3):** The Company has not reclassified business combinations prior to the date of transition, and has maintained the treatment adopted under UK GAAP.
- **SHARE-BASED PAYMENT (IFRS 2):** The Company has, as permitted by IFRS 2, not recognised a share-based payment expense for any share-based payment obligations granted prior to 7 November 2002.
- **FINANCIAL INSTRUMENTS:** The Company has taken the exemption from applying the provisions of IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39, *Financial Instruments: Recognition and Measurement*, in the comparative year. Accordingly, the Company has applied the provisions of IAS 32 and IAS 39 from 28 February 2005, with an adjustment for the implementation of these standards taken against opening retained earnings in the current period.

The key impact on net assets from the transition to IFRS are outlined below:

	£m
Net assets under UK GAAP at 27 February 2005	440.8
Deferred taxation	(41.9)
Impairment of property, plant and equipment	(17.0)
Impairment of goodwill	(9.6)
Goodwill amortisation	12.9
Dividends proposed	7.1
Leases, residual values and other adjustments	(5.3)
Net assets under IFRS at 27 February 2005	387.0

Further information surrounding the impact of the adoption of IFRS is outlined in note 36 to the Consolidated Financial Statements.

CORPORATE SOCIAL RESPONSIBILITY

The Company believes that by working closely with all its stakeholders in minimising the impact of its activities on the communities in which it operates and by helping to protect that environment, it will not only satisfy the demands of modern corporate life, but will also improve its own business methods and deliver the highest levels of corporate governance. The Company has the most experienced operational management in the leisure sector, who are dedicated to the safety and welfare of their staff and customers.

RESPONSIBLE RETAILING

The sector within which the Company operates has been at the forefront of national publicity relating to 'binge' or 'antisocial' drinking and resultant behavioural issues. In preparation for the implementation of the Licensing Act 2003 in 2005, the Company produced a five point plan identifying those factors it felt were key to contributing to reducing antisocial drinking, safer venues and safer town and city centres. This plan was forwarded to every local authority and corresponding police force in the areas in which the Company operates. The plan outlined dispersal policies, minimum pricing conditions, capacity conditions, risk assessment, dancing provision and policies for managing the cumulative effect of licensed venues in the affected towns. In many cases, the strategies outlined in these plans are now part of the Company's commitment to the towns and cities where its venues are located and embedded in its operational licences.

In conjunction with Bars Entertaining Dancing Association (BEDA), the representative body of the late night industry, we have lobbied the Government in relation to minimum pricing of alcoholic drinks in all outlets licensed for the sale of alcohol, including retail outlets, such as supermarkets. Various local authorities and police authorities have supported this proposition but with little encouragement from the Government or other leisure industry organisations. We will continue to lobby Government for a consistent and proportionate response to the issues arising from the sale of alcohol generally.

We welcome initiatives to enhance the experience of all users of busy town and city centres and actively participate in this by the use of CCTV and regular liaison with police and council officials. We are fully supportive of the Government's 'Alcohol Harm Reduction Strategy' and all other initiatives that encourage safe and sensible drinking.

We believe that the issue of alcohol abuse needs to be considered in a broader context, which includes all those involved in the leisure sector; the drinks manufacturers and suppliers, other sellers of alcohol (such as supermarkets and off-licences), Government agencies, relevant support agencies and the consumers of alcohol themselves.

To promote responsible drinking and to lessen the impact of any antisocial behaviour on the communities in which it operates, the Company has implemented the following initiatives:

- any nominated driver in a group of three or more customers receiving complimentary soft drinks;
- removing irresponsible promotions and 'all you can drink' offers;
- establishing an internal minimum price for the sale of an alcoholic drink;
- each venue tariff board being reviewed and certain soft drinks prices being reduced;
- free drinking water;
- the availability of hot food and drinks, particularly during evening trading;
- requiring unit managers to become active members of any local 'Pubwatch' schemes;
- signage reminding customers of the stringent security measures in place and requesting them to leave the area quietly; and
- security measures to allow incidents of antisocial behaviour to be recorded and passed to the police, as appropriate.

The Company employs several other initiatives to ensure the safety of its customers and to mitigate the impact of its business on the

communities in which it operates. Dispersal policies developed in conjunction with local police forces, relevant authorities and neighbours are a very effective way of minimising the primary risks associated with late night entertainment. These policies include the provision of street marshals, DJ announcements encouraging gradual dispersal, strict adherence to licensing conditions, litter patrols, assistance with obtaining taxis for single women and the graduated reduction of noise levels in the venue.

UNDERAGE DRINKING

Underage drinking remains a problem that all licensed premises face on a regular basis. In a bid to exclude underage drinkers from its premises, the Company operates various schemes. The national 'Challenge 21' scheme is adopted across the estate, challenging customers to prove their age if they appear under 21. If identification presented as proof of age appears to have been tampered with, the ID is confiscated and the police are called, often issuing £80 on-the-spot fines. The Company takes its responsibilities in this area very seriously and offers the opportunity for young adults, over the age of 13 and under 18, to experience dancing and entertainment in its venues in a strictly controlled environment with no alcoholic drinks available.

HEALTH AND SAFETY

Health and safety standards are maintained and promoted through an active in-house team who regularly carry out health and safety audits and review and develop policies and procedures to ensure the Company meets all relevant safety regulation requirements and positions itself proactively for changes to the regulatory environment. Staff receive specifically designed training courses in relation to food safety, noise, first aid and the responsible sale of alcohol (among others) and general housekeeping standards have improved since the introduction of the 'Lite Patrol' Scanner System. This reporting system monitors and highlights risks within each unit (i.e. a spillage or broken glass) and prompts appropriate and timely remedial

action to be taken by relevant unit personnel. Search policies also operate in all of the Company's venues, with door supervisors carrying out random searches of customers and their belongings to prevent weapons being taken inside the venues.

DRUG AWARENESS

Recent press coverage has highlighted the dangers of drink spiking and misuse of drugs remains an issue in the late night sector. The Company has long-standing policies for mitigating the risks of this difficult issue. A zero tolerance policy is in place in all of the Company's venues and any person found to be using or handling drugs will have those drugs confiscated and be reported to the police. All of the Company's venues benefit from extensive CCTV systems, with door supervisors carrying out regular checks of all areas, including public toilets. Comprehensive search policies are employed in all units and management actively promote the sale of 'spikeys' within their venues — a device specifically designed to prevent drink tampering.

An independent company is also employed to make unscheduled visits across the estate and trained dogs are used to search for drugs. The Company ensures that all staff are fully trained in recognising drug use and dealing with those suffering from the effects of drug misuse. Many of the Company's larger venues have trained paramedics available.

SMOKING

The Company believes its customers should have the right to decide whether or not they smoke but does not believe others should be affected by those deciding to do so. All refurbished or newly developed venues in the Company's estate incorporate external smoking areas and the Company was therefore well placed to deal with the recent smoking ban introduced in Scotland in March 2006. In preparation for the smoking ban being introduced to England in 2007, the Company is, where possible, developing external smoking areas within its venues. The Company will not

develop or refurbish new premises without a smoking area. Where it is not possible to accommodate smokers inside a venue, alternative initiatives will be introduced such as the 'smoking wristband' system currently in use in Scotland, allowing customers exit and re-entry into units.

To improve the working environment, the Company follows best practice guidelines from the Government and ensures its premises meet all statutory guidelines in relation to the standard of airflow and air extraction in its premises. The Company ensures that its premises possess air circulation and handling equipment to the prevailing standards at the time of their installation. All new and refurbished premises comply with CIBSE design guidelines, BSI British Standard 5720 and technical standards for places of entertainment published by the District Surveyors Association.

ENVIRONMENTAL

The Company's environmental strategy is designed to minimise the impact of its business on the communities in which it operates and it is committed to growing its business in an environmentally friendly manner. The Company is committed to minimising any adverse effects the Company's activities have on the environment and, by establishing frameworks by which these impacts can be identified and measured, it hopes to manage and reduce any impact. Examples of the measures it takes to protect and enhance the environment are:

- to improve fuel consumption levels and reduce CO₂ emissions, the Company has introduced an all diesel policy for all Company cars; and
- where possible, the use of public transport, telephones, video conferencing and home-working are encouraged in an effort to reduce the number of miles travelled.

CHARITY

The Company remains committed to the ECHO Trust, a children's charity founded by the Company in 2002, the work of which is referred to in the Directors' Report. The Trust ensures the availability of cash for good causes across the country and within the communities in which it operates. During the year, a total of £403,079 was donated to the Trust by our customers and staff as a result of charity collections and Company-organised events. Following the Asian Pacific Tsunami on Boxing Day 2004, the trustees felt it should make a donation to a specific project in that area. The ECHO Trust donated £100,000 to 'Children On the Edge' to build a child friendly and safe space in Banda Aceh, Indonesia.

- approximately 80% of the waste produced by the Company is glass and progress has been made in diverting substantial amounts of this glass away from landfill;
- all cooking oils used in food operations are recycled and procedures are in place to increase the amount of card and paper recycling;
- the Company carefully monitors energy usage and employs initiatives such as water meters and renewable energy sources to ensure responsible consumption;

THE BOARD OF DIRECTORS

1. KEITH HAMILL

Chairman

Keith was appointed Chairman on 16 January 2001. He is also Chairman of Collins Tullet plc, Travelodge and Moss Bros plc and Non-Executive Director of Electrocomponents plc. He was previously Finance Director of WH Smith, Forte and United Distillers and a Partner at PricewaterhouseCoopers.

2. STEPHEN THOMAS

Chief Executive

Stephen was a founder member of Luminar Leisure in 1987 and has remained Chief Executive throughout. Prior to that he was a regional Director at a leisure subsidiary of Whitbread plc. He is currently Non-Executive Chairman of The Food and Drink Group plc and Eminence Leisure Ltd and Non-Executive Director of Saracens Ltd.

3. NICK BEIGHTON

Finance Director

Nick qualified as a chartered accountant with KPMG in Nottingham. After qualification Nick worked out of the Manchester office working in transaction services and latterly as Senior Manager within the Strategic Business Management Group. Nick moved to Matalan in 1999 to work as Head of Finance. He was then Business Change and IT Director before joining Matalan's retail Board in 2002. Nick was appointed to the Luminar Board as Finance Director in August 2005.

4. BRENDAN McLOUGHLIN

Property & Development Director

Brendan was appointed to the Board on 1 January 2003. He joined Luminar following the merger with Northern Leisure where he was a Director. Brendan is an experienced operator of late night bars and clubs and has worked in the industry for over 20 years.

5. RICHARD BROOKE

Non-Executive

Richard was appointed to the Board on 1 January 2004. Richard is an Executive Director of Setanta Sport Holdings Ltd, the international sports pay television operator. He is also a Senior Adviser to Close Brothers Corporate Finance. Previously Richard was Group Finance Director of BSkyB plc, which post he held until November 1997. He was also a Non-Executive Director of Gallagher plc from 1996 to 2002.

6. MARTIN GATTO

Non-Executive

Martin was appointed to the Board on 1 January 2004; he is Chairman of the Audit Committee. Martin is currently Non-Executive Chairman of NeutraHealth plc, which was listed on AIM in 2005, operating in the health supplements sector. He previously held Chief Financial Officer positions at British Energy plc, Somerfield plc and Hilton International Co. At the latter he was also Executive Director for Property & Development.

7. DAVID LONGBOTTOM

Non-Executive

David joined the Board on 17 April 2004; he is the Board's Senior Independent Non-Executive Director and Chairman of the Remuneration Committee. Until recently he was an Executive Director of DSG International plc, a position he held from 2002. David was the Board member with responsibility for the Group's Corporate and Social Responsibility. David joined DSG International in 1987 where he held a number of senior line management positions. His previous employment included Lloyds of London, Courtaulds plc and British Gas. David is a Non-Executive Director of Flybe and a member of the Board of Governors of London Southbank University.

NOMINATIONS COMMITTEE

Keith Hamill (Chair)
Richard Brooke
Martin Gatto
David Longbottom

AUDIT COMMITTEE

Martin Gatto (Chair)
Richard Brooke
David Longbottom

REMUNERATION COMMITTEE

David Longbottom (Chair)
Richard Brooke
Martin Gatto

CAPITAL COMMITTEE

Keith Hamill (Chair)
Stephen Thomas
Nick Beighton
Richard Brooke
Brendan McLoughlin

CORPORATE GOVERNANCE STATEMENT

APPLICATION OF PRINCIPLES

This statement describes how the Company applies the principles contained within the 2003 FRC Combined Code appended to the Listing Rules of the Financial Services Authority.

The Board considers that it currently complies with the Code. The Board continues to be proactive in reviewing its practices and effectiveness.

DIRECTORS

At 2 March 2006, the Board consisted of the Chairman, three Non-Executive Directors and three Executive Directors. Linda Wilding retired from the Board on this date. Andrew Burns resigned from the Board on 31 May 2005. Nick Beighton joined the Board as Finance Director on 1 August 2005. The Chairman of the Board is Keith Hamill. Stephen Thomas is Chief Executive and is responsible for the executive leadership and co-ordination of the Company's business activities. David Longbottom is the Senior Independent Director. All Non-Executive Directors, including the Chairman, are independent Directors. The structure provides a balance whereby no individual or small group can dominate the Board's decision-making.

The Board is responsible for setting the Group's strategic direction, the establishment of Group policies and internal controls and the monitoring of operational performance. It meets regularly throughout the year and, in addition to the routine reporting of financial and operational issues, reviews each of the trading divisions and key functions in detail, including regular departmental functional reviews.

The Board has a schedule of matters specifically reserved to it for decision and delegates certain powers to the Board Committees and to the Executive Directors collectively and individually. The schedule of reserved matters is periodically reviewed by the Board and presently includes management of shareholder communication, annual budgets, strategic plans, approval of major capital expenditure in excess of £1m and significant financing.

Information is normally provided to all Board members in the week prior to a Board meeting to enable the Directors to consider the issues for discussion and to request clarification or additional information. The Board regularly reviews the type and amount of information provided. The Board plans to meet eight times a year and, in addition, has a further meeting for consideration of strategic issues facing the Company. The Board also holds additional meetings to meet ongoing requirements of the business, during the year, as appropriate.

All Directors have access to the advice of the Company Secretary, who is responsible to the Board for ensuring that procedures are followed. The appointment and removal of the Company Secretary is reserved for the consideration of the Board as a whole. In addition, there is an agreed procedure for seeking independent professional advice at the Company's expense.

On appointment to the Board, every Director is provided with opportunities for appropriate training to enable them to discharge their duties as a Director. It is the intention of the Company to create opportunities for the Senior Independent Director and Non-Executive Directors to meet with significant shareholders, should this be requested by those shareholders.

During the year ended 2 March 2006, the Non-Executive Directors met without the Chairman and provided feedback to the Chairman following that meeting. The Chairman has also provided feedback to the Non-Executive Directors.

Board members are appointed by the Board on the recommendation of the Nominations Committee, which is chaired by the Chairman and consists of the Non-Executive Directors, although the Chief Executive is invited to meetings, as appropriate.

The Company's Articles of Association provide that one-third (or the number nearest to but not exceeding one-third) of the Directors shall stand for re-election at each AGM. Furthermore, the Articles of Association require a Director to stand for re-election if they were not appointed or reappointed at either of the last two AGMs. Nick Beighton will seek re-election at the forthcoming AGM. The Board is proposing the re-election as Director of Keith Hamill, who has

served as Chairman of the Company since December 2001. As stated on page 3, he will be retiring as Chairman and a Director at the end of his term of office as Chairman; he will continue to chair the Board while his successor is recruited and will effect the transition to his successor.

The Board has concluded a review of its effectiveness. The conclusions of the review have been discussed by the Board as a whole and will be kept under review during the forthcoming year.

All Non-Executive Directors are appointed initially for a three year term and, after review, will normally be proposed for a further three year term. The Company will take into account the balance of skills and experience on the Board, their contribution and level of independence when considering whether to extend their appointment beyond the initial three year term. In exceptional circumstances, the Board may ask a Non-Executive Director to remain for a further three year term. Non-Executive Directors' appointments are terminable on six months notice on either side.

The Board takes significant measures to ensure that all Board members are kept aware of both the views of major shareholders and changes in the major shareholdings of the Company. This is achieved in a variety of ways, including:

- full feedback of shareholder reviews are passed by the Chairman, Chief Executive and Finance Director who are primarily charged with meeting shareholders;
- the Board receives regular feedback from the Company's stockbrokers;
- changes in current shareholding are also presented to the Board prompting shareholder issues discussions;
- following interim and full announcements the Board is circulated a full copy of analysts' reports and feedback from analysts and shareholders on a no-names basis;
- significant shareholder movements are notified to the Board by the Company Secretary on an ad hoc basis;
- all Directors are invited to analysts' briefings and have access, if required, to the Company's stockbrokers; and
- the Board has procedures in place for full agreement for all significant announcements to the City.

CHAIRMAN AND CHIEF EXECUTIVE — DIVISION OF RESPONSIBILITY

There is a clear division of responsibility between the Chairman and the Chief Executive. The division is in writing as follows:

The Chairman is responsible for:	The Chief Executive is responsible for:
<ul style="list-style-type: none"> Managing the effectiveness of the Board, ensuring information flows and performance monitoring and facilitating contributions from Non-Executive Directors Liaising with the Chief Executive and providing support, a sounding board, advice and feedback Supporting the strategic process and encouraging and supporting the Chief Executive with the development of strategy Ensuring that there are effective processes for maintaining relations with investors and, from time to time, attending investor meetings when appropriate or if requested Providing feedback to Non-Executive Directors and encouraging their development and induction Chairing the general meetings and Board meetings and agreeing Board agendas Managing Chief Executive contract issues and appraisal, making recommendations to the Remuneration Committee on the Chief Executive's remuneration and proposals for Executive Director and senior executive remuneration Maintaining relations with Executive Directors and senior managers Supporting Company communications on major issues and fulfilling an "ambassadorial role" when necessary Chairing the Nominations Committee and leading the recruitment of the Chief Executive and Non-Executive Directors 	<ul style="list-style-type: none"> Ensuring effective planning and performance measurement Maintaining and enforcing effective management controls, regulatory controls and risk management Developing and maintaining effective performance management Developing and maintaining effective organisational structure Recruiting and managing senior executives and managing their contract and performance issues (subject to Remuneration Committee responsibilities) Ensuring effective staff policies, succession and planning Maintaining primary relationships with shareholders, possible investors and providers of debt capital External and internal communications (in liaison with the Chairman on major issues) Implementation and monitoring of compliance with Board policies Reliable reporting of the above to the Board

BOARD COMMITTEES

In accordance with the Combined Code and corporate governance best practice, the Board has established a number of committees. All of the committees have written terms of reference, approved by the Board.

The Board met 13 times last year and the attendance of the Directors at the Board and committee meetings, where appropriate, are shown below:

Number of meetings in the year	Board	Audit Committee	Remuneration Committee	Nominations Committee
Keith Hamill*	13	1§	1	3
Stephen Thomas*	13			
Andrew Burns†	3			
Nick Beighton‡	8			
Linda Wilding	9		2	2
Brendan McLoughlin	9			
Martin Gatto	12	2	1	3
Richard Brooke	9	3	2	3
David Longbottom	11	3	2	3

* Including conference calls and quorum Board meetings.

† Resigned on 31 May 2005.

‡ Joined the Board on 1 August 2005.

§ Keith Hamill attended and chaired the meeting in the absence of Martin Gatto due to illness.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Non-Executive Directors, including the Chairman, met once in the year ended 2 March 2006.

Keith Hamill's second three year term of office comes to an end in December and he has indicated that he is not in a position due to other interests to be available for a further term. In accordance with the provisions of the Combined Code of Corporate Governance, the Nominations Committee led by the Senior Independent Director, David Longbottom, will be responsible for recruiting a new Chairman to the Board.

AUDIT COMMITTEE

The Committee is chaired by Martin Gatto and also comprised, during the financial year, Richard Brooke and David Longbottom. The terms of reference for the Audit Committee provide that the Chairman is invited to attend all meetings and the Chief Executive and Finance Director are invited to attend meetings, as appropriate.

The Committee meets during the year and reports to the Board on all matters relating to the regulatory and accounting requirements that may affect the Group, together with the financial reporting and internal control procedures including the annual and interim Financial Statements. In addition, the Committee ensures that an objective and professional relationship is maintained with the external auditors, with particular regard to the nature and extent of any non-audit functions they provide.

During the year ended 2 March 2006, the Company's external auditors, PricewaterhouseCoopers LLP, provided advice to the Company, including providing vendor due diligence reports to prospective purchasers of the Entertainment division, providing advice in relation to meeting requirements for the issue of a circular in the event that the Entertainment division was sold and related tax and VAT advice. The fees paid to PWC for non-audit services were £0.9m (2005: £0.6m) excluding VAT. The use of PricewaterhouseCoopers LLP for non-audit work was carefully evaluated by the Audit Committee. This work was done by separate teams and effectively segregated to the degree required for independence and necessary to maintain the auditors' objectivity. The Committee views the independence and objectivity of the Company's auditors as essential and ensures that PricewaterhouseCoopers LLP are not instructed on any issues which would prejudice this. The

Committee obtains written confirmation on at least an annual basis of the independence of the external auditors.

The terms of reference for the Audit Committee are available on the Company's website.

The external auditors may attend all meetings of the Audit Committee and have direct access to the Committee and its Chairman at all times.

REMUNERATION COMMITTEE

The Remuneration Committee is now chaired by David Longbottom (following Linda Wilding's resignation as Chairman of the Committee) and consists of all the Non-Executive Directors, except the Chairman. The Chairman is invited to attend all committee meetings. The Directors' Report on Remuneration is set out on pages 26 to 30 of this Report.

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by Keith Hamill and also consists of all the Non-Executive Directors. It monitors and reviews the membership of and succession to the Board of Directors, and makes recommendations to the Board, *inter alia*, on the identification and recruitment of potential Executive and Non-Executive Directors. The Nominations Committee met 3 times in the year ended 2 March 2006. The Committee met twice in relation to the appointment of a new Finance Director. The Committee used external search and select consultants to assist in this process. The Committee approved the appointment of the new Finance Director, Nick Beighton, who joined the Company on 1 August 2005. The Committee also met once to discuss the possibility of appointing a new Non-Executive Director to replace Linda Wilding, and decided not to make an appointment for the time being.

RISK MANAGEMENT COMMITTEE

The Board has reviewed the risk management function and has agreed that the Risk Management Committee in its previous form (as described in previous reports) should be replaced by a new Committee charged with management of the Company's risk profile and the systems and processes employed by the Company to manage risk. The Committee will be composed of the Executive Directors and appropriate senior management. The Company has appointed a new Head of Risk, Mark Wyatt, who will be a member of the Committee and who will be responsible for ensuring the management of this process across the range of

the Company's activities. The Audit and Risk Committees adopted a risk register and this will be regularly reviewed by the Risk Committee. The Head of Risk will report at least twice a year to the Audit Committee regarding risk and internal control matters, and the full Board will review risk and internal controls annually.

CAPITAL COMMITTEE

The Capital Committee consists of Keith Hamill, who chairs the Committee, Richard Brooke and the Executive Directors. The function of the Committee is threefold. First is to oversee the capital expenditure of the Company. Second, the Committee has responsibility for capital expenditure planning and budgeting. Third, the Committee exercises a limited delegated function to approve capital expenditure up to an agreed limit. Expenditure that exceeds the agreed limit is approved by the full Board. At present the Committee has delegated authority from the Board up to a limit of £1m.

LUMINAR LEISURE LIMITED

Luminar Leisure Limited provides support services to the Group's trading subsidiaries. The Operating Committee of Luminar Leisure Limited consists of the three Executive Directors of the Company: Stephen Thomas, Nick Beighton and Brendan McLoughlin, the Group's senior operators: Tony Marshall, Mark Lindsell and David Crabtree and support centre administrative function Directors: Liz Purdy (HR), Steve Kester (Purchasing) and Harry Willits (Group Legal Services).

This Committee exercises the day-to-day management function of the Company. The Committee meets monthly and considers amongst its standing agenda items, reviewing capital expenditure, revenue expenditure not authorised by the Executive Directors within their individual authority levels, regular reports from the Directors and a regular review of the strategic aims of the Company.

INTERNAL CONTROL

The Board is responsible for the ongoing process of identifying, evaluating and managing the significant risks faced by the Company, both financial and non-financial. This responsibility includes clearly determining the control environment and reviewing annually its effectiveness. However, such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

Assurance in relation to the design, operation and effectiveness of internal controls across the Company's activities and functions is provided through a mix of mechanisms and processes which include:

INTERNAL AUDIT

- The Company has an internal audit function. Internal audit carry out audits to assess the adequacy and effectiveness of internal controls over the key operational risks in the Company's venues. The internal audit function is headed by the Head of Risk and is responsible to the Finance Director but has direct access to the Chairman of the Audit Committee, if appropriate. Following the Audit Committee's recent review of the effectiveness of internal audit, a full reassessment of the remit, scope and resources of internal audit is being undertaken with a view to ensuring that internal audit is in compliance with best practice.
- Steps have been taken to ensure that there is an opportunity for any employees, in confidence, to raise concerns with management about possible impropriety in financial or other matters. The Company has established an internal hotline and intends to undertake further reviews to increase awareness of the process including training for managers who may have to deal with whistle-blowing issues.

HEALTH AND SAFETY

- Each venue is regularly visited by Health and Safety advisers. In addition, to ensure compliance with the Company's procedures contained in the Company's Fire, Health and Safety and Food manuals, the Health and Safety team carry out regular audits of compliance and venue compliance performance is benchmarked against the Company's venues as a whole.
- The Health and Safety function is responsible for maintaining the Company's 'Lite Patrol' system. Lite Patrol is a computerised system which enables monitoring of internal controls and ensures that operational standards are as high as practicable during trading hours within our units. The system proves due diligence where proof of inspection of key areas is provided by scanning discs mounted in various parts of the venue, usually by floor supervision.

- The Health and Safety team have developed a Lead Authority Partnership Scheme with Luton Borough Council. This involved the council visiting several of the Company's premises in different locations and benchmarking statutory compliance in those units. This council is now used to demonstrate best practice to other councils on a range of compliance issues.

LEGISLATIVE REFORM

- The Company carries out reviews to assess the impact of legislative and regulatory change. During the year, the Company continued to review its compliance with a wide range of new legislation, both in force and coming into force, ranging from disability discrimination to a smoking ban (now introduced in Scotland) to new noise regulations to be introduced in 2008.

TRAINING

- Specific training is provided to all employees to enable them to understand and manage risk in the Company's venues. These procedures are all embodied in awards available to all employees on satisfactory completion of the training programme.

FINANCE

- The Finance Director provides regular financial information to the Board which includes key performance indicators.
- Regular performance review meetings are held where management discusses business performance, risks to performance and internal control issues with Executive Directors.

PUBLIC LIABILITY

- The Company continues to monitor and proactively manage its public liability exposure both by the use of the Lite Patrol system mentioned above and use of best practice in its venues regarding staff training and use of its external door supervisors.
- The Company maintains appropriate insurance to cover risks, where appropriate.

LICENSING

- The Company undertakes regular ring rounds of all councils and police divisions covering the areas in which it operates and liaises extensively with other stakeholders (including local residents' associations and industry bodies) to ensure that any issues arising from the operation of its venues are identified. This process is supported by the use of incident reports generated by venue management which are sent to appropriate area managers, management and executives.
- The Company makes extensive use of CCTV and keeps records of CCTV coverage for one month.

REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The Directors' Report on Remuneration has been prepared in accordance with the requirements of the Directors' Report Remuneration Regulations 2002 and approved by the Board. The members of the Remuneration Committee are the independent Non-Executive Directors. The Chairman is invited to attend Committee meetings. The Committee has primary responsibility for establishing and implementing policy on the remuneration of the Executive Directors and dealing with share options and other share-based incentives for all employees other than Save-As-You-Earn (SAYE). In addition, the Committee offers guidance to the Chief Executive on remuneration issues for senior employees. The Chief Executive may be invited to attend the meetings of the Committee when matters relating to the remuneration of other Executive Directors or senior employees are discussed.

The remuneration of the Chairman is determined by the Committee in the absence of the Chairman. The Chairman and the Chief Executive are responsible for evaluating and making recommendations to the Board on the remuneration of Non-Executive Directors.

During the year, the Committee retained Keplar Associates, Remuneration Consultants, to advise on executive salaries and Watson Wyatt, to advise on pension arrangements.

During the year ended 2 March 2006, the Remuneration Committee consisted of the following Directors:

Linda Wilding (Chair)
David Longbottom
Martin Gatto
Richard Brooke

David Longbottom has been appointed Chair of the Committee following the resignation of Linda Wilding from the Board.

REMUNERATION POLICY (UNAUDITED)

The Remuneration Committee determines the Company's policy on the remuneration of the Executive Directors.

The principles which underpin the remuneration policies for the Company are:

- to ensure that senior executive rewards and incentives are directly aligned with the interests of the shareholders, in order to optimise the performance of the Company and create sustained growth in shareholder value;
- to provide the level of remuneration required to attract, retain and motivate Executive Directors of an appropriate calibre;

- to ensure a proper balance of fixed and variable performance related components, linked to short and longer-term objectives; and
- to reflect market competitiveness, taking account of the total value of all the benefit components.

INDIVIDUAL ELEMENTS OF REMUNERATION

(A) BASIC SALARIES

Salaries and other benefits are reviewed annually and the Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies within its sector, institutional guidelines and reports from specialist consultants. The experience of the individual and level of responsibility are also taken into account.

(B) BONUSES AND DEFERRED BONUS PLAN

In March 2004 the shareholders approved the establishment of a Deferred Bonus Plan ("the Plan").

The Plan seeks to incentivise, retain and reward Executive Directors.

Under the Plan 50% of the bonus accruing to the Executive Directors is deferred, being credited to the purchase of a notional holding of Luminar plc shares within the Plan. Shares to meet this notional holding may be purchased and released to Directors from the Plan three years after the notional holding is credited, together with matching shares contributed by the Company. Dividends on the notional holding are accrued for the benefit of Executive Directors. An additional award of matching shares will be made dependent on performance over three financial years. The matching ratio will depend upon the shareholder return of the Company relative to the total shareholder return of companies in the FTSE 250 Index over that three year period. Matching shares will be granted on the basis of the following ratios:

- two matching shares for one initial share for top decile performance;
- one matching share for four initial shares for median performance;
- pro rata on a straight-line basis between these points; and
- no matching for less than median performance.

The Company has chosen to compare its total shareholder return performance with the total shareholder return of companies in the FTSE 250 Index over the three year performance period. This Index has been selected because of the

difficulty of constructing a meaningful peer group for the sector in which the Company trades.

Participants are required to pay employer's National Insurance Contributions. On termination of employment, employees are entitled to retain the value of their notional holdings at the time of leaving.

The current participants in the Plan are Stephen Thomas, Brendan McLoughlin and Nick Beighton. Participants in the Plan are currently not eligible to receive share option grants pursuant to either the approved or unapproved schemes, other than SAYE schemes. However, it is the intention of the Committee to continue to use the grant of share options for senior employees.

The Remuneration Committee will have discretion to settle benefits under the Plan in cash, if considered appropriate. The Board will determine whether it is appropriate to hedge against potential liabilities under the Plan. Reference is made to the current contributions in the Plan on page 28 of this Report which details Directors' emoluments.

(C) SHARE OPTIONS

The Company has two share option schemes — the 1996 and 1999 Schemes. The 1999 Scheme is approved by the Inland Revenue.

The Committee sets performance conditions in relation to the vesting of share options. The condition is that growth in normalised Earnings Per Share (EPS) (i.e. pre-exceptional items and pre-tax) must exceed RPI plus 3% compounded, over the relevant three year period. The achievement of the condition is measured by reference to the annual accounts of the Company for the relevant year, and Government statistics for inflation. The Remuneration Committee consults with the external auditors to confirm the calculation of normalised EPS growth. These measures were chosen as commonly available and easily understood by the participants in the scheme.

(D) SAVE-AS-YOU-EARN SHARE OPTION SCHEME

Since 1996 the Company has operated an all-employee Save-As-You-Earn share option scheme. Executive Directors and employees of the Company with more than one year's service, may participate in the scheme. Options were granted at the prevailing market rate, with no discount in the last financial year. Options are normally exercisable three years after the date of grant. No options were granted during the year ended 2 March 2006. The Company is reviewing the future of the scheme as part of a review of its overall remuneration strategy.

(E) WARRANT SCHEME TRUST

On 22 February 1999, the shareholders of Luminar plc approved the establishment of a discretionary Trust to hold Warrants as part of incentive arrangements under which they are subsequently allocated to employees. Each Warrant carried the right to subscribe for one ordinary share at a subscription price of £6.67^{1/2} per share. At 2 March 2006, the Trust held

1,620,129 Warrants, which are to be allocated to employees in the absolute discretion of the Trustee who may call for guidance from the Remuneration Committee.

The performance criteria attached to the Warrant Scheme were met in full in February 2002. An allocation of 50% of the Warrants was made by the Trustee in May 2002. The Trustee

has not made any further allocation.

The subscription period in the approved scheme provides that the Warrants may be exercised in the period of 28 days following the publication of the Annual Report of each financial year up to the year ending on or around 1 March 2009.

The interests of Directors in the Warrants of the Company at 2 March 2006 and 27 February 2005 were as follows:

	2 March 2006	27 February 2005
Stephen Thomas	43,410	43,410

(F) PENSION ENTITLEMENTS (AUDITED)

It is the policy of the Committee that all Executive Directors will be invited to join the Luminar Group Pension Plan, which has been approved by the Inland Revenue. The Scheme is a contributory, defined contribution scheme and

also provides for dependants' pensions and lump sums on death in service of four times basic salary.

The Company contributions are normally 25% of salary in the case of the Chief Executive and

15% in the case of the other Executive Directors.

The Company makes no pension provision in respect of the Non-Executive Directors.

For each Executive Director, the amounts payable by the Company in the year in respect of their pension entitlements are as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Stephen Thomas	109	185
Andrew Burns*	19	34
Brendan McLoughlin	25	24
Nick Beighton†	22	—
Alistair Burford‡	24	26
Total	199	269

* Resigned on 31 May 2005.

† Commenced employment on 1 August 2005.

‡ Resigned as Director on 26 January 2005, but left the Company on 27 January 2006.

Under arrangements made in 2002, the Company made additional contributions to the arrangements for Stephen Thomas which were intended to compensate for historical under-funding. The Company's pension advisers have advised the Company to retain a proportion of these payments in a separate account pending the introduction of the Pensions Act 2005. The amount in this account at 2 March 2006 was £566,000 (2005: £416,000).

SHARE OPTIONS — INTERESTS OF DIRECTORS (AUDITED)

Details of each Director's interests in the share options of the Company are set out on page 30 of the report.

No other Director has been granted options over the shares of the Company, or other Group entities. The attention of shareholders is drawn to the table in the Directors' Report, indicating the interests of Directors in ordinary

shares of the Company and Shareholders should refer to the table above detailing the interests of Stephen Thomas in Warrants.

Owing to a change in legislation, for all awards of share options after 2000 the participant and the Company are required to pay National Insurance Contributions relating to the options. The Committee has recognised this in its awards since that date. Participants are required to pay employer's National Insurance Contributions.

None of the terms or conditions of an option grant were varied during the year. All grants were undertaken on a basis consistent with that described earlier in this report. The right to exercise an option is conditional on the relevant performance condition being achieved.

The mid-market price of the Company's shares at 2 March 2006 was 473p and the range for

the year ended was between 449p on 19 October 2005 and 572p on 6 July 2005.

TARGETED REMUNERATION (UNAUDITED)

The balance between the fixed (basic salary) and variable (annual bonus and long-term incentive) elements of remuneration changes with performance. The range may vary dependent on the performance of both the Company and the individual. Shareholders should refer to the description earlier in the Remuneration Report of basic salary and bonus schemes for Executive Directors. The targeted remuneration of the Executive Directors for planned performance is approximately 40% performance-related before taking into account share incentives. The remuneration of the Non-Executive Directors is part cash and part shares based in accordance with the Combined Code. No element of their remuneration is performance related.

REMUNERATION REPORT

CONTINUED

EXECUTIVE DIRECTORS' SERVICE CONTRACTS (UNAUDITED)

The key aspects of the Company's contractual framework for the Executive Directors are:

Aspect	Policy
Notice period on termination by the employing company or Executive	12 calendar months ¹ (or, in the case of Nick Beighton, 6 months)
Termination payment	Contractual notice period subject to mitigation ²
Benefits	Governed by benefits policy, including: — healthcare (medical and dental) — death in service benefit — company car scheme
Vesting of long-term incentives	Rules of relevant equity incentive plan ³
Pension	Based on existing arrangements and terms of the relevant pension plan
Non-compete clause	12 months from termination notice date

¹ The notice period for Brendan McLoughlin is 364 days.

² Stephen Thomas' contract provides for a payment of 1 x annual 'on target' bonus, if applicable.

³ Shareholders' attention is drawn to the description of the share-based incentive schemes contained in this report.

All Executive Directors are employed on rolling contracts with a retirement age of 60.

It is the policy of the Remuneration Committee to seek to mitigate termination payments or to pay compensation under the relevant notice period of the contract with payments ceasing should alternative employment be secured, to the extent that it provides equivalent remuneration.

EXECUTIVE DIRECTORS' EMOLUMENTS (AUDITED)

Full details of the emoluments of the Directors, relating to the year ended 2 March 2006, are as follows:

	Salary & Fees £000	Benefits in Kind £000	Total 2006 £000	Total 2005 £000
Executive				
Stephen Thomas	437	33	470	487
Andrew Burns†	121	10	131	243
Brendan McLoughlin	166	29	195	201
Nick Beighton‡	149	11	160	—
Alistair Burford*	165	15	180	193
Total	1,038	98	1,136	1,124

* Resigned as Director on 26 January 2005, but left the Company on 27 January 2006.

† Resigned as Director on 31 May 2005.

‡ Commenced employment on 1 August 2005.

Benefits in kind include the provision to every Executive Director of a company car, private medical insurance and death in service insurance.

As of 3 March 2006 the basic salary payable to Stephen Thomas remained the same. The basic salary payable to Brendan McLoughlin was increased to £169,728. The basic salary for Nick Beighton was increased to £265,000.

The current contributions of each of the relevant Directors to the Plan are set out below:

Director, for services in the year to	No. of shares notionally held at 28 February 2005	Notionally awarded during the year: dividends earned	Notionally awarded during the year: new awards	No. of shares notionally held at 2 March 2006	Share price at date of notional award £	Earliest vesting date
Stephen Thomas						
— 29.02.04	45,928	1,456	—	47,384	4.48	21.04.07
— 27.02.05	7,254	202	—	7,456	5.10	28.04.08
Brendan McLoughlin						
— 27.02.05	2,745	76	—	2,821	5.10	28.04.08
Nick Beighton						
— 01.08.05 to 02.03.06	—	188	22,051	22,239	5.21	01.08.08

EXTERNAL DIRECTORSHIPS FOR EXECUTIVE DIRECTORS

If an Executive Director is invited by another company to act as a Non-Executive Director the Board considers, and if appropriate, grants permission for the appointment. Before granting permission the Board will take into account the time commitment of the new role and the competitive status of the other company. Stephen Thomas is a Non-Executive Director of other companies, as detailed on page 20, and retained fees paid to him in the performance of external commitments for The Food & Drink Group plc of £20,000 and Paddy Power plc of 50,000 euros.

NON-EXECUTIVE DIRECTORS' (UNAUDITED)

All Non-Executive Directors are appointed initially for a three year term and, after review, will normally be proposed for a further three year term. The Company will take into account the balance of skills and experience on the Board, their contribution and level of independence when considering whether to extend their appointment beyond the initial three year term. In exceptional circumstances, the Board may ask a Non-Executive Director to remain for a further three year term. Non-Executive Directors' appointments are terminable on six months' notice on either side.

Non-Executive Directors	Appointment date
Keith Hamill	16 January 2001
Linda Wilding*	3 November 1998
Martin Gatto	1 January 2004
Richard Brooke	1 January 2004
David Longbottom	17 April 2004

* Left the Board on 2 March 2006.

NON-EXECUTIVE DIRECTORS' EMOLUMENTS (AUDITED)

Details of the emoluments of the Non-Executive Directors, relating to the year ended 2 March 2006 and entirely composed of fees, are as follows:

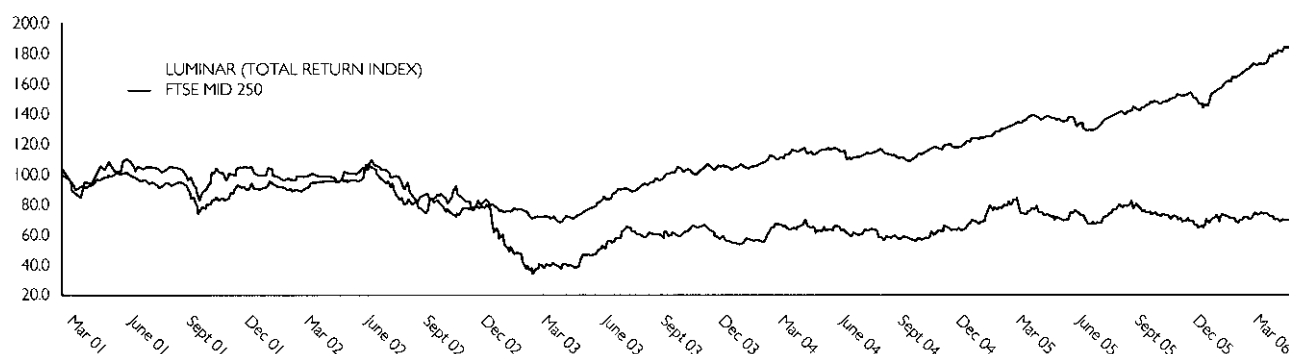
	Fees 2006 £000	Fees 2005 £000
Keith Hamill	100	85
Linda Wilding*	33	33
Martin Gatto	33	32
Richard Brooke	30	31
David Longbottom	33	29
Alan Goldman†	—	8
John Williams†	—	19
Total	229	237

* Left the Board on 2 March 2006.
† Resigned on 6 July 2004.

The Non-Executive Directors, other than Keith Hamill, are paid a sum of £30,000 per annum. The Non-Executive Directors received cash payments equivalent to £20,000 and received the balance of £10,000 in shares in the Company in two equal tranches. The Chairman of the Remuneration Committee, the Chairman of the Audit Committee and the Senior Independent Director receive £2,500 per annum for additional responsibilities.

TOTAL SHAREHOLDER RETURN GRAPH (UNAUDITED)

Reproduced below is a line graph indicating the Total Shareholder Return (calculated in accordance with the Directors' Remuneration Report Regulations 2002) for a shareholding in Luminar plc, and a notional shareholding in the FTSE 250 Index:



The Directors have chosen to compare the Company's total shareholder return performance with the total shareholder return of companies in the FTSE 250 Index. This Index has been selected because of the difficulty of constructing a meaningful peer group for the areas in which the Company trades.

REMUNERATION REPORT

CONTINUED

INTERESTS OF THE DIRECTORS IN THE SHARE OPTIONS OF THE COMPANY (AUDITED)

STEPHEN THOMAS

Date of grant	Earliest exercise date	Expiry date	Exercise price £	At 27 February 2005 No.	Lapsed in year No.	At 2 March 2006 No.
<i>1996 Executive Share Option Scheme (Unapproved)</i>						
18/11/98	18/11/01	17/11/08	6.640	121,500	—	121,500
22/02/99	22/02/02	21/02/09	8.050	50,000	—	50,000
11/07/00	11/07/03	10/07/10	7.140	500,000	—	500,000
04/07/01	04/07/04	03/07/11	8.800	26,136	—	26,136
22/05/03	22/05/06	21/05/13	4.060	197,044	—	197,044
				894,680	—	894,680
<i>1999 Executive Share Option Scheme (Approved)</i>						
04/07/01	04/07/04	03/07/11	8.800	3,409	—	3,409
<i>SAYE Share Option Scheme</i>						
13/07/01	01/09/04	28/02/05	7.280	1,330	(1,330)	—
				899,419	(1,330)	898,089

BRENDAN McLOUGHLIN

Date of grant	Earliest exercise date	Expiry date	Exercise price £	At 27 February 2005 No.	Lapsed in year No.	At 2 March 2006 No.
<i>Northern Leisure 1998 Executive Share Option Scheme ("Rolled over" options)</i>						
16/06/98	16/06/03	15/06/08	8.740	57,500	—	57,500
<i>1996 Executive Share Option Scheme (Unapproved)</i>						
16/01/01	16/01/04	15/01/11	7.520	63,830	—	63,830
04/07/01	04/07/04	03/07/11	8.800	10,636	—	10,636
10/07/02	10/07/05	09/07/12	7.850	31,210	—	31,210
22/07/03	25/07/06	24/07/13	4.513	31,952	—	31,952
				137,628	—	137,628
<i>1999 Executive Share Option Scheme (Approved)</i>						
04/07/01	04/07/04	03/07/11	8.800	3,409	—	3,409
<i>SAYE Share Option Scheme</i>						
23/07/03	01/09/06	28/02/07	4.690	1,971	—	1,971
				200,508	—	200,508

ANDREW BURNS

Date of grant	Earliest exercise date	Expiry date	Exercise price £	At 27 February 2005 No.	Forfeited in year No.	At 2 March 2006 No.
<i>1996 Executive Share Option Scheme (Unapproved)</i>						
22/02/99	22/02/02	21/02/09	8.050	50,000	(50,000)	—
11/07/00	11/07/03	10/07/10	7.140	100,000	(100,000)	—
04/07/01	04/07/04	03/07/11	8.800	12,500	(12,500)	—
10/07/02	10/07/05	09/07/12	7.850	41,242	(41,242)	—
22/05/03	22/05/06	21/05/13	4.060	91,133	(91,133)	—
				294,875	(294,875)	—
<i>1999 Executive Share Option Scheme (Approved)</i>						
04/07/01	04/07/04	03/07/11	8.800	3,409	(3,409)	—
				298,284	(298,284)	—

REPORT OF THE DIRECTORS FOR THE YEAR TO 2 MARCH 2006

The Directors present their report for the year ended 2 March 2006.

PRINCIPAL ACTIVITY

The principal activity of the Group during the year was as owner, developer and operator of theme bars, nightclubs and restaurants.

BUSINESS REVIEW

A review of the business and future developments are included in the Chairman's Statement, the Operating Review and the Financial Review set out on pages 2 to 17 of this Report.

The Group's exposure to financial risk and policies for financial risk management are included within the accounting policies set out on pages 39 to 43 of this Report.

PROFIT AND DIVIDENDS

The Directors declared an interim dividend payment of 4.44p per Ordinary Share, which was paid to shareholders on 6 January 2006. The Board recommends the payment of a final dividend of 10.74p per Ordinary Share to the shareholders; subject to approval at the AGM,

The interests of the Directors in the Ordinary Shares of the Company at 2 March 2006 and 27 February 2005 were as follows:

	2 March 2006	27 February 2005
Keith Hamill	32,577	30,113
Stephen Thomas	243,904	243,904
Andrew Burns	—	3,968
Linda Wilding	20,329	18,854
Brendan McLoughlin	21,730	21,606
Martin Gatto	2,536	1,324
Richard Brooke	2,861	1,401
David Longbottom	2,400	1,188
Nick Beighton	—	—

On 10 March 2006, the Company acquired shares for the Non-Executive Directors as part of the contractual remuneration of those Directors. The shares acquired were as follows:

	Shares acquired on 10 March 2006	Total interests as at 10 March 2006
Keith Hamill	1,180	33,757
Linda Wilding	—	20,329
David Longbottom	580	2,980
Martin Gatto	580	3,116
Richard Brooke	660	3,521

On 17 March 2006 Brendan McLoughlin sold 15,173 shares leaving a balance of 6,557 shares. Other than this sale and the shares listed above, there has been no change in the interests of the Directors in the share capital of the Company between 2 March 2006 and the date of the signing of this Report on 17 May 2006.

No Director had any interest in the shares of any of the Group's subsidiaries during the year ended 2 March 2006.

The interests of the Directors in share options and other long-term incentive plans are set out in the Remuneration Report on pages 28 to 30.

this will be paid on 20 July 2006 to shareholders on the register on 16 June 2006.

Results of the Group are summarised on page 35.

DIRECTORS

The current Board of Directors is shown on pages 20 and 21 of this Report.

As mentioned elsewhere in this Report, Linda Wilding left the Board at the end of the year. The Board wishes to record its thanks to her for her contribution to the Company over many years.

Andrew Burns left the Board on 31 May 2005.

Nick Beighton joined the Board as Finance Director on 1 August 2005.

The Articles of Association require that one-third of the continuing Directors retire by rotation at the Annual General Meeting. Nick Beighton will retire and offer himself for re-election by the shareholders. The Board is proposing the re-election as Director of Keith

Hamill, who has served as Chairman of the Company since December 2001. As stated on page 3, he will be retiring as Chairman and a Director at the end of his term of office as Chairman; he will continue to chair the Board while his successor is recruited. Details of their service contracts are set out in the Remuneration Report on page 28. All other Directors have been elected by the shareholders at one of the last two Annual General Meetings. The Board confirms that, following a review of the skills and experience of the Directors, and of their personal positions and commitments, it is satisfied that Keith Hamill, Martin Gatto, Richard Brooke and David Longbottom remain independent of the management of the Company and continue to make a substantive contribution to the work of the Board.

During the year, the Company maintained liability insurance for its Directors and Officers.

No Director had a material interest in any contract or arrangement to which the Company or any subsidiary was a party.

REPORT OF THE DIRECTORS FOR THE YEAR TO 2 MARCH 2006

SHARE CAPITAL

At the 2005 Annual General Meeting, the shareholders gave the Company authority to purchase up to a maximum of 10% of its own shares. This authority will expire at the conclusion of the forthcoming Annual General Meeting, at which a Special Resolution will be proposed to renew the authority for a further year.

The Board has not exercised this power during the year ended 2 March 2006, nor in the period between then and the signing of this report on 17 May 2006.

SUBSTANTIAL SHAREHOLDERS

At 3 May 2006 (the last practical date before the approval of this Report), the Company had been notified of the following interests in the

shares of the Company, pursuant to Sections 198–202 of the Companies Act 1985:

	Number of shares	%
AXA Investment Managers UK Ltd	12,099,525	16.534
Hermes Pensions Management Ltd	8,234,554	11.253
Mintgate Investments Ltd	4,411,792	6.028
Investec Plc	2,477,181	3.385
Dimensional Fund Advisors Inc.	2,223,137	3.038

EMPLOYMENT POLICIES

The Company believes in the premise of adding value through people and that the way in which it attracts, retains and develops its employees will determine its ability to provide high levels of customer service and satisfaction.

Great emphasis is placed on training and development and the Company has recently launched a foundation degree in leadership and management (late night entertainment). This is a market leading proposition which can ensure that all venue management are professionally qualified. It also confirms the Company's status as an Investor in People.

The Company's in-house magazine, notice boards, team briefings, staff suggestion scheme and annual opinion survey all illustrate that employees are both well informed and able to provide feedback and contribute towards the running of the business.

The Company has also started to define its values as 'The Luminar Difference', which is about being more professional, more passionate, more principled and more participative. These values apply both internally and externally through the customer interface.

Employment policies do not discriminate between employees or potential employees on the grounds of gender, colour, race, nationality, ethnic origin, national origin, religion, religious beliefs or sexual orientation. Consideration is given to all applicants for employment from candidates with disabilities where the requirements of the job can be covered. If employees become disabled, every effort is made to ensure their employment continues with appropriate training and reasonable adjustments being made.

The key features of the Group's Human Resources (HR) proposition are:

- Board approval of the HR Strategy
- Continual assessment under the Investors in People accreditation
- Publication and constant review of employment procedures including:
 - Employee handbooks
 - People policies via the Internet
 - Award of merit schemes
- Ongoing provision of job-related and management training, learning and development
- Performance appraisals, personal development plans and succession planning
- Review of organisation structure

SUPPLIER PAYMENT POLICY AND PRACTICE

The Group's policy with regard to the payment of suppliers is to agree terms of payment at the start of business with each supplier, to ensure that the supplier is made aware of the standard payment terms. Such terms include an undertaking to pay suppliers within an agreed period subject to terms and conditions being met by suppliers. Creditor days for the Group at the year end amounted to 28 days (2005: 27 days) of total supplies for the year. Since the Company does not trade, creditor days have not been disclosed.

RESEARCH AND DEVELOPMENT

All businesses within the Group continue to be active in developing new ways of working for the benefit of the business and its customers.

CHARITABLE AND POLITICAL DONATIONS

The Company has established a charitable trust, the ECHO Trust, to channel the Company's charitable activities to those in need. During the year, a total of £403,079 (2005: £433,260) was donated by our customers in charity collections and events organised by the Company to the ECHO Trust and other local charities.

No direct contributions for charitable purposes were made during the year (2005: £76,675). No political donations were made during the year (2005: nil).

MARKET VALUE OF LAND AND BUILDINGS

In the opinion of the Directors, the market value of land and buildings is higher than its current carrying value in the balance sheet.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- i. select suitable accounting policies and then apply them consistently;
- ii. make judgements and estimates that are reasonable and prudent;
- iii. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- iv. prepare the Financial Statements on the going concern basis, unless it is inappropriate to assume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for maintaining proper accounting records that disclose with reasonable accuracy and at any time the financial position of the Company and the Group, and to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website. Information published on the website is accessible in many countries and legislation in the UK concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

GOING CONCERN

The Directors have made enquiries into the adequacy of the Company's financial resources and, having conducted a review of the Company's budget and medium-term plans which include capital expenditure projections and cash flow forecasts, have satisfied themselves that adequate resources exist to ensure that the Company will continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Group's and the Company's Financial Statements.

AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution for their reappointment will be proposed to the Annual General Meeting.

By Order of the Board



HARRY WILLITS
Company Secretary
17 May 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUMINAR PLC

We have audited the Group Financial Statements of Luminar plc for the year ended 2 March 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and the related notes. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company Financial Statements of Luminar plc for the year ended 2 March 2006 and on 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 are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group Financial Statements, 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 Group Financial Statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Operating Review, the Financial Review, the Corporate Social Responsibility Report, the details of the Board of Directors, the Corporate Governance Statement, the Remuneration Report and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

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 2 March 2006 and the result and cash flows for the year then ended; and
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.



PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London
17 May 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR TO 2 MARCH 2006

		Year ended 2 March 2006			Year ended 27 February 2005		
	Note	Pre- exceptional items £m	Exceptional items (note 8) £m	Total £m	Pre- exceptional items £m	Exceptional items (note 8) £m	Total £m
CONTINUING OPERATIONS							
Revenue	1,2	296.1	—	296.1	288.1	—	288.1
Cost of sales		(52.1)	—	(52.1)	(49.7)	—	(49.7)
GROSS PROFIT		244.0	—	244.0	238.4	—	238.4
Administrative expenses		(192.5)	(0.7)	(193.2)	(186.6)	(11.7)	(198.3)
PROFIT/(LOSS) FROM TRADING OPERATIONS	1,2	51.5	(0.7)	50.8	51.8	(11.7)	40.1
Exceptional items relating to closure of properties		—	(19.4)	(19.4)	—	(2.5)	(2.5)
PROFIT/(LOSS) FROM OPERATIONS	1,2	51.5	(20.1)	31.4	51.8	(14.2)	37.6
Interest receivable	3	2.6	—	2.6	1.1	—	1.1
Finance costs	3	(11.1)	—	(11.1)	(14.2)	—	(14.2)
PROFIT/(LOSS) BEFORE TAXATION		43.0	(20.1)	22.9	38.7	(14.2)	24.5
Tax on profit/(loss)	5	(10.9)	6.9	(4.0)	(10.5)	3.5	(7.0)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS ATTRIBUTABLE TO EQUITY SHAREHOLDERS		32.1	(13.2)	18.9	28.2	(10.7)	17.5
(Loss)/profit from discontinued operations	1,9	0.9	(18.1)	(17.2)	18.6	(34.5)	(15.9)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS		33.0	(31.3)	1.7	46.8	(45.2)	1.6
EARNINGS PER SHARE FROM CONTINUING OPERATIONS							
Basic	7			25.8p			23.9p
Diluted				25.8p			23.9p
EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS							
Basic	7			2.3p			2.2p
Diluted				2.3p			2.2p
DIVIDENDS PER SHARE	6			14.20p			12.91p

The accompanying accounting policies and notes form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR TO 2 MARCH 2006

	Share Capital £m	Share Premium £m	Capital Reserve £m	Merger Reserve £m	Equity Reserve £m	Retained Earnings £m	Total £m
Brought forward at 1 March 2004	18.3	60.9	2.3	313.7	0.1	(0.8)	394.5
Profit for the year	—	—	—	—	—	1.6	1.6
Share-based payment expense	—	—	—	—	0.2	—	0.2
Deferred taxation on share-based payments	—	—	—	—	—	0.2	0.2
Amounts attributable to equity shareholders	18.3	60.9	2.3	313.7	0.3	1.0	396.5
Dividends paid (note 6)	—	—	—	—	—	(9.5)	(9.5)
Transfer from merger reserve	—	—	—	(33.5)	—	33.5	—
CARRIED FORWARD AT 27 FEBRUARY 2005	18.3	60.9	2.3	280.2	0.3	25.0	387.0
Brought forward at 28 February 2005	18.3	60.9	2.3	280.2	0.3	25.0	387.0
Adjustment for implementation of IAS 39	—	—	—	—	—	(0.3)	(0.3)
Restated brought forward at 28 February 2005	18.3	60.9	2.3	280.2	0.3	24.7	386.7
Profit for the year	—	—	—	—	—	1.7	1.7
Share-based payment expense	—	—	—	—	0.2	—	0.2
Amounts attributable to equity shareholders	18.3	60.9	2.3	280.2	0.5	26.4	388.6
Dividends paid (note 6)	—	—	—	—	—	(10.3)	(10.3)
Transfer from merger reserve	—	—	—	(39.1)	—	39.1	—
CARRIED FORWARD AT 2 MARCH 2006	18.3	60.9	2.3	241.1	0.5	55.2	378.3

CONSOLIDATED BALANCE SHEET AT 2 MARCH 2006

	Note	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
NON-CURRENT ASSETS			
Goodwill	10	177.5	203.1
Other intangible assets	12	2.1	1.1
Property, plant and equipment	13	383.1	413.5
Other non-current assets	14	7.4	7.6
		<u>570.1</u>	<u>625.3</u>
CURRENT ASSETS			
Inventories	16	2.6	3.0
Trade and other receivables	17	13.0	5.1
Cash and cash equivalents	18	71.9	22.6
		<u>87.5</u>	<u>30.7</u>
Assets classified as held for sale	9	33.4	44.6
		<u>120.9</u>	<u>75.3</u>
CURRENT LIABILITIES			
Bank loans and overdraft	23	—	(0.9)
Trade and other payables	20	(23.9)	(38.5)
Current tax liabilities	21	(30.2)	(11.8)
Deferred income	22	(0.6)	(0.1)
Provisions	25	(2.3)	(0.6)
		<u>(57.0)</u>	<u>(51.9)</u>
Liabilities classified as held for sale	9	(12.2)	(8.8)
		<u>(69.2)</u>	<u>(60.7)</u>
NET CURRENT ASSETS		<u>51.7</u>	<u>14.6</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>621.8</u>	<u>639.9</u>
NON-CURRENT LIABILITIES			
Bank loans	19	(179.2)	(179.1)
Deferred income	22	(9.3)	(4.4)
Obligations under finance leases	24	(5.6)	(7.1)
Provisions	25	(5.5)	(3.2)
Deferred tax liabilities	26	(43.9)	(59.1)
		<u>(243.5)</u>	<u>(252.9)</u>
NET ASSETS		<u>378.3</u>	<u>387.0</u>
CAPITAL AND RESERVES			
Share capital	27	18.3	18.3
Share premium		60.9	60.9
Capital reserve		2.3	2.3
Merger reserve		241.1	280.2
Equity reserve		0.5	0.3
Retained earnings		55.2	25.0
SHAREHOLDERS' EQUITY		<u>378.3</u>	<u>387.0</u>

The Financial Statements were approved by the Board of Directors on 17 May 2006.


NICK BRIGHTON
Finance Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 2 MARCH 2006

	Note	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	30	74.1	99.9
Tax received/(paid)		7.1	(6.8)
Debt issue costs paid		—	(0.9)
Interest paid		(11.1)	(14.3)
<i>Cash flows from operating activities</i>		<u>70.1</u>	<u>77.9</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(56.4)	(49.9)
Purchase of intangible assets		(0.8)	(0.2)
Proceeds from sale of property, plant and equipment		5.2	11.4
Proceeds from sale and leaseback of property, plant and equipment		28.0	—
Acquisition of business		(10.9)	—
Proceeds received on disposal of business		24.5	—
Costs associated with disposal of business		(2.0)	—
Interest received		2.6	1.1
<i>Cash flows from investing activities</i>		<u>(9.8)</u>	<u>(37.6)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term borrowings		—	(24.6)
Repayment of short-term loan note		(0.9)	—
Repayment of secured loan		—	(38.4)
Dividends paid		(10.3)	(9.5)
<i>Cash flows from financing activities</i>		<u>(11.2)</u>	<u>(72.5)</u>
Net increase/(decrease) in cash and cash equivalents		49.1	(32.2)
Cash and cash equivalents at beginning of period*		23.0	55.2
Cash and cash equivalents at end of period*		<u>72.1</u>	<u>23.0</u>

* Cash and cash equivalents of £72.1m (2005: £23.0m) includes cash and cash equivalents of £0.2m (2005: £0.4m) presented within assets classified as held for sale.

PRINCIPAL ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

BASIS OF PREPARATION

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Group has complied with those IFRS or IFRIC interpretations where the implementation date is relevant to the financial year ended 2 March 2006 but has not early adopted other IFRS or IFRIC interpretations.

The Financial Statements of the Company as an entity continue to be prepared under United Kingdom Generally Accepted Accounting Principles and are presented separately from these Consolidated Financial Statements (refer to pages 81 to 93 within this Annual Report).

The Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at their fair value, and non-current assets and disposal groups held for sale measured at their fair value less costs to sell.

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

EXEMPTIONS

On first time adoption of IFRS, the Group has followed the guidance outlined in IFRS 1, *First Time Adoption of International Financial Reporting Standards*, in which a number of optional exemptions to the general principle of full retrospective application are permitted. The Group has adopted the following approach in respect of the following key exemptions:

- **BUSINESS COMBINATIONS:** The Group has not reclassified business combinations prior to the transition date.
- **SHARE-BASED PAYMENTS:** The Group has adopted the exemption from full retrospective application of all share-based payment awards,

and in accordance with the guidance in IFRS 2, *Share-based payment*, has only applied the standard to equity instruments granted after 7 November 2002.

- **FINANCIAL INSTRUMENTS:** The Group has taken the exemption not to restate comparatives for IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39, *Financial Instruments: Recognition and Measurement*. Comparative information presented for the year ended 27 February 2005 has been presented as previously under UK GAAP.
- **PROPERTY, PLANT AND EQUIPMENT:** The Group has retained the UK GAAP carrying value of property, plant and equipment and has elected not to use the fair value as deemed cost of these items.

Reconciliations to assist in understanding the nature and value of the differences between UK GAAP and IFRS are given in note 36, presenting the balance sheets at transition date (as at 1 March 2004) and at the prior year end (27 February 2005) together with the Consolidated Income Statement for the year to 27 February 2005.

ALTERNATIVE PRESENTATION WITHIN THE CONSOLIDATED INCOME STATEMENT

The Group has presented separately, on the face of the Consolidated Income Statement on page 35, the profit from trading operations and costs associated with the closure of properties. This presentation has been adopted to more clearly distinguish the profit from ongoing operations of the Group (i.e. "Profit from trading operations") from those items presented within continuing operations (i.e. "Exceptional items relating to the closure of properties") that relate to closed operations.

These exceptional costs relating to the closure of properties have arisen following the Group's exit from Non-Core operations and the relocation of its head office. These items have been presented within continuing operations as they do not meet the criteria to be held for sale, as they were not actively marketed prior to the balance sheet date, and therefore cannot be presented as discontinued operations in accordance with IFRS 5.

The presentation of "Profit from trading operations" separately on the face of the Consolidated Income Statement is relevant to explain the financial performance of the ongoing Group. Additional information on the performance of the Group is included in the notes to the Financial Statements.

EXCEPTIONAL ITEMS

The Group classifies items of income and

expenses as exceptional items, where the nature of the item, or its size, is likely to be material so as to assist the user of the Financial Statements to better understand the results of the operations of the Group.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Group.

Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Control is normally evidenced when the Company either directly or indirectly owns more than 50% of the voting rights or potential voting rights of a Company's share capital.

BUSINESS COMBINATIONS

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ("acquisition accounting"). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination.

On acquisition of a subsidiary, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at that date. Any excess of the cost of acquisition over the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the Consolidated Income Statement in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Group has utilised the exemption permitted by IFRS 1 from full retrospective reclassification of business combinations prior to the transition to IFRS. As a result, the UK GAAP categorisation of the following transactions has been maintained:

- The principles of merger accounting applied on the original formation of Luminar plc.
- The Company was entitled to merger relief offered by section 131 of the Companies Act

PRINCIPAL ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1985 in respect of the consideration received in excess of the nominal value of equity shares issued in connection with the acquisition of Northern Leisure Plc.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Disposal groups are groups of assets, and liabilities directly associated with those assets, that are to be disposed of together as a group in a single transaction.

Non-current assets (and disposal groups) classified as held for sale are initially measured at the lower of carrying value and fair value less costs to sell. At subsequent reporting dates non-current assets (and disposal groups) are remeasured to the latest estimate of fair value less costs to sell. As a result of this remeasurement any impairment is recognised by charging to the Consolidated Income Statement, any increase in fair value is applied to reverse previous impairment charges on the non-current assets (or disposal groups) to a maximum of the original amortised cost.

DISCONTINUED OPERATIONS

Discontinued operations represent cash generating units or groups of cash generating units that have either been disposed of or classified as held for sale, and represent a separate major line of business or are part of a single co-ordinated plan to dispose of a separate major line of business. Cash generating units forming part of a single co-ordinated plan to dispose of a separate major line of business are classified within continuing operations until they meet the criteria to be held for sale.

The post-tax profit or loss of the discontinued operation is classified as a single line on the face of the Consolidated Income Statement, together with any post-tax gain or loss recognised on the remeasurement to fair value less costs to sell or on the disposal of the assets or disposal group constituting the discontinued operation.

On changes to the composition of groups of units comprising discontinued operations, the presentation of discontinued operations within prior periods is restated to reflect consistent classification of discontinued operations across all periods presented.

FINANCIAL INSTRUMENTS 2005 COMPARATIVE FINANCIAL STATEMENTS

Within the 2005 comparative Financial Statements, the Group has applied UK GAAP in accounting for and disclosing financial instruments, including derivative financial instruments. Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group uses derivative financial instruments primarily to manage exposures to fluctuations in interest rates. Discounts and premiums are charged or credited to the Consolidated Income Statement over the life of the asset or liability to which they relate.

Discounts or premiums on financial instruments designated as interest rate hedges are reflected as adjustments to interest payable. Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the Consolidated Income Statement in the financial period to which it relates.

Interest differentials, under which the amounts and periods for which interest rates on borrowings are varied, are reflected as adjustments to interest payable.

2006 FINANCIAL STATEMENTS

Within the 2006 Financial Statements, the Group has applied IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39, *Financial Instruments: Recognition and Measurement*. The effect of the implementation of IAS 32 and IAS 39 is treated as a change in accounting policy, with effect from 28 February 2005. The effect of the change is outlined in note 23.

Financial assets and liabilities — measurement basis

Financial assets and liabilities are recognised on the date on which the Group becomes a party to the contractual provisions of the instrument giving rise to the asset or liability. Financial assets and liabilities are initially recognised at fair value plus transaction costs. Any impairment of a financial asset is charged to the Consolidated Income Statement when incurred. Financial assets are derecognised when the Group's rights to cash inflows from the asset expire; financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

Financial assets are classified according to the purpose for which the asset was acquired. The Group's financial assets are classified as either:

- "trade and other receivables" — these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods or services directly to a debtor, or advances money, with no intention of trading the loan or receivable. Subsequent to initial recognition loans and receivables are included in the balance sheet at amortised cost using the effective interest method less any amounts written off to reflect impairment, with changes in carrying amount recognised in the Consolidated Income Statement.
- "cash and cash equivalents" — these comprise deposits with an original maturity of three months or less with banks and financial institutions, bank balances, and cash on hand.

The Group's financial liabilities are classified as either "current liabilities" or "non-current liabilities". These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group receives goods or services directly from a creditor or supplier, or borrows money, with no intention of trading the liability. This category includes:

- trade and other payables — these are typically non-interest bearing and following initial recognition are included in the balance sheet at amortised cost.
- bank loans and overdrafts — these are initially recorded at fair value based on proceeds received, net of issue costs. Finance charges are accounted for on an accruals basis and charged to the Consolidated Income Statement using the effective interest rate method.

Derivative financial instruments and hedge accounting — measurement basis

The Group's activities expose it to the financial risks of changes in interest rates, and the Group uses interest rate swaps to manage these exposures. The use of derivative financial instruments is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

The Group does not qualify for hedge accounting for its interest rate swaps under IAS 39, *Financial Instruments: Recognition and Measurement*. These swaps are therefore classified as "financial assets (or liabilities) at fair value through profit or loss". They are initially recognised at fair value, with fair value being remeasured at each reporting date. The fair value of the interest rate swaps is based on the

market price of comparable instruments at the balance sheet date. Realised and unrealised gains and losses arising from changes in fair value are included in the Consolidated Income Statement within finance costs. Where the fair value at a point in time gives rise to an asset (liability) the fair value is classified on the balance sheet within current financial assets (liabilities).

The Group has no embedded derivatives that are not closely related to the host instrument.

Financial instruments — other disclosures

The Group's debt financing expose it to a variety of financial risks that include the effects of changes in the following:

Interest Rate Risk

Interest rate risk is managed through swapping floating rate debt into fixed rate debt. This has been achieved through the purchase of two £35.0m five year swaps and two £32.5m five year swaps callable by the counterparty after three years.

Currency Risk

The Group operates predominantly within the United Kingdom and substantially all transactions are denominated in sterling; therefore, the Group does not suffer from a significant concentration of currency risk.

Credit risk

The Group does not have a significant concentration of credit risk. The Group's revenues are predominantly cash based, with receivables principally recognised on sales of property assets and on income received from sub-lets.

Liquidity risk

Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts to ensure the adequacy of committed debt facilities. Short-term liquidity risk is managed through overdraft facilities and short-term deposits.

Price risk

The Group is not exposed to equity security price risk or commodity price risk.

In addition to the financial instruments described in the measurement basis sections above, the Group also has the following financial instruments for which additional disclosures are included in the notes to the Financial Statements:

- finance lease obligations
- operating lease commitments
- provisions
- accruals

PROVISIONS

Provisions for onerous lease commitments, public liability insurance claims and other provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of economic benefits will be required to settle the obligation; and the amount can be measured reliably.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired business at the date of acquisition. Goodwill is recognised as an asset and is reviewed for impairment at least annually, with goodwill allocated to cash generating units for the purpose of impairment testing at the level of reportable segments. Any impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed.

On the disposal of a subsidiary or cash generating unit, the attributable amount of goodwill is included in the determination of profit and loss on disposal.

Goodwill arising on acquisitions prior to 1 March 2004 (the transition date to IFRS) has been retained at the previous UK GAAP carrying values subject to being tested for impairment at that date. The Group has taken the exemption available under IFRS 1 not to reclassify business combinations affected prior to the transition date to IFRS.

OTHER INTANGIBLE ASSETS

Acquired trademarks are included at purchase cost and amortised over their finite useful economic lives on a straight-line basis.

Intangibles acquired separately and through business combinations, i.e. licences and other intangible assets, where material, are included at cost or fair value respectively and amortised over their useful economic lives, being the shorter of the term of the lease to which they are attached or the licence.

Acquired software assets not integral to the operation of the related hardware are included at cost and amortised over their estimated finite useful economic lives — three years on a straight-line basis.

The Group does not carry out research and development activities that may lead to the recognition of internally generated intangible assets. The Group's internally generated brands represent commercially valuable intangibles but

are not eligible for recognition as assets under IAS 38, *Intangible Assets*.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable by the Group for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

(a) Sale of goods

Sales of goods are recognised when goods are provided and the title has passed, at the point of cash receipt.

(b) Admission revenue

Admission revenue is recognised when the service is provided.

(c) Sub-lease rental income

Sub-lease rental income is recognised on a straight-line basis over the life of the related sub-lease agreement.

(d) Commission income

Commission income is recognised on an accruals basis in accordance with the substance of the relevant agreement.

INTEREST INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

DIVIDEND INCOME

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

PROPERTY, PLANT AND EQUIPMENT

All classes of property, plant and equipment are stated at cost, net of depreciation and any recognised impairment losses. Cost includes other attributable costs, e.g. professional fees, and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation is not charged during the period of construction, and commences when the assets are ready for their intended use.

Depreciation is calculated to write down the cost or valuation, less estimated residual value of all assets, other than land, by equal annual instalments over their estimated useful lives.

PRINCIPAL ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The periods generally applicable are:

- Freehold and long leasehold buildings and related structural fixtures and fittings — 50 years
- Short leasehold buildings and related structural fixtures and fittings — over the period of the lease
- Other fixtures and fittings, furniture and equipment — between two years and ten years
- Motor vehicles — three years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assessment is made at each reporting date if there is any indication that an asset may be impaired. If any indications are deemed to exist, the relevant assets are tested for impairment. Any impairment is determined as the difference between the higher of value-in-use, calculated by discounting an estimate of future cash flows by the Group's pre-tax weighted average cost of capital, and fair value less costs to sell, compared to the carrying value of the relevant asset. Fair value less cost to sell is estimated by qualified surveyors and valuers and by applying the knowledge and experience of management, together with external market indicators. If the recoverable amount is less than the carrying value of the asset then the carrying value is reduced to recoverable amount, and the resulting impairment charge is recognised in the Consolidated Income Statement.

INVESTMENT IN ASSOCIATES

An associate is an entity over which the Group exercises, or is in a position to exercise, significant influence, but not control or joint control, through participation in the financial or operating policy of the investee.

Where material, the results and assets and liabilities of associates are incorporated in the Financial Statements using the equity method of accounting, except when these associates are classified as held for sale. Investments in associates are carried in the balance sheet at cost adjusted by any material post-acquisition changes of the net assets of the associates, less any impairment of value in the individual investments.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out method.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before taxation as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Where taxation computations submitted to the taxation authorities are yet to be agreed, the Group's estimate of tax liabilities reflects the uncertainty as to the amount of tax that may ultimately be payable.

Deferred tax is the tax accounted for in respect of temporary differences between the carrying amounts of assets and liabilities in the Financial Statements, and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

IAS 12, *Income Taxes*, requires that the measurement of deferred tax should have regard to the tax consequences that would follow from the manner of expected recovery or settlement, at the balance sheet date, of the carrying amount of its assets and liabilities. In calculating its deferred tax liability the Group's policy is to regard the depreciable amount of the carrying value of its property, plant and equipment to be recovered through continuing use in the business, unless included within assets held for sale where the policy is to regard the carrying amount as being recoverable through sale.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Consolidated Income Statement within finance costs, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's accounting policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are included within deferred income and recognised in the Consolidated Income Statement on a straight-line basis over the lease term. Premiums paid on entering into the lease of certain leasehold land and buildings are classified as other non-current assets and amortised to the Consolidated Income Statement over the life of the relevant lease.

Leased assets that are sub-let to third parties are classified according to their substance as either finance or operating leases. All such arrangements the Group have entered into as lessor are operating leases. Income received as lessor is recognised on a straight-line basis over the lease term and is classified in the Consolidated Income Statement as revenue.

Leases that are entered into following the sale of assets by the Group (i.e. "sale and leaseback transactions") are classified according to the risk and rewards of the lease. All such arrangements entered into by the Group are operating leases. Where the proceeds on sale of the asset exceed the asset's fair value, and the asset is leased back as an operating lease, any surplus over the fair value is treated as deferred income and recognised in the Consolidated Income Statement over the term of the lease on a straight-line basis.

SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an entity that provides products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Business segments have been designated as the primary segment as these segments reflect the dominant source and nature of the Group's returns and is consistent with the internal reporting structure of the Group. The Group has only one geographic segment, being the UK, as no regions of the UK expose the Group to differentiated risks and returns.

BORROWING COSTS

Borrowing costs are capitalised as part of the cost of an asset when they are directly attributable to the acquisition, construction or production of a qualifying asset, it is probable that they will result in future economic benefits to the enterprise, and the cost can be measured reliably, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

EMPLOYEE BENEFITS

Retirement Benefit Costs

Payments made to defined contribution retirement benefit schemes are charged as an expense when they fall due. The Group has no defined benefit or other retirement benefit schemes.

Share-based compensation

The Group has applied the requirements of IFRS 2, *Share-based payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues some equity instruments where the counterparty has choice of either cash or equity settlement, and some equity instruments where the settlement can only be in equity.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will actually vest, with a corresponding credit entry directly to equity reserves. Fair value is measured by means of a binomial model.

A liability is recognised at current fair value at each balance sheet date for cash settled share-based payments, with changes in the fair value recognised in the Consolidated Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

I SEGMENTAL REPORTING

BUSINESS SEGMENTS

The Group is principally engaged as owner, developer and operator of theme bars, nightclubs and restaurants.

At the start of the year, the segmentation of the Group was changed to reflect the future strategy of the business. Comparative income statement and cash flow information has been reclassified at the balance sheet date to reflect the composition of the segments as at these dates — segmental information therefore reflects a consistent number of units within each segment for each period presented.

For management purposes, the Group is currently organised into three main business segments — Dancing, Entertainment and Non-Core operations. Non-Core operations includes units, both trading and closed, which do not align with the Group's strategy of a high quality predominantly branded and market-led business, together with sub-let sites. Information about these business segments is presented below.

FOR THE YEAR ENDED 2 MARCH 2006

	Dancing £m	Entertainment £m	Non-Core £m	Head office and management costs £m	Consolidated £m
TOTAL REVENUE	188.6	99.3	8.2	—	296.1
OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS	54.7	19.3	(1.1)	(21.4)	51.5
Exceptional items	9.7	(11.1)	(12.9)	(5.8)	(20.1)
SEGMENT RESULT	64.4	8.2	(14.0)	(27.2)	31.4
Net finance costs					(8.5)
PROFIT BEFORE TAXATION					22.9
Tax on continuing operations					(4.0)
PROFIT FROM CONTINUING OPERATIONS					18.9
Profit/(loss) from discontinued operations before exceptional items	0.9	(0.5)	2.2	—	2.6
Exceptional items	(0.3)	(0.3)	(24.9)	—	(25.5)
(Loss)/profit from discontinued operations before tax	0.6	(0.8)	(22.7)	—	(22.9)
Tax on discontinued operations					5.7
LOSS FROM DISCONTINUED OPERATIONS					(17.2)
PROFIT FOR THE YEAR					1.7

Head office and management costs comprise the head office and administrative functions, area and divisional management costs, together with information technology costs for the Group.

I SEGMENTAL REPORTING (continued)

OTHER SEGMENTAL INFORMATION FOR THE YEAR ENDED 2 MARCH 2006

	Dancing £m	Entertainment £m	Non-Core £m	Head office and management costs £m	Consolidated £m
CONTINUING OPERATIONS:					
Capital additions	36.8	1.9	1.3	11.3	51.3
Acquisition of property, plant and equipment on purchase of a business	1.3	—	—	—	1.3
Goodwill additions	8.1	—	—	—	8.1
Depreciation of property, plant and equipment	17.9	8.1	1.7	3.4	31.1
Amortisation of intangibles	—	—	—	0.1	0.1
Impairment losses:					
— Property, plant and equipment	—	1.2	7.2	3.1	11.5
— Goodwill	—	9.6	9.4	—	19.0
Reversal of impairment losses:					
— Property, plant and equipment	(4.4)	—	(5.1)	—	(9.5)
Onerous lease provisions	—	0.3	2.8	1.8	4.9
Reversal of onerous lease provisions	—	—	(0.6)	—	(0.6)
BALANCE SHEET					
ASSETS					
Segment assets	451.9	103.7	19.9	—	575.5
Unallocated corporate assets					82.1
Assets classified as held for sale	2.5	3.0	26.4	1.5	33.4
Consolidated total assets					691.0
LIABILITIES					
Segment liabilities	22.4	13.1	15.4	—	50.9
Unallocated corporate liabilities					249.6
Liabilities classified as held for sale	—	—	8.6	3.6	12.2
Consolidated total liabilities					312.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

I SEGMENTAL REPORTING (continued) FOR THE YEAR ENDED 27 FEBRUARY 2005

	Dancing £m	Entertainment £m	Non-Core £m	Head office and management costs £m	Consolidated £m
TOTAL REVENUE	171.7	102.3	14.1	—	288.1
OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS	54.4	20.4	(2.2)	(20.8)	51.8
Exceptional items	(2.7)	(1.2)	(10.3)	—	(14.2)
SEGMENT RESULT	51.7	19.2	(12.5)	(20.8)	37.6
Net finance costs					(13.1)
PROFIT BEFORE TAXATION					24.5
Tax on continuing operations					(7.0)
PROFIT FROM CONTINUING OPERATIONS					17.5
Profit from discontinued operations before exceptional items	1.2	1.0	11.7	—	13.9
Exceptional items	—	—	(39.3)	—	(39.3)
(Loss)/profit from discontinued operations before tax	1.2	1.0	(27.6)	—	(25.4)
Tax on discontinued operations					9.5
LOSS FROM DISCONTINUED OPERATIONS					(15.9)
PROFIT FOR THE YEAR					1.6

OTHER SEGMENTAL INFORMATION FOR THE YEAR ENDED 27 FEBRUARY 2005

	Dancing £m	Entertainment £m	Non-Core £m	Head office and management costs £m	Consolidated £m
CONTINUING OPERATIONS:					
Capital additions	27.3	10.5	9.7	6.5	54.0
Depreciation of property, plant and equipment	16.3	8.4	1.8	2.6	29.1
Amortisation of intangibles	—	—	—	0.3	0.3
Impairment losses:					
— Property, plant and equipment	2.7	1.0	7.8	—	11.5
— Goodwill	—	0.2	1.8	—	2.0
Onerous lease provisions	—	—	0.7	—	0.7
BALANCE SHEET					
ASSETS					
Segment assets	496.9	98.9	24.7	—	620.5
Unallocated corporate assets					35.5
Assets classified as held for sale	4.7	—	39.9	—	44.6
Consolidated total assets					700.6
LIABILITIES					
Segment liabilities	21.3	10.9	10.7	—	42.9
Unallocated corporate liabilities					261.9
Liabilities classified as held for sale	0.2	—	10.1	(1.5)	8.8
Consolidated total liabilities					313.6

1 SEGMENTAL REPORTING (continued)

Unallocated corporate assets represent current and non-current assets relating to the Unit Administration Centre, together with cash and cash equivalents not allocated to the Group's business segments. Unallocated corporate liabilities represent current and deferred tax liabilities together with financing liabilities not allocated to the Group's business segments.

All segment revenue is earned from sales to external customers.

SECONDARY FORMAT — GEOGRAPHICAL SEGMENTS

The Group operates in one geographical segment, the United Kingdom; therefore, information using a geographical segmentation has not been presented, as all information regarding the Group as a whole is presented elsewhere within these Financial Statements.

2 REVENUE AND PROFIT FOR THE YEAR

An analysis of the Group's revenue for the year is as follows:

	Year ended 2 March 2006			Year ended 27 February 2005		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Sale of goods	215.7	33.0	248.7	213.6	69.8	283.4
Admission revenue	78.7	8.7	87.4	73.2	17.0	90.2
Sub-lease rental income	1.3	0.3	1.6	0.9	0.2	1.1
Commission income	0.4	0.1	0.5	0.4	—	0.4
	<u>296.1</u>	<u>42.1</u>	<u>338.2</u>	<u>288.1</u>	<u>87.0</u>	<u>375.1</u>

All revenue results from transactions with external customers.

An analysis of the Group's results by function for the year is as follows:

	Year ended 2 March 2006			Year ended 27 February 2005		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Revenue	296.1	42.1	338.2	288.1	87.0	375.1
Cost of sales	<u>(52.1)</u>	<u>(9.9)</u>	<u>(62.0)</u>	<u>(49.7)</u>	<u>(20.2)</u>	<u>(69.9)</u>
Gross profit	244.0	32.2	276.2	238.4	66.8	305.2
Administrative expenses	<u>(212.6)</u>	<u>(55.0)</u>	<u>(267.6)</u>	<u>(200.8)</u>	<u>(92.1)</u>	<u>(292.9)</u>
	<u>31.4</u>	<u>(22.8)</u>	<u>8.6</u>	<u>37.6</u>	<u>(25.3)</u>	<u>12.3</u>

Total administrative expenses include £45.6m (2005: £53.5m) of exceptional items (see note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

2 REVENUE AND PROFIT FOR THE YEAR (continued)

Profit for the year is stated after:

	Year ended 2 March 2006			Year ended 27 February 2005		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Auditors' remuneration:						
— Audit services	0.2	—	0.2	0.2	—	0.2
— Other assurance services	0.4	—	0.4	0.1	—	0.1
— Non-audit services	0.5	—	0.5	0.5	—	0.5
Net impairment of property, plant and equipment:						
— Owned assets	7.1	10.2	17.3	6.2	31.0	37.2
— Finance leased assets	(5.1)	—	(5.1)	5.3	—	5.3
Depreciation of property, plant and equipment:						
— Owned assets	30.9	1.3	32.2	28.4	4.0	32.4
— Finance leased assets	0.2	0.4	0.6	0.7	—	0.7
Amortisation of intangibles	0.1	—	0.1	0.3	—	0.3
Impairment of goodwill	19.0	14.7	33.7	2.0	2.9	4.9
Operating lease rentals of land and buildings	18.4	3.6	22.0	17.6	6.3	23.9
Sub-lease rents receivable and other income	(1.3)	(0.3)	(1.6)	(0.9)	(0.2)	(1.1)
Realised (profit)/loss on disposal of property, plant and equipment	—	(3.2)	(3.2)	—	0.8	0.8
Employee benefit expense (see note 4)	56.8	8.3	65.1	57.0	15.6	72.6
Costs of inventories recognised as an expense	52.1	9.9	62.0	49.7	20.2	69.9
Restructuring costs	0.4	—	0.4	—	—	—

3 NET FINANCE COSTS

Net finance costs relating to continuing operations are as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Interest payable on bank borrowings	(10.1)	(13.8)
Interest payable on loan note	—	(0.1)
Interest payable on obligations under finance leases	(0.3)	(0.3)
Amortisation of issue costs of bank loan (note 19)	(0.1)	—
Other interest payable	(0.3)	(0.1)
Total borrowing costs	(10.8)	(14.3)
Less amounts capitalised in the cost of qualifying assets	0.2	0.1
Losses arising on derivatives	(0.5)	—
FINANCE COSTS	(11.1)	(14.2)
Income on bank deposits	1.8	1.1
Other interest	0.8	—
INTEREST RECEIVABLE	2.6	1.1
FINANCE COSTS — NET	(8.5)	(13.1)

Finance costs relating to discontinued operations, being interest payable on obligations under finance leases, total £0.1m (2005: £0.1m).

Interest capitalised in the cost of qualifying assets is calculated using the borrowing rate obtainable by the Group under its current facility at the start of each financial year. Interest is calculated from the date capital expenditure commences until the opening of the relevant unit.

4 DIRECTORS AND EMPLOYEES

Employee costs charged during the year were as follows:

	Year ended 2 March 2006			Year ended 27 February 2005		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Wages and salaries	51.9	7.8	59.7	51.8	14.6	66.4
Social security costs	4.1	0.5	4.6	4.1	1.0	5.1
Pensions costs	0.8	—	0.8	1.1	—	1.1
	<u>56.8</u>	<u>8.3</u>	<u>65.1</u>	<u>57.0</u>	<u>15.6</u>	<u>72.6</u>

The Group operates defined contribution pension schemes. The assets of these schemes are held separately from those of the Group. The pension cost is shown above.

The average monthly number of employees of the Group, for both continuing and discontinued operations, during the year was:

	Year ended 2 March 2006			Year ended 27 February 2005		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Administration centre	274	—	274	309	—	309
Operations	5,897	575	6,472	6,608	953	7,561
	<u>6,171</u>	<u>575</u>	<u>6,746</u>	<u>6,917</u>	<u>953</u>	<u>7,870</u>

Remuneration in respect of key management of the Group (including Directors) was as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Salaries and short-term employee benefits	2,321.0	2,249.8
Company contributions to money purchase pension schemes	<u>348.8</u>	<u>416.3</u>
	2,669.8	2,666.1
Expense recognised in respect of share-based payments	<u>135.8</u>	<u>136.0</u>
	<u>2,805.6</u>	<u>2,802.1</u>

All remuneration relating to key management is recorded within continuing operations.

Remuneration in respect of Directors (including Non-Executive Directors) of Luminar plc was as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Aggregate emoluments	1,364.8	1,361.0
Company contributions to money purchase pension schemes	<u>198.5</u>	<u>269.0</u>
	<u>1,563.3</u>	<u>1,630.0</u>

During the year, five Directors including one former Director (2005: four) participated in a defined contribution pension scheme.

During the year, none of the Directors (2005: none) sold share warrants in the Company, nor exercised any share options (2005: none).

The amounts set out above include remuneration of the highest paid Director as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Aggregate emoluments	470	487
Company contributions to money purchase pension schemes	<u>109</u>	<u>185</u>

More detailed audited information concerning remuneration of Directors is included in the Remuneration Report on pages 26 to 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

5 TAX ON PROFIT FOR THE YEAR

(A) ANALYSIS OF CHARGE IN PERIOD

The taxation charge is based on the profit for the year and represents:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
CURRENT TAX		
— Continuing operations:		
— Current period	(11.2)	(11.6)
— Adjustments from prior periods	1.1	6.5
— Discontinued operations		
— Current period	(1.1)	(3.1)
— Adjustments from prior periods	—	1.6
	<u>(11.2)</u>	<u>(6.6)</u>
DEFERRED TAX		
— Continuing operations	6.1	(1.9)
— Discontinued operations	6.8	11.0
	<u>12.9</u>	<u>9.1</u>
TOTAL TAXATION CREDIT/(CHARGE)		
— Continuing operations	(4.0)	(7.0)
— Discontinued operations	5.7	9.5
	<u>1.7</u>	<u>2.5</u>

The taxation relating to exceptional items is disclosed in note 8.

(B) TAX ON ITEMS CHARGED TO EQUITY

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Share-based payment	—	0.2
Implementation of IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	0.2	—
	<u>0.2</u>	<u>0.2</u>

(C) FACTORS AFFECTING TAX CHARGE FOR PERIOD

The tax assessed for the period is lower (2005: lower) than the standard rate of corporation tax in the UK. The differences are explained as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Profit on ordinary activities from continuing operations before tax	22.9	24.5
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	(6.9)	(7.4)
EFFECTS OF:		
Expenses not deductible for tax purposes	(0.2)	(1.1)
Non-deductible exceptional items	(2.4)	(1.7)
Utilisation of capital losses not previously recognised	2.1	—
Rollover relief on profit on disposal of property	—	(1.5)
Adjustments in respect of the prior year	1.1	6.5
Non-qualifying depreciation	2.3	(1.8)
Total tax charge from continuing operations for the year	<u>(4.0)</u>	<u>(7.0)</u>

6 DIVIDENDS

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Ordinary shares — final dividend paid for 2005: 9.76p per share (final dividend paid for 2004: 8.87p per share)	7.1	6.5
Ordinary shares — interim dividend paid for 2006: 4.44p per share (interim dividend paid for 2005: 4.04p per share)	3.2	3.0
	<u>10.3</u>	<u>9.5</u>

In addition, the Directors are proposing a final dividend in respect of the current financial year of 10.74p per share, which will absorb an estimated £7.9m of shareholders' equity. It will be paid on 20 July 2006. This dividend is subject to approval at the Annual General Meeting, and has not been included as a liability within these Financial Statements.

7 EARNINGS PER SHARE

The calculation of the basic earnings per share (EPS) is calculated by dividing the earnings attributed to ordinary shareholders by the weighted average number of shares in issue during the year. For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has two classes of dilutive potential ordinary shares: share options granted to Directors and employees where the exercise price is less than the average market price of the Company's ordinary shares during the year, and the contingently issuable shares under the Company's long-term incentive plan (i.e. the Deferred Bonus Plan — see note 28). At the year end the performance criteria for the vesting of awards under the long-term incentive plan had not been met and consequently these potential shares are excluded from the diluted EPS calculation.

An alternative measure of earnings per share from continuing operations pre-exceptional items has been included below as the Directors believe that this measure of earnings per share is more reflective of the ongoing trading of the Company.

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below.

	Year ended 2 March 2006		
	Earnings £m	Weighted average number of shares (in millions)	Per share amount (pence)
BASIC EPS			
Earnings attributable to ordinary shareholders	1.7	73.2	2.3p
Effect of dilutive securities — options	—	0.1	—
DILUTED EPS	<u>1.7</u>	<u>73.3</u>	<u>2.3p</u>
Basic EPS from continuing operations	18.9	73.2	25.8p
Diluted EPS from continuing operations	18.9	73.3	25.8p
Basic EPS from discontinued operations	(17.2)	73.2	(23.5)p
Diluted EPS from discontinued operations	(17.2)	73.3	(23.5)p
EPS FROM CONTINUING OPERATIONS PRE-EXCEPTIONAL ITEMS			
Basic EPS from continuing operations pre-exceptional items	32.1	73.2	43.9p
Diluted EPS from continuing operations pre-exceptional items	<u>32.1</u>	<u>73.3</u>	<u>43.8p</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

7 EARNINGS PER SHARE (continued)

	Year ended 27 February 2005		
	Earnings £m	Weighted average number of shares (in millions)	Per share amount (pence)
BASIC EPS			
Earnings attributable to ordinary shareholders	1.6	73.2	2.2p
Effect of dilutive securities — options	—	0.1	—
DILUTED EPS	1.6	73.3	2.2p
Basic EPS from continuing operations	17.5	73.2	23.9p
Diluted EPS from continuing operations	17.5	73.3	23.9p
Basic EPS from discontinued operations	(15.9)	73.2	(21.7)p
Diluted EPS from discontinued operations	(15.9)	73.3	(21.7)p
EPS FROM CONTINUING OPERATIONS PRE-EXCEPTIONAL ITEMS			
Basic EPS from continuing operations pre-exceptional items	28.2	73.2	38.5p
Diluted EPS from continuing operations pre-exceptional items	28.2	73.3	38.5p

All amounts included in the column headed 'Earnings' are taken from the face of the Consolidated Income Statement on page 35.

8 EXCEPTIONAL ITEMS

(A) CONTINUING OPERATIONS

The Group incurred exceptional items on continuing operations as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
EXCEPTIONAL ITEMS RELATING TO TRADING UNITS		
Impairment of property, plant and equipment		
— on trading units	(0.3)	(7.6)
— on units held for sale	—	(1.5)
Reversal of prior years impairment of property, plant and equipment	9.5	—
Impairment of goodwill	(15.7)	(2.0)
Provision for onerous lease commitments	—	(0.6)
Reversal of provision for onerous lease commitments	0.6	—
Profit on sale and leaseback of property, plant and equipment	7.7	—
Costs relating to reorganisation and rationalisation	(2.5)	—
	<u>(0.7)</u>	<u>(11.7)</u>
EXCEPTIONAL ITEMS RELATING TO THE CLOSURE OF PROPERTIES		
Impairment of property, plant and equipment		
— on closed units	(8.1)	(2.4)
— on head office property	(3.1)	—
Impairment of goodwill	(3.3)	—
Provision for onerous lease commitments	(4.9)	(0.1)
	<u>(19.4)</u>	<u>(2.5)</u>
PRE-TAX EXCEPTIONAL ITEMS RELATING TO CONTINUING OPERATIONS	<u>(20.1)</u>	<u>(14.2)</u>
TAX ON EXCEPTIONAL ITEMS	<u>6.9</u>	<u>3.5</u>
EXCEPTIONAL ITEMS RELATING TO CONTINUING OPERATIONS	<u>(13.2)</u>	<u>(10.7)</u>

8 EXCEPTIONAL ITEMS (continued)

The exceptional items recognised within continuing operations have been split between those items relating to the Group's exit from Non-Core operations and the relocation of its head office and those associated with ongoing trading of the Group.

These units, although closed, were not actively marketed prior to the balance sheet date. As a result these units do not meet the criteria to be classified as held for sale, and therefore have been presented within continuing operations.

(i) Exceptional items relating to trading units

The reversal of prior years' impairment charges of £9.5m (2005: £nil), has arisen as the trigger causing the original impairment to be recognised has reversed, e.g. where it is now planned to re-brand a unit. The impairment of property, plant and equipment on trading units of £0.3m (2005: £7.6m) principally reflects the difference between the value-in-use of cash generating units (e.g. discrete trading units) and their carrying value.

The impairment of goodwill of £15.7m (2005: £2.0m) has been recorded following the annual impairment test required by IFRS 3, *Business Combinations*. The impairment has been recognised against goodwill allocated to the Entertainment and Non-Core segments, as a result of a decline in the performance of the Entertainment division, specifically Jumpin Jaks units, and Non-Core units still trading pending their ultimate disposal. Further details surrounding the impairment charges can be found in note 10.

A reversal of previously recognised provisions for onerous lease commitments of £0.6m (2005: £nil) has been recognised from changes to the intended use of the Group's units as a result of the re-branding strategy.

During the year the Group realised profits of £7.7m (2005: £nil) on the sale and leaseback of three sites (Hemel Hempstead, the Milton Keynes head office and Bury St Edmunds), for a total consideration of £28.0m, received in cash. Deferred income of £6.3m, relating to proceeds receivable above the fair value of the properties disposed, has been recognised on the balance sheet and will be amortised to the income statement over the life of the lease on a straight-line basis.

Costs of reorganisation and rationalisation of £2.5m (2005: £nil) have been incurred in respect of the strategic review of the Entertainment division, together with costs associated with the relocation and back-office rationalisation of the Group's administration centres.

(ii) Exceptional items relating to the closure of properties

The impairment of property, plant and equipment of £11.2m (2005: £2.4m) has arisen from the closure of units in the Non-Core segment pending their ultimate disposal resulting in a charge of £8.1m (2005: £2.4m), and a charge of £3.1m (2005: £nil) from the remeasurement to the fair value less costs of sale of the Group's former administration centres following the relocation of the head office to Milton Keynes. Goodwill attributed to closed sites within the Non-Core segment, £3.3m (2005: £nil), has been impaired following the annual impairment review required under IFRS 3.

The charges arising from onerous lease commitments of £4.9m (2005: £0.1m) is to recognise the obligation for rent and rates on currently vacant or closed units, where the likelihood of assignment of the lease or sub-let of the property is unlikely in the short term. These units are closed or vacant following the relocation of the Group's administration centres and the closure of Non-Core sites not suitable for re-branding.

(B) DISCONTINUED OPERATIONS

The Group incurred exceptional items relating to discontinued operations as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Impairment of property, plant and equipment	(12.7)	(31.0)
Reversal of prior year impairment	2.5	—
Impairment of goodwill	(14.7)	(2.9)
	<u>(24.9)</u>	<u>(33.9)</u>
Other costs associated with disposals	—	(1.5)
Provision for onerous lease commitments	(2.0)	(3.1)
Reversal of provision for onerous lease commitments	1.2	—
Realised loss on disposal of the Enterprise division	(3.0)	—
Realised profit/(loss) on disposals	3.2	(0.8)
PRE-TAX EXCEPTIONAL ITEMS RELATING TO DISCONTINUED OPERATIONS	<u>(25.5)</u>	<u>(39.3)</u>
TAX ON EXCEPTIONAL ITEMS	<u>7.4</u>	<u>4.8</u>
EXCEPTIONAL ITEMS RELATING TO DISCONTINUED OPERATIONS	<u>(18.1)</u>	<u>(34.5)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

8 EXCEPTIONAL ITEMS (continued)

The impairment of property, plant and equipment of £12.7m (2005: £31.0m) has resulted from remeasuring to fair value less costs of sale units held for sale. The reversal of prior year impairment charges of £2.5m (2005: £nil) has resulted from the upward remeasurement of units held for sale to the extent of previously recognised impairment charges.

The impairment of goodwill of £14.7m (2005: £2.9m) has arisen following the annual impairment test required under IFRS 3, *Business Combinations*, as a result of remeasuring Non-Core units held for sale at their fair value less costs of sale.

The provision for onerous lease commitments of £2.0m (2005: £3.1m), relating to sites presented within discontinued operations, has arisen from the closure of sites following the decision to exit from Non-Core operations. The reversal of previously recognised provisions of £1.2m (2005: £nil) has arisen as a result of settlement of lease surrender premiums at a lower level than previously provided for.

An exceptional loss on disposal of the Enterprise division, £3.0m (2005: £nil), has been recognised on completion of the sale during the first half of the 2005/06 financial year (as outlined in note 9).

The profit on disposal of single sites of £3.2m (2005: £0.8m loss) has arisen on the disposal of 15 units for consideration of £10.0m, of which £5.2m has been received in cash during the year, with receivables of £4.8m outstanding at the year end.

9 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

Comparative income statement and cash flow information is restated at each balance sheet date to reflect the composition of discontinued operations as at the latest balance sheet date.

(A) RESULTS OF DISCONTINUED OPERATIONS

The results of discontinued operations, which comprise the Enterprise division and other Non-Core units, either disposed of or held for sale, forming part of the Group's plan to exit from its Non-Core operations, included within the Consolidated Income Statement, were as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Revenue	42.1	87.0
Expenses	(39.4)	(73.0)
Finance costs	(0.1)	(0.1)
Profit before tax	2.6	13.9
Attributable tax (expenses)/credits	(1.7)	4.7
Profit after tax before exceptional items	0.9	18.6
Exceptional items:		
Remeasurement to held for sale	(24.9)	(35.4)
Loss on disposal of the Enterprise division	(3.0)	—
Other exceptional items (see note 8B)	2.4	(3.9)
Attributable tax credits	7.4	4.8
Net loss attributable to discontinued operations	(17.2)	(15.9)

On 10 June 2005, the Group completed the disposal of its wholly owned subsidiary, Candu Entertainment Limited, which held 49 nightclubs forming the major part of its Enterprise division. The net loss realised on the disposal totalled £3.0m.

Consideration for the disposal totalled £26.8m, of which initial cash consideration represented £22.6m, deferred contingent consideration recognised on satisfaction of these contingencies represented £3.2m, with additional deferred contingent consideration not yet accrued within the Financial Statements totalling £1.0m. Cash disposed on the sale of the Enterprise division totalled £0.3m.

Consolidated net assets disposed amounted to £27.2m, of which the material amounts were property, plant and equipment, with costs and asset write-downs associated with the transaction above those charged in the year to 27 February 2005 totalling £1.6m.

9 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE (continued)**(B) CASH FLOW FROM DISCONTINUED OPERATIONS**

The Consolidated Cash Flow Statement on page 38 includes the following cash flows arising from discontinued operations.

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Net cash flows from operating activities	4.3	17.3
Net cash flows from investment activities	25.8	6.5
Net cash flows from financing activities	—	—
	<u>30.1</u>	<u>23.8</u>

(C) ASSETS AND LIABILITIES OF UNITS HELD FOR SALE

On 2 March 2006, 46 units were classified as held for sale, of which 43 units were within the Non-Core segment, with 1 unit from each of the Dancing and Entertainment segments and 1 head office property. These units were being actively marketed at the balance sheet date and a number of offers had been received against the majority of these units, which formed the basis for the estimates of fair value less costs of sale for these units. An external valuation was used to estimate fair value less costs of sale in the absence of receiving an offer from external parties.

A net charge of £24.9m (2005: £35.4m) has been recognised on remeasurement of units held for sale to fair value less costs of sale, which includes an upward revaluation to fair value less costs of sale of £2.5m, to the extent of previously recognised impairment losses.

All units are highly probable of being disposed of within 12 months from the balance sheet date, apart from 4 units for which contracts have been unconditionally exchanged before the year end, but have an agreed completion date of August 2007.

Since the year end two units, which were held for sale, have been disposed of. The leases on these units were surrendered to the landlord, at a cost of £1.6m, which was fully provided for at the balance sheet date.

The major classes of assets and liabilities comprising the units classified as held for sale are as follows:

	2 March 2006 £m	27 February 2005 £m
Property, plant and equipment	30.5	38.7
Other non-current assets	—	3.6
Inventories	1.4	0.8
Trade and other receivables	1.3	1.1
Cash and cash equivalents	0.2	0.4
TOTAL ASSETS CLASSIFIED AS HELD FOR SALE	33.4	44.6
Trade and other payables	(6.4)	(7.0)
Finance lease obligations	(1.5)	—
Deferred income	(0.6)	(0.5)
Deferred tax	—	1.5
Provisions	(3.7)	(2.8)
TOTAL LIABILITIES ASSOCIATED WITH UNITS CLASSIFIED AS HELD FOR SALE	(12.2)	(8.8)
NET ASSETS HELD FOR SALE	21.2	35.8

During the year 12 units from those categorised as held for sale as at 27 February 2005 were moved out of held for sale, following a decision to re-brand these units. Previously recognised impairment charges of property, plant and equipment of £3.2m were reversed through continuing exceptional items following the reclassification out of held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

10 GOODWILL

	£m
COST	
At 28 February 2005	208.0
Recognised on acquisition of trade and assets of a business (note 11)	8.1
AT 2 MARCH 2006	216.1
ACCUMULATED IMPAIRMENT LOSSES	
At 28 February 2005	4.9
Impairment losses for the year	33.7
AT 2 MARCH 2006	38.6
CARRYING AMOUNT	
AT 2 MARCH 2006	177.5
	£m
COST	
At 1 March 2004 and 27 February 2005	208.0
ACCUMULATED IMPAIRMENT LOSSES	
At 1 March 2004	—
Impairment losses for the year	4.9
AT 27 FEBRUARY 2005	4.9
CARRYING AMOUNT	
AT 27 FEBRUARY 2005	203.1

During the year ended 2 March 2006, the Group acquired the assets and trade of 13 units of which 10 are large capacity clubs from The Nightclub Company (see note 11), resulting in £8.1m of goodwill. This goodwill has been allocated to the Dancing segment.

The majority of the Group's goodwill, excluding the acquisition during the current year, arose from the acquisition of units that now predominantly form part of the Dancing segment and which were acquired from either Allied Leisure plc on 6 December 1999 or from Northern Leisure Plc on 11 July 2000.

Goodwill by Segment

A Cash Generating Unit (CGU) is deemed to be an individual operating unit, as each unit generates profits and cash flows that are largely independent from other units. Where multiple CGUs are acquired as part of a single business combination, the goodwill arising from the business combination is attributed to individual CGUs, but is grouped together at a segment level, being the lowest level that management monitors goodwill. Accordingly, CGUs have been grouped together at a segmental level for the purpose of the annual impairment review of goodwill.

During the year, the Group reviewed the composition of its segments, and realigned the segments to reflect the manner in which the business is effectively managed. Goodwill allocated to each segment has been revised following this realignment, and the Group has reallocated goodwill between the segments using a relative value approach, based on the value-in-use (VIU) of each CGU at 28 February 2005.

The following table outlines the changes to the allocation of goodwill resulting from the re-segmentation of the Group's operations:

	Dancing £m	Entertainment £m	Non-Core £m	Total £m
CARRYING VALUE ALLOCATED AT 27 FEBRUARY 2005	198.3	4.8	—	203.1
Re-segmentation of units at 28 February 2005	(33.4)	9.3	24.1	—
Goodwill arising on acquisition of assets and trade from The Nightclub Company	8.1	—	—	8.1
Carrying value prior to annual impairment review	173.0	14.1	24.1	211.2
Impairment	—	(9.6)	(24.1)	(33.7)
CARRYING VALUE AT 2 MARCH 2006	173.0	4.5	—	177.5

10 GOODWILL (continued)

The annual impairment review for goodwill for 2006 has been conducted using the allocation of goodwill subsequent to the re-segmentation. However, the annual impairment review conducted in 2005 has been conducted on the basis of the allocation of goodwill and segmentation of the Group's units as at 27 February 2005.

Impairment of Goodwill

In assessing whether a write-down of goodwill is required to the carrying value of the related asset, the carrying value of the CGU or group of CGUs is compared with its recoverable amount. The recoverable amount for each CGU and collectively for groups of CGUs that make up the segments of the Group's business, has been measured based on VIU, with the exception of those units that were held for sale at the balance sheet date, where the recoverable amount for these units has been based on fair value less costs to sell.

For the purposes of the annual impairment review, the recoverable amount for each of the Group's segments has been estimated on the following bases:

- *Dancing and Entertainment*: VIU.
- *Non-Core*: VIU, or fair value less costs of sale for those CGUs held for sale at the balance sheet date.

The Group estimates the VIU of its CGUs using a discounted cash flow model (DCF), which adjusts the cash flows for risks associated with the assets, and are discounted using a pre-tax rate of 11.5% (2005: 11.5%). The discount rate used is consistent across all segments.

The VIU calculations have not included the benefits arising from any future asset enhancement expenditure, as this is not permitted by IAS 36. The VIU calculations therefore exclude the significant benefits anticipated from future refurbishments, together with the related capital expenditure, resulting from the re-branding programme. The growth rates included within the assumptions supporting the VIU calculations do not therefore represent the Group's anticipated total forecast growth, but rather the growth deriving from refurbishments completed by the balance sheet date.

Fair value less costs to sell has been based on external offers received for CGUs held for sale, or valuations from internal and external property experts if no offers have been received to date.

During the years ended 2 March 2006 and 27 February 2005, following the annual impairment review required by IAS 36, *Impairment of Assets*, a goodwill write-down of £33.7m (2005: £4.9m) has been recognised. This charge has been recognised £15.7m (2005: £2.0m) through administrative expenses, £3.3m (2005: £nil) through exceptional items relating to closed properties and £14.7m (2005: £2.9m) through exceptional items within discontinued operations.

Of the goodwill impairment, £24.1m (2005: £4.7m) relates to the Non-Core segment, and £9.6m (2005: £0.2m) to the Entertainment segment. The impairment recognised within the Non-Core segment has arisen from the remeasurement of those units held for sale to their fair value less costs of sale. The impairment relating to the Entertainment segment, specifically Jumpin Jaks units, has arisen from downward revisions to prior estimates of VIU following sales performance in the segment during the current year.

Goodwill allocated to the Dancing Segment

Goodwill allocated to the Dancing segment is significant in comparison to the total carrying value of the Group's goodwill. The key assumptions required for the VIU calculation for the Dancing division are sales growth, EBITDA and decay rates resulting from the exclusion of future refurbishment expenditure from the VIU, in accordance with IAS 36.

The Group has only used formally approved budgets for the first year of its VIU calculation. The use of longer term budgets and forecasts within the VIU would include both the outflows and benefits relating to future capital expenditure, which is not permitted by IAS 36. As a result, the VIU for years two to five have been based on forecast sales and EBITDA growth/decline which the Group anticipates will arise as a result of the exclusion of future refurbishment expenditure from the VIU, rather than formally approved budgets. The growth rates assumed for EBITDA growth in years two to five range between 5% and -5%. A terminal value, assuming a 0% growth rate due to no refurbishment benefits assumed in the VIU, has been calculated from estimated year five cash flows.

The assumptions used in the calculation of the VIU for the Dancing segment have been derived from past experience. It is estimated that if EBITDA for the Dancing segment were to decline by 5% annually, this would not be sufficient to reduce the excess of the recoverable amount over the carrying amounts of the CGUs to zero. As a result, management believe that no reasonably possible change in assumptions would cause the carrying amount of Dancing goodwill to exceed its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

11 ACQUISITION OF BUSINESS

On 18 November 2005 the Group acquired the assets and trade relating to 13 units, of which 10 are large capacity clubs, from The Nightclub Company for a total cash consideration of £11.0m. The assets acquired in the business combination are outlined below:

	Book Value £m	Adjustment £m	Fair value £m
NON-CURRENT ASSETS			
— Property, plant and equipment	1.3	—	1.3
— Intangible assets	—	0.3	0.3
CURRENT ASSETS			
— Inventory	0.3	0.4	0.7
— Prepayments	0.5	—	0.5
— Cash	0.1	—	0.1
	<u>2.2</u>	<u>0.7</u>	<u>2.9</u>
GOODWILL			<u>8.1</u>
			11.0
CONSIDERATION			
Cash paid			<u>11.0</u>

The adjustments to the net book value of assets relate to the recognition of acquired intangible assets at their fair value and the step-up of inventory to its fair value less costs of disposal. The goodwill of £8.1m relates to the development potential on the future re-branding of the acquired units.

The acquired units contributed £5.8m to revenue and £0.7m to operating profit before exceptional items since acquisition. These units have been allocated to the Dancing segment.

Net cash paid on acquisition of business of £10.9m on the face of the Consolidated Cash Flow Statement is net of £0.1m cash acquired with the business.

It is impracticable for the Group to obtain reliable information concerning revenue and results of the acquired business for the period prior to acquisition.

12 OTHER INTANGIBLE ASSETS 2006

	Software £m	Trademarks £m	Licences £m	Total £m
COST				
At 28 February 2005	2.1	0.1	—	2.2
Additions	0.5	—	0.3	0.8
Acquired through purchase of business (note 11)	—	—	0.3	0.3
AT 2 MARCH 2006	<u>2.6</u>	<u>0.1</u>	<u>0.6</u>	<u>3.3</u>
AMORTISATION				
At 28 February 2005	1.1	—	—	1.1
Charge	0.1	—	—	0.1
AT 2 MARCH 2006	<u>1.2</u>	<u>—</u>	<u>—</u>	<u>1.2</u>
NET BOOK AMOUNT AT 2 MARCH 2006	<u>1.4</u>	<u>0.1</u>	<u>0.6</u>	<u>2.1</u>

12 OTHER INTANGIBLE ASSETS (continued)

2005

	Software £m	Trademarks £m	Total £m
COST			
At 1 March 2004	1.9	0.1	2.0
Additions	0.2	—	0.2
AT 27 FEBRUARY 2005	2.1	0.1	2.2
AMORTISATION			
At 1 March 2004	0.8	—	0.8
Charge	0.3	—	0.3
AT 27 FEBRUARY 2005	1.1	—	1.1
NET BOOK AMOUNT AT 27 FEBRUARY 2005	1.0	0.1	1.1

All intangible assets have been acquired. All amortisation charges for all periods presented have been charged through administrative expenses.

13 PROPERTY, PLANT AND EQUIPMENT

2006

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Fixtures, fittings, furniture and equipment £m	Motor vehicles £m	Total £m
COST						
At 28 February 2005	106.7	10.1	113.0	319.4	2.2	551.4
Additions	5.8	0.5	0.6	45.6	0.7	53.2
Acquisition of business	—	—	—	1.3	—	1.3
Disposals	(19.0)	(8.3)	(1.8)	(18.9)	(0.7)	(48.7)
Net transfers (to)/from assets held for sale	(15.2)	(1.4)	17.5	(12.3)	—	(11.4)
AT 2 MARCH 2006	78.3	0.9	129.3	335.1	2.2	545.8
DEPRECIATION						
At 28 February 2005	10.7	1.0	13.7	111.4	1.1	137.9
Depreciation charge	1.0	0.6	5.9	24.5	0.8	32.8
Impairment	3.4	0.2	0.3	8.3	—	12.2
Disposals	(9.6)	(1.3)	(1.3)	(14.7)	(0.6)	(27.5)
Net transfers (to)/from assets held for sale	(3.9)	(0.3)	15.0	(3.5)	—	7.3
AT 2 MARCH 2006	1.6	0.2	33.6	126.0	1.3	162.7
NET BOOK AMOUNT AT 2 MARCH 2006	76.7	0.7	95.7	209.1	0.9	383.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

13 PROPERTY, PLANT AND EQUIPMENT (continued) 2005

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Fixtures, fittings, furniture and equipment £m	Motor vehicles £m	Total £m
COST						
At 1 March 2004	156.8	14.8	120.7	364.0	2.5	658.8
Additions	2.5	—	5.5	46.2	1.2	55.4
Disposals	(16.8)	(0.5)	(1.3)	(8.3)	(1.5)	(28.4)
Net transfers (to) assets held for sale	(35.8)	(4.2)	(11.9)	(82.5)	—	(134.4)
AT 27 FEBRUARY 2005	106.7	10.1	113.0	319.4	2.2	551.4
DEPRECIATION						
At 1 March 2004	30.1	3.0	11.3	128.5	1.5	174.4
Depreciation charge	1.5	0.5	6.6	23.7	0.8	33.1
Impairment	6.1	—	6.2	30.2	—	42.5
Disposals	(9.5)	(0.1)	(0.7)	(4.9)	(1.2)	(16.4)
Net transfers (to) assets held for sale	(17.5)	(2.4)	(9.7)	(66.1)	—	(95.7)
AT 27 FEBRUARY 2005	10.7	1.0	13.7	111.4	1.1	137.9
NET BOOK AMOUNT AT 27 FEBRUARY 2005	96.0	9.1	99.3	208.0	1.1	413.5

The transfer of assets from property, plant and equipment to assets held for sale relates principally to properties in the Non-Core segment at the balance sheet date.

For further details regarding the impairment of property plant and equipment see note 8.

Assets in the course of construction total £111.1m (2005: £10.1m) which have been classified within fixtures, fittings, furniture and equipment.

Assets held under finance leases have the following net book amount:

	2 March 2006 £m	27 February 2005 £m
Cost	7.1	7.1
Accumulated depreciation and impairment losses	(1.4)	(6.4)
Net book amount	5.7	0.7

Assets held under finance leases relate to the building component of properties held under long leases. Previously recognised impairment losses of £5.1m (2005: £nil) have been reversed following a change of management intentions regarding the redevelopment of a property held under a finance lease.

In accordance with IFRS 1, *First time adoption of International Financial Reporting Standards*, and IAS 17, *Leases*, the Group has reviewed the classification of all leases at the date of transition to IFRS. In reviewing leases of land and buildings in accordance with IAS 17, the land and building elements of the lease need to be considered separately. On this basis, leases on six properties were reclassified as finance leases in these Financial Statements.

During the year the Group acquired property, plant and equipment with an aggregate cost of £nil (2005: £5.3m) by means of finance lease.

14 OTHER NON-CURRENT ASSETS

	2 March 2006 £m	27 February 2005 £m
Other non-current assets	7.4	7.6

Other non-current assets relate to lease premiums paid in relation to property leases.

15 PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**SUBSIDIARY UNDERTAKINGS**

The Company's principal subsidiary undertakings, all of which are wholly owned and which have been consolidated into these Financial Statements, are listed below together with details of their businesses. The share capital consists of ordinary shares.

	Class of share capital	Proportion held	Nature of business
Luminar Leisure Limited*	Ordinary	100%	Licensed premises
Luminar Dancing Scotland Limited*	Ordinary	100%	Licensed premises
Luminar North Limited*	Ordinary	100%	Licensed premises
Luminar Midlands and West Limited*	Ordinary	100%	Licensed premises
Luminar South and East Limited*	Ordinary	100%	Licensed premises
Luminar Dancing Finance Limited	Ordinary	100%	Holding company
Luminar Entertainment Finance Limited	Ordinary	100%	Financing company
Luminar IP Limited	Ordinary	100%	Brand ownership
Luminar Brands Limited	Ordinary	100%	Brand ownership
Evered Employee Benefit Trustees Limited (registered in Jersey)	Ordinary	100%	Trustee company

Unless otherwise stated all subsidiaries are registered in England and Wales. Luminar plc is registered and domiciled in England and Wales.

* Indirectly owned by Luminar Dancing Finance Ltd.

INTERESTS IN ASSOCIATES

Interests in associates represents the Group's interest in the issued ordinary share capital of Eminence Leisure Limited (20%) and Choir IT Limited (40%) which have been equity accounted for in accordance with IAS 28, *Investments in Associates*.

However, the cost of investment, the cumulative post-acquisition share of the after tax profit and the cumulative post-acquisition share of reserve movements of the associates are less than £50,000 and accordingly when rounded do not appear in the presentation of these Financial Statements.

	2 March 2006 £m	27 February 2005 £m
AGGREGATE AMOUNTS RELATING TO ASSOCIATES		
Total assets	0.7	0.4
Total liabilities	(0.7)	(0.4)
Revenues	4.0	3.9
Operating profit	—	—
Interest	—	—
Profit before tax	—	—

None of the associates in which the Group holds an interest have published prices for their shares. The Group's interest is held by Luminar plc for Choir IT Ltd, and Luminar Leisure Limited for Eminence Leisure Limited.

INTERESTS IN JOINT VENTURES

During the year, the Group entered into an arrangement with Lucinne Barriere to form a joint venture company called Waterimage Limited, a company incorporated in the United Kingdom. Both parties own a 50% shareholding in the company, representing one £1 share each. No trading took place in the company during the year.

16 INVENTORIES

	2 March 2006 £m	27 February 2005 £m
Goods held for resale	2.6	3.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

17 TRADE AND OTHER RECEIVABLES

	2 March 2006 £m	27 February 2005 £m
Consideration receivable from disposals	5.7	—
Other debtors	2.6	2.2
Prepayments and accrued income	4.7	2.9
	<u>13.0</u>	<u>5.1</u>

18 CASH & CASH EQUIVALENTS

	2 March 2006 £m	27 February 2005 £m
Cash at bank and in hand	19.9	15.8
Cash on short-term deposit	52.0	6.8
	<u>71.9</u>	<u>22.6</u>

Cash & cash equivalents as disclosed above are exclusive of cash classified as held for sale (see note 9C). The interest rate earned on the year end short-term deposits ranged from 4.35% to 4.39%.

19 BANK LOANS

Amounts falling due after more than one year are as follows:

	2 March 2006 £m	27 February 2005 £m
Bank loans	180.0	180.0
Issue costs	(0.8)	(0.9)
	<u>179.2</u>	<u>179.1</u>

20 TRADE AND OTHER PAYABLES — CURRENT

	2 March 2006 £m	27 February 2005 £m
Trade payables	(8.8)	(9.5)
Social security and other taxes	(4.3)	(7.9)
Accruals	(10.3)	(21.1)
Derivative financial instruments (note 23)	(0.5)	—
	<u>(23.9)</u>	<u>(38.5)</u>

21 CURRENT TAX LIABILITIES

	2 March 2006 £m	27 February 2005 £m
Current tax liabilities	30.2	11.8

Current tax liabilities represent the amount provided for as a result of business activities undertaken in a tax efficient manner, pending agreement with the relevant tax authority. The amount provided will be paid or released to the Consolidated Income Statement once agreement is reached.

22 DEFERRED INCOME

	2 March 2006 £m	27 February 2005 £m
Deferred income	9.9	4.5

Deferred income has been analysed between current and non-current as follows:

	2 March 2006 £m	27 February 2005 £m
Current	0.6	0.1
Non-current	9.3	4.4

Deferred income includes the deferred profit represented by the excess of consideration received above the assessed fair value on the sale and leaseback transactions completed during the year, together with the deferred lease incentives and rent-free periods received on the Group's operating leases.

23 FINANCIAL INSTRUMENTS

As outlined in the principal accounting policies on page 39, the Group has taken the exemption not to restate comparatives for the implementation of IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 39, *Financial Instruments: Recognition and Measurement*. Comparative information for the year ended 27 February 2005 has been presented as previously under UK GAAP, with the exception of finance leases which have been recognised in the comparative period in accordance with IAS 17, *Leases*. If comparative information for the year had been restated to comply with IAS 32 and IAS 39, the main areas impacted would have been in accounting for the Group's interest rate swaps at their fair value.

The effect of the implementation of IAS 32 and IAS 39 is treated as a change in accounting policy with effect from 28 February 2005. The effect of the change was to reduce both net assets and retained profits by £0.3m (£0.5m recognising interest rates swaps at their fair value, net of a deferred tax asset of £0.2m), and is included in the Consolidated Statement of Changes in Shareholders' Equity.

Due to the predominately cash-based nature of the Group's operations, the only financial instruments that materially expose the Group to any of the financial risks detailed in the notes below are debt financing and related interest rate swaps, and the disclosures to follow relate principally to these items.

The Group uses derivative financial instruments in order to reduce its exposure to financial risk. The use of such financial instruments constitutes an integral part of the Group's funding strategy. The Group manages its derivative financial instrument credit risk by only undertaking transactions with relationship banks holding good credit ratings. Such transactions are governed by Board policies and procedures.

Further details regarding the Group's financial risk management policies can be found within the Financial Review on pages 15 and 16.

(A) INTEREST RATE EXPOSURE OF FINANCIAL LIABILITIES

After taking into account the various interest rate swaps entered into by the Group, the interest rate profile of the Group's financial liabilities was:

	Fixed rate £m	Floating rate £m	Total £m	Floating interest rate %	Fixed rate weighted average Interest rate %	Time period Years
2 March 2006	142.1	45.0	187.1	4.6	5.5	3.3
27 February 2005	143.0	45.0	188.0	5.9	5.5	4.2

Included within the above is £135.0m (2005: £135.0m) of notional principal amounts in relation to four interest rate swaps. The fair value of the interest rate swaps (note 23(D)) was estimated by the finance providers based on market conditions at the year end. The values were calculated using their valuation models with mid-market rates. The floating rate borrowings bear interest at rates based on LIBOR for periods of between one month and six months. All four swaps matured on 26 April 2006.

Subsequent to the year end, the Group has taken out three interest rate swaps with a principal amount of £60.0m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

23 FINANCIAL INSTRUMENTS (continued)

(B) MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities was as follows:

	2 March 2006			27 February 2005		
	Bank and other borrowings £m	Finance lease liabilities £m	Total £m	Bank and other borrowings £m	Finance lease liabilities £m	Total £m
Within one year or on demand	—	—	—	0.9	—	0.9
Between one and two years	—	—	—	—	—	—
Between two and five years	180.0	0.1	180.1	180.0	—	180.0
Over five years	—	7.0	7.0	—	7.1	7.1
As at year end	<u>180.0</u>	<u>7.1</u>	<u>187.1</u>	<u>180.9</u>	<u>7.1</u>	<u>188.0</u>

After the year end, the Group has paid down £30.0m of the £180.0m drawings under its facility to utilise surplus cash on hand, following the realisation of Non-Core assets during the year. The bank loans can be repaid by the Group upon giving 10 working days' notice. However, the facility is committed for a term up to December 2009 unless the Group contravenes covenant arrangements.

(C) BORROWING FACILITIES

The Group's undrawn floating facilities at the balance sheet date were as follows:

	2 March 2006 £m	27 February 2005 £m
Expiring after two years	<u>75.0</u>	<u>75.0</u>
	<u>75.0</u>	<u>75.0</u>

Of these facilities, £75.0m (2005: £75.0m) is committed and secured by means of a floating charge over the Group's current and future assets. The floating charge also secures the bank loans drawn down of £180.0m in (B) above.

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	2 March 2006		27 February 2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
PRIMARY FINANCIAL INSTRUMENTS HELD OR ISSUED TO FINANCE THE GROUP OPERATIONS				
Short-term financial liabilities and current portion of long-term borrowings (i)	—	—	(0.9)	(0.9)
Long-term borrowings (ii)	(180.0)	(180.0)	(180.0)	(180.0)
Cash at bank and in hand (iii)	72.1	72.1	23.0	23.0
Finance lease obligations (iv)	(7.1)	(6.5)	(7.1)	(6.7)
DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE				
Interest rate swaps (v)	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.7)</u>

The fair value of other financial assets and liabilities included in notes 17, 20 and 25 approximate their carrying value.

- (i) Loan notes repaid during April 2005, stated at their amortised cost, with the difference between book value and fair value deemed immaterial given the short period to maturity of these liabilities.
- (ii) Drawings made under the Group's floating rate facility, where fair value approximates to book value.
- (iii) Cash at bank, including short-term deposits: all deposits made are for short durations (less than one month); therefore, given the short maturity periods, there is no significant difference between the book value and fair value of these deposits.
- (iv) Finance lease liabilities at fixed rate: given the length of time to maturity of these liabilities and the length of time since inception of the lease, the fair value of these liabilities at the balance sheet date is lower than current book value.
- (v) The fair value of interest rate swaps has been determined with reference to market rates at the balance sheet date. At 2 March 2006 the book value of these swaps equates to their fair value as these derivatives are stated at their fair value under IAS 39.

23 FINANCIAL INSTRUMENTS (continued)**(E) HEDGES ON FUTURE TRANSACTIONS**

The Group's policy is to manage interest rate risk by using interest rate swaps and forward rate agreements. The unrecognised losses on interest rate swaps as at 27 February 2005 are disclosed in note 23 (D). Following the implementation of IAS 39 during the year to 2 March 2006, these interest rate swaps are held within liabilities at their fair value. These interest rate swaps do not qualify for hedge accounting under IAS 39; therefore, changes in their fair value are recorded through the Consolidated Income Statement.

(F) FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

The Group does not trade in financial instruments.

24 OBLIGATIONS UNDER FINANCE LEASES

The minimum lease payments under finance leases fall due as follows:

	2 March 2006 £m	27 February 2005 £m
Within one year	0.4	0.4
In the second to fifth years inclusive	1.7	1.7
After five years	25.0	25.4
	<u>27.1</u>	<u>27.5</u>
Less future finance charges	(20.0)	(20.4)
PRESENT VALUE OF LEASE OBLIGATIONS	<u>7.1</u>	<u>7.1</u>
Reclassification to held for sale	(1.5)	—
	<u>5.6</u>	<u>7.1</u>
LESS AMOUNT DUE FOR SETTLEMENT WITHIN ONE YEAR	<u>—</u>	<u>—</u>
AMOUNT DUE FOR SETTLEMENT AFTER MORE THAN ONE YEAR	<u>5.6</u>	<u>7.1</u>
Split by:		
Amount due for settlement within second to fifth years inclusive	0.1	0.1
Amount due for settlement after five years	5.5	7.0

All finance lease obligations represent liabilities for the building element of properties used in the Group's business. The lease agreements include rent review clauses at periodic intervals of a kind that are usual for property leases.

25 PROVISIONS

	Onerous Leases £m	Public Liability Insurance £m	Other Provisions £m	Total £m
At 28 February 2005	4.7	1.9	—	6.6
Charge for the year	6.9	0.8	0.8	8.5
Release	(1.8)	—	—	(1.8)
Utilised during the year	(1.0)	(0.8)	—	(1.8)
AT 2 MARCH 2006	<u>8.8</u>	<u>1.9</u>	<u>0.8</u>	<u>11.5</u>
AT 2 MARCH 2006 CLASSIFIED AS:				
Held for sale	3.7	—	—	3.7
Continuing operations	5.1	1.9	0.8	7.8
At 27 February 2005				
Held for sale	2.8	—	—	2.8
Continuing operations	1.9	1.9	—	3.8

Provisions have been analysed between current and non-current as follows:

	2 March 2006 £m	27 February 2005 £m
Current	2.3	0.6
Non-current	5.5	3.2
	<u>7.8</u>	<u>3.8</u>

Provisions have not been discounted since the effect of discounting would not be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

25 PROVISIONS (continued)

ONEROUS LEASES

Provisions for onerous leases represent onerous commitments on operating leases for properties currently vacant or for closed units, where assignment of the lease or sub-let of the property is unlikely in the short term.

Provision is made for rent and related property costs for the period management estimate the property would not be sub-let, or until assignment of the lease is probable, and ranges up to 8 years.

Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium payable on the assignment, if this represents the least cost to exit from the commitment.

The amount and timing of the cash outflows relating to onerous leases are subject to variations. In estimating the amount and timing of cash flows management utilise the skills and experience of both internal and external property specialists, and are satisfied that the resulting estimated provision is appropriate.

PUBLIC LIABILITY INSURANCE

Provision for Public Liability Insurance is made for the estimated exposure of the Group to claims in excess of current insurance reserves, based upon experience of historical claims. This provision is expected to be utilised within 2 years.

OTHER PROVISIONS

Other provisions represent redundancy costs associated with the relocation of one of the Group's former administration centres of £0.2m, and costs associated with various legal proceedings of a type typical to the Group's business of £0.6m, and are expected to be utilised within 1–2 years.

26 DEFERRED TAX

	£m
At 28 February 2005	59.1
Transfer from held for sale	(1.5)
Credit recognised in income statement	(12.9)
Credit recognised in equity	(0.2)
Credit associated with disposal of business	(0.6)
AT 2 MARCH 2006	43.9

The analysis of the year end deferred tax position is as follows:

	2 March 2006 £m	27 February 2005 £m
On property, plant and equipment	42.7	50.2
Other temporary differences	1.2	8.9
	43.9	59.1

Deferred taxation provided for in the Financial Statements at the year end represents provision at 30% on the temporary differences between the accounting net book amount of property, plant and equipment, and the tax base of those assets.

The deferred tax liability has been calculated using estimates based on the current manner of recovery of the assets' value on property, plant and equipment not eligible for capital allowances, i.e. recovery through continued use in the business unless the asset is held for sale. This method assumes no tax relief will be available; therefore, no tax base is available for inclusion within the calculation of the deferred tax liability, unless the assets' value is recovered through sale rather than continued use.

The key assumptions in the calculation of deferred tax are set out below:

- Capital expenditure: The percentage of the Company's capital expenditure that would qualify for tax relief, incurred by each unit, has been estimated based on prior periods' historical experience of the split between qualifying and non-qualifying expenditure.
- Impairments: The impairments to property, plant and equipment have been apportioned between assets qualifying for tax relief and those that do not.
- Depreciation: The rate of depreciation for assets that do not qualify for the initial recognition exemption has been estimated based on actual data for the most recent accounting periods.

26 DEFERRED TAX (continued)

A review of the deferred tax liability will be performed at each balance sheet date and adjustments made in the event of a change in any key assumptions.

At the balance sheet date, the Group has estimated unused capital gains tax losses of £20m available for offset against future taxable profits from capital disposals. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams available to offset these losses.

27 SHARE CAPITAL

	Number	2 March 2006 £m	27 February 2005 £m
AUTHORISED			
Ordinary shares of 25p (2005: 106,000,000)	106,000,000	26.5	26.5
ISSUED AND FULLY PAID			
Ordinary shares of 25p each (2005: 73,175,280)	73,176,187	18.3	18.3

During the year 907 shares were issued for a cash consideration of £1,737 to satisfy exercises of options under the Group's 1996 Executive Share Option Scheme.

Potential issues of ordinary shares are as follows:

1996 EXECUTIVE SHARE OPTION SCHEME

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
18/11/98	121,500	6.64	18/11/01 to 17/11/08
22/02/99	90,000	8.05	22/02/02 to 21/02/09
04/08/99	6,500	9.366	04/08/02 to 03/08/09
14/02/00	40,000	8.35	14/02/03 to 13/02/10
11/07/00	645,000	7.14	11/07/03 to 10/07/10
21/08/00	4,875	6.85	21/08/03 to 20/08/10
16/01/01	63,830	7.52	16/01/04 to 15/01/11
23/02/01	35,345	8.13	23/02/04 to 22/02/11
04/07/01	53,674	8.80	04/07/04 to 03/07/11
09/07/01	12,300	8.94	09/07/04 to 08/07/11
10/07/02	31,210	7.85	10/07/05 to 09/07/12
09/12/02	211,133	4.19	09/12/05 to 08/12/12
22/05/03	197,044	4.06	22/05/06 to 21/05/13
18/06/03	21,455	4.66	18/06/06 to 17/06/13
25/07/03	31,952	4.513	25/07/06 to 24/05/13
14/07/04	136,500	4.200	14/07/07 to 13/07/14
25/07/05	303,442	5.24	25/07/08 to 24/07/15

SAVE-AS-YOU-EARN OPTION SCHEME

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
23/07/03	25,545	4.69	01/09/06 to 28/02/07
27/07/04	30,491	4.13	01/09/07 to 28/02/08

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

27 SHARE CAPITAL (continued) 1999 COMPANY SHARE OPTION PLAN

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
27/07/99	8,118	9.375	27/07/02 to 26/07/09
04/08/99	7,300	9.366	04/08/02 to 03/08/09
21/08/00	20,183	6.85	21/08/03 to 20/08/10
04/07/01	13,636	8.80	04/07/04 to 03/07/11
09/07/01	7,061	8.94	09/07/04 to 08/07/11
25/07/03	41,495	4.513	25/07/06 to 24/07/13
25/07/05	39,943	5.24	25/07/08 to 24/07/15

NORTHERN LEISURE 1998 EXECUTIVE SHARE OPTION SCHEME ('ROLLED OVER' OPTIONS)

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
16/06/98	86,000	8.74	16/06/03 to 15/06/08

WARRANTS

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
24/02/99	4,081,012	6.675	2003 to 2009

Warrants may be exercised in the period of 28 days following the publication of the Annual Report of each financial year up to the year ending on or around 1 March 2009.

MR JOOLS HOLLAND

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
03/07/01	50,000	8.77	03/07/06 to 02/01/07

The options granted to Mr Holland only become exercisable on the fifth anniversary of the grant date, and only if Mr Holland is still involved with the Group and its Jam House brand at that time.

DEFERRED BONUS PLAN

Additional potential issues of ordinary shares may arise under the terms and conditions of the Deferred Bonus Plan, as described in note 28.

28 SHARE-BASED PAYMENTS

The Group has followed the transitional arrangements within IFRS 2, *Share-based payment*, and has adopted the exemption from full retrospective application of all share-based payment awards, and has only applied the measurement requirements of IFRS 2 to awards made after 7 November 2002. However, the following disclosures include all share-based payment awards, therefore including those equity-settled awards granted prior to 7 November 2002.

The Group operates the following share-based payment plans:

(A) DEFERRED BONUS PLAN

In March 2004 the shareholders approved the establishment of the Deferred Bonus Plan ("the Plan"), which seeks to incentivise, retain and reward Executive Directors. Under the terms of the Plan, 50% of the bonus entitlement of Executive Directors is deferred, being credited to the purchase of notional shares in the Company within the Plan.

The earliest vesting of notional shares awarded under the Plan is three years after the crediting of the notional holding. Any dividends accrued on the notional shares are accrued to the benefit of the Executive Directors. The Company will award matching shares, based on the shareholder return of the Company relative to the FTSE 250 Index over the relevant three year period. Initial awards will vest after 3 years and are dependent on the satisfaction of performance conditions.

The settlement of benefits accruing under the Plan is in equity or cash, at the discretion of the Remuneration Committee. Accounting for the Plan has assumed that awards will be equity-settled. Awards will not vest unless the Executive Director remains in the service of the Company, unless in exceptional circumstances.

28 SHARE-BASED PAYMENTS (continued)**(B) 1996 EXECUTIVE SHARE OPTION SCHEME & 1999 COMPANY SHARE OPTION PLAN**

Options granted under the 1996 and 1999 Scheme are granted to senior employees at the market price of the Company's ordinary shares, determined by the average of the mid-market price of one ordinary share on the three days preceding the date of grant.

The options vest between three to ten years following grant date. Options will not vest unless the employee remains in the service of the Company, and that the relevant performance conditions are met, being that normalised EPS growth must exceed RPI plus 3% compounded over a three year period.

All options granted under the 1996 and 1999 Scheme are equity-settled. Awards will not vest unless the Executive remains in the service of the Company, unless in exceptional circumstances.

(C) NORTHERN LEISURE 1998 EXECUTIVE SHARE OPTION SCHEME ('ROLLED OVER' OPTIONS)

Options granted under the Northern Leisure scheme are granted to holders of existing Super Options of Northern Leisure Plc, who have elected to release these in exchange for an equivalent option over Luminar plc shares.

The options vest from three to ten years from grant date of the original Super Options. All options were granted prior to 7 November 2002 and accordingly are excluded from the scope of IFRS 2.

(D) SAYE SCHEME

Options granted under the all-employee Save-As-You-Earn scheme are available to all Executive Directors and employees with over one year's service, with options granted at the prevailing market rate, with no discount given on grant.

Options are exercisable three years after the date of grant, with options exercisable for an 18 month period following the earliest vesting date. If the employee does not withdraw savings from the plan, all options are equity settled.

(E) WARRANT SCHEME

On 22 February 1999 the shareholders approved the establishment of a discretionary Trust to hold warrants as part of incentive arrangements under which they are subsequently allocated to employees. Each warrant carried the right to subscribe for one ordinary share at the price of £6.67^{1/2} per share.

Performance criteria attached to the warrant scheme were met in full in February 2002, and an allocation of 50% of the warrants was made by the Trustee in May 2002. The remaining warrants are allocable in the absolute discretion of the Trustee who may call for guidance from the Remuneration Committee.

The subscription period in the approved scheme provides that warrants may be exercised in the period of 28 days following the publication of the Annual Report of each financial year up to the year ending on or around 1 March 2009.

(F) JOOLS HOLLAND

The options granted are exercisable five years after the date of grant, and are exercisable for a six month period thereafter, if Mr Holland is still involved with the Group and the Jam House brand at vesting date. All options granted to Mr Holland will be equity-settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

28 SHARE-BASED PAYMENTS (continued)

Reconciliations of the number and weighted average exercise price by option scheme are presented below (including grants of options prior to 7 November 2002):

Number of Shares	Deferred bonus plan	1996 & 1999 Scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
At 1 March 2004	44,642	3,143,867	143,617	4,081,012	203,203	50,000
Granted	11,285	233,737	70,587	—	—	—
Forfeited	—	(477,689)	(61,667)	—	(80,000)	—
Lapsed	—	—	—	—	(3,453)	—
Exercised	—	—	—	—	—	—
AT 27 FEBRUARY 2005	55,927	2,899,915	152,537	4,081,012	119,750	50,000
Granted	23,973	387,494	—	—	—	—
Forfeited	—	(1,143,006)	(44,883)	—	(33,750)	—
Lapsed	—	—	(51,618)	—	—	—
Exercised	—	(907)	—	—	—	—
AT 2 MARCH 2006	79,900	2,143,496	56,036	4,081,012	86,000	50,000
EXERCISABLE AT END OF THE YEAR						
— 2 March 2006	—	1,371,665	—	—	86,000	—
— 27 February 2005	—	1,812,546	36,907	—	119,750	—

Weighted Average Exercise Price (£)	Deferred bonus plan	1996 & 1999 scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
At 1 March 2004	4.48	6.54	5.81	6.68	8.71	8.77
Granted	5.03	3.98	4.13	—	—	—
Forfeited	—	(6.60)	(5.10)	—	(8.74)	—
Lapsed	—	—	—	—	(6.80)	—
Exercised	—	—	—	—	—	—
AT 27 FEBRUARY 2005	4.59	6.35	5.32	6.68	8.74	8.77
Granted	5.17	5.24	—	—	—	—
Forfeited	—	(6.40)	(4.43)	—	(8.74)	—
Lapsed	—	—	(7.09)	—	—	—
Exercised	—	—	—	—	—	—
AT 2 MARCH 2006	4.76	6.12	4.39	6.68	8.74	8.77
EXERCISABLE AT END OF THE YEAR						
— 2 March 2006	—	6.97	—	—	8.74	—
— 27 February 2005	—	7.42	7.28	—	8.70	—

28 SHARE-BASED PAYMENTS (continued)

Weighted Average Exercise Price (£)	Deferred bonus plan	1996 & 1999 scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
FOR SHARE OPTIONS EXERCISED DURING THE YEAR:						
AVERAGE EXERCISE PRICE FOR OPTIONS EXERCISED						
— year to 2 March 2006	—	£1.92	—	—	—	—
— year to 27 February 2005	—	—	—	—	—	—
FOR SHARE OPTIONS OUTSTANDING AT THE END OF THE YEAR:						
RANGE OF EXERCISE PRICE						
— year to 2 March 2006	£4.48–£5.215	£4.06–£9.38	£4.13–£4.69	£6.675	£8.74	£8.77
— year to 27 February 2005	£4.48–£5.10	£1.92–£9.38	£4.13–£7.28	£6.675	£8.74	£8.77
WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE						
— year to 2 March 2006	—	6.0	1.5	3.3	2.3	0.8
— year to 27 February 2005	—	6.4	1.8	4.3	3.3	1.8

The fair value for options granted during the period has been determined using a binomial model. The assumptions and inputs to the model for options granted during the period are as follows:

	1996 & 1999 Scheme	Deferred bonus plan
Weighted average fair value of options at grant date	£1.66	£4.95–£5.11
Weighted average share price	£5.24	£4.64
Weighted average exercise price	£5.24	£nil
Expected volatility	35.3%	34.8%
Option life	4 years	3 years
Risk-free interest rate	4.13%	4.13%
Expected dividend growth	10%	10%

The expected volatility is estimated using the historical volatility of the Company's shares over a period equivalent to the expected life of the option.

The Group recognised a total expense within administrative expenses of £0.2m (2005: £0.2m), related to share-based payment transactions, all of which were accounted for as equity-settled share-based payment arrangements with a corresponding credit direct to equity reserves. The cumulative credit to equity reserves in respect of share-based payments totalled £0.5m (2005: £0.3m).

29 RESERVES

The reconciliation of movements in reserves is presented, as a Consolidated Statement of Changes in Shareholders' Equity, on page 36. Within this reconciliation, the Group has presented the following reserves as follows:

- The capital reserve which arose on the formation of Luminar plc when the principles of merger accounting were followed.
- The merger reserve which arose on the acquisition of Northern Leisure plc where the principles of acquisition accounting were followed.
- The equity reserve which arose on recognition of a share-based payment expense following the requirements of IFRS 2, *Share-based payment*.

The capital, merger and equity reserves are all non-distributable reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

30 CASH FLOW FROM OPERATING ACTIVITIES

(A) RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Profit before taxation — continuing operations	22.9	24.5
Loss before taxation — discontinued operations	(22.9)	(25.4)
Profit/(loss) before taxation	—	(0.9)
Depreciation and amortisation	32.9	33.4
Net impairment of property, plant and equipment	12.2	42.5
Impairment of goodwill	33.7	4.9
(Profit)/loss on sale of property, plant and equipment	(3.2)	0.8
Profit on sale and leaseback	(7.7)	—
Loss on disposal of subsidiary undertakings	3.0	—
Interest income and financing costs	8.6	13.2
	79.5	93.9
(Increase)/decrease in inventories	(0.1)	0.1
(Increase)/decrease in receivables	(3.3)	2.2
(Decrease)/increase in trade and other payables	(0.5)	0.5
Increase in provisions	4.8	3.2
NET CASH INFLOW FROM OPERATIONS BEFORE EXCEPTIONAL CASH FLOW ITEMS	80.4	99.9
Outflows relating to exceptional cash items	(6.3)	—
NET CASH INFLOW FROM OPERATIONS	74.1	99.9

Cash outflows relating to exceptional items relate to reorganisation and rationalisation costs of £2.3m, and a payment of VAT following assessment by HM Revenue and Customs of £4.0m, against which the Group is currently in the process of appealing.

(B) NET DEBT

The movement in net debt in the year is analysed as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
(Increase)/decrease in cash in the year	(49.1)	32.2
Non-cash changes — increase in finance lease liabilities	—	5.3
Cash outflow from repayment of finance	(0.9)	(63.0)
Movement in net debt in the year	(50.0)	(25.5)
Opening net debt	165.0	190.5
Closing net debt	115.0	165.0

	27 February 2005 £m	Cash Flow £m	2 March 2006 £m
Cash and cash equivalents*	23.0	49.1	72.1
Loans due in less than 1 year	(0.9)	0.9	—
Loans due in more than 1 year	(180.0)	—	(180.0)
	(157.9)	50.0	(107.9)
Finance leases*	(7.1)	—	(7.1)
Net debt	(165.0)	50.0	(115.0)

* Includes cash and cash equivalents and finance leases relating to units held for sale.

30 CASH FLOW FROM OPERATING ACTIVITIES (continued)**(C) CASH FLOWS FROM CONTINUING OPERATIONS**

To assist in the understanding of cash flows relating to the ongoing business of the Company, the following tables outline the cash flows relating to discontinued operations and exceptional items to be excluded in order to present operating cash flows that relate to the Company's continuing business:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Cash flows from operating activities	70.1	77.9
Less: cash flows relating to operating activities — discontinued operations	(4.3)	(17.3)
Add: outflows relating to exceptional cash items	6.3	—
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE EXCEPTIONAL CASH FLOWS — CONTINUING OPERATIONS	72.1	60.6

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Cash flows from operations before exceptional cash flows	80.4	99.9
Less: cash flows relating to operations — discontinued operations	(4.3)	(17.3)
CASH FLOWS FROM OPERATIONS BEFORE EXCEPTIONAL CASH FLOWS — CONTINUING OPERATIONS	76.1	82.6

31 OPERATING LEASE COMMITMENTS — MINIMUM LEASE PAYMENTS

The Group had total commitments under non-cancellable operating leases as follows:

	Land and buildings 2 March 2006 £m	Land and buildings 27 February 2005 £m
Expiring in less than one year	24.0	22.8
Expiring between one and five years	93.6	89.6
Expiring in over five years	336.5	338.0
	454.1	450.4
Less total of future minimum sub-lease payments expected to be received	(27.7)	(30.8)
	426.4	419.6
Sub-lease payments recognised as an expense in the year	2.7	2.6

The Group leases various properties relating to trading units or office and warehouse accommodation; these leases have various terms, escalation values and renewal rights.

32 PENSIONS

The Group operates a defined contribution scheme for the benefit of Directors and employees. The scheme is administered by trustees and the assets are held in a fund independent from those of the Group. The cost to the Group of pension contributions is included in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

33 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Group is pursuing insurance recovery following a fire at one of its units. At the year end, the estimated amount to be reimbursed by the insurance company was not known with certainty and therefore no receivable was recognised. However, the expected net reimbursement could be in the region of £2.0m, after taking the excess payable of £1.0m into consideration.

The Group is currently pursuing a legal case against a contractor for breach of contract. At the year end, the outcome of the case was not known with certainty and therefore no receivable was recognised.

The Group has guaranteed certain lease commitments of third parties, although the Group's potential exposure under these guarantees is unlikely to be material.

34 CAPITAL COMMITMENTS

The Group had capital commitments of £2.3m at 2 March 2006 (2005: £5.5m).

35 RELATED PARTY TRANSACTIONS

During the year, IT support services were provided at normal market prices by Choir IT Limited, which is an associate of the Group, amounting to £0.9m (2005: £0.1m), of which £212 (2005: £nil) was outstanding at 2 March 2006. Of the amount incurred, £0.5m was capitalised within other intangible assets.

The Company incurred costs for the purpose of corporate entertaining of £39,000 (2005: £610) from Saracens RFC Limited, of which Stephen Thomas is a director.

The Company incurred costs of £20.2m (2005: £17.4m) from Eminence Leisure Limited, which is an associate of the Group, in respect of entertainment acts and bookings of which £1.2m (2005: £0.4m) remained outstanding at the year end.

The Company sold two units at their fair value to The Food and Drink Group plc for £0.7m (2005: £nil). Stephen Thomas is the Chairman and a significant shareholder of this company and at the year end £0.7m remained outstanding (2005: £nil).

36 RECONCILIATION OF PROFIT AND NET ASSETS UNDER UK GAAP TO IFRS

Luminar plc reported under UK GAAP in its previously published annual Financial Statements for the year ended 27 February 2005. The analysis below shows a reconciliation of profit and net assets as previously reported under UK GAAP to the revised net assets and profit under IFRS. In addition, there is a reconciliation of net assets under UK GAAP to IFRS as at the transition date for the Group, being 1 March 2004.

(I) RECONCILIATION OF CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 27 FEBRUARY 2005

	UK GAAP £m	IFRS adjustments £m	Less: IFRS adjustment for discontinued operations £m	IFRS £m
CONTINUING OPERATIONS				
Revenue	375.1	—	62.4	312.7
Cost of sales	(69.9)	—	(15.7)	(54.2)
GROSS PROFIT	305.2	—	46.7	258.5
ADMINISTRATIVE EXPENSES BEFORE EXCEPTIONAL ITEMS				
— Pre-goodwill amortisation	(238.2)	(1.3)	(38.3)	(201.2)
— Goodwill amortisation	(12.9)	12.9	—	—
— Total	(251.1)	11.6	(38.3)	(201.2)
PROFIT FROM OPERATIONS BEFORE EXCEPTIONAL ITEMS	54.1	11.6	8.4	57.3
Exceptional items	(55.0)	1.5	(26.4)	(27.1)
(LOSS)/PROFIT FROM OPERATIONS	(0.9)	13.1	(18.0)	30.2
Investment income	1.1	—	—	1.1
Finance costs	(13.9)	(0.4)	—	(14.3)
(LOSS)/PROFIT BEFORE TAXATION	(13.7)	12.7	(18.0)	17.0
Tax on (loss)/profit	(1.7)	4.3	7.4	(4.8)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR FROM CONTINUING OPERATIONS	(15.4)	17.0	(10.6)	12.2
Loss from discontinued operations	—	—	10.6	(10.6)
Dividends	(10.1)	10.1	—	—
(LOSS)/PROFIT TRANSFERRED TO RESERVES	(25.5)	27.1	—	1.6

The composition of discontinued operations for the year ended 27 February 2005 represent the composition of the disposal groups within the restatement to IFRS, representing the Enterprise division and the Non-Core bars held for sale, as at the balance sheet date, i.e. 27 February 2005.

Principal adjustments affecting profit from operations before exceptional items from UK GAAP to IFRS include:

- Cessation of goodwill amortisation of £12.9m following the implementation of IFRS 3.
- Incremental depreciation £1.5m following review of residual values (£2.4m charge), and reduced depreciation following transitional impairment of property, plant and equipment (£0.9m credit).
- Reduction of rentals charged under operating leases by £0.4m following capitalisation of the building element of certain of the Group's leases as finance leases under IAS 17, see note (iv)(f).
- Charge of £0.2m recognised in respect of share-based payments.

Changes to finance costs represent additional interest of £0.4m relating to incremental finance lease liabilities recognised, and the changes to exceptional items are outlined below, see note (vii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

36 RECONCILIATION OF PROFIT AND NET ASSETS UNDER UK GAAP TO IFRS (continued)

(ii) CONSOLIDATED BALANCE SHEET AT 27 FEBRUARY 2005

	Note	UK GAAP £m	IFRS adjustments £m	IFRS adjustment for held for sale operations £m	UK GAAP Merger Reserve Adjustment £m	IFRS £m
NON-CURRENT ASSETS						
Goodwill	(a)	199.8	3.3	—	—	203.1
Other intangible assets	(b)	0.1	1.0	—	—	1.1
Property, plant and equipment	(c)	435.7	(20.9)	(1.3)	—	413.5
Other non-current assets	(d)	—	11.2	(3.6)	—	7.6
		635.6	(5.4)	(4.9)	—	625.3
CURRENT ASSETS						
Inventories		3.8	—	(0.8)	—	3.0
Trade and other receivables		6.2	—	(1.1)	—	5.1
Cash and cash equivalents		23.0	—	(0.4)	—	22.6
		33.0	—	(2.3)	—	30.7
Assets classified as held for sale		41.4	(4.0)	7.2	—	44.6
		74.4	(4.0)	4.9	—	75.3
CURRENT LIABILITIES						
Bank loans and overdrafts		(0.9)	—	—	—	(0.9)
Trade and other payables		(45.7)	0.2	7.0	—	(38.5)
Current tax liabilities		(11.3)	(0.5)	—	—	(11.8)
Deferred income		—	(0.1)	—	—	(0.1)
Provisions		—	(0.8)	0.2	—	(0.6)
Proposed dividends	(e)	(7.1)	7.1	—	—	—
		(65.0)	5.9	7.2	—	(51.9)
Liabilities classified as held for sale		—	—	(8.8)	—	(8.8)
		(65.0)	5.9	(1.6)	—	(60.7)
NET CURRENT ASSETS		9.4	1.9	3.3	—	14.6
TOTAL ASSETS LESS CURRENT LIABILITIES		645.0	(3.5)	(1.6)	—	639.9
NON-CURRENT LIABILITIES						
Bank loans		(179.1)	—	—	—	(179.1)
Deferred income	(g)	—	(4.9)	0.5	—	(4.4)
Obligations under finance leases	(f)	—	(7.1)	—	—	(7.1)
Provisions	(h)	(9.4)	3.6	2.6	—	(3.2)
Deferred tax liabilities	(i)	(15.7)	(41.9)	(1.5)	—	(59.1)
		(204.2)	(50.3)	1.6	—	(252.9)
NET ASSETS		440.8	(53.8)	—	—	387.0
CAPITAL AND RESERVES						
Share capital		18.3	—	—	—	18.3
Share premium		60.9	—	—	—	60.9
Capital reserve		2.3	—	—	—	2.3
Merger reserve	(j)	342.4	(14.5)	—	(47.7)	280.2
Equity reserve	(k)	—	0.3	—	—	0.3
Retained earnings		16.9	(39.6)	—	47.7	25.0
SHAREHOLDERS' EQUITY		440.8	(53.8)	—	—	387.0

IFRS adjustments are explained below, see note (iv).

36 RECONCILIATION OF PROFIT AND NET ASSETS UNDER UK GAAP TO IFRS (continued)
(iii) CONSOLIDATED BALANCE SHEET AT 29 FEBRUARY 2004

	Note	UK GAAP £m	IFRS adjustments £m	UK GAAP Merger Reserve Adjustment £m	IFRS £m
NON-CURRENT ASSETS					
Goodwill	(a)	212.7	(4.7)	—	208.0
Other intangible assets	(b)	0.1	1.1	—	1.2
Property, plant and equipment	(c)	517.6	(33.1)	—	484.5
Other non-current assets	(d)	—	11.6	—	11.6
		<u>730.4</u>	<u>(25.1)</u>	<u>—</u>	<u>705.3</u>
CURRENT ASSETS					
Inventories		3.9	—	—	3.9
Trade and other receivables		8.0	—	—	8.0
Cash and cash equivalents		55.2	—	—	55.2
		<u>67.1</u>	<u>—</u>	<u>—</u>	<u>67.1</u>
CURRENT LIABILITIES					
Bank loans and overdraft		(38.4)	—	—	(38.4)
Trade and other payables		(44.8)	0.1	—	(44.7)
Current tax liabilities		(12.2)	—	—	(12.2)
Provisions		—	(0.7)	—	(0.7)
Proposed dividends	(e)	(6.5)	6.5	—	—
		<u>(101.9)</u>	<u>5.9</u>	<u>—</u>	<u>(96.0)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(34.8)</u>	<u>5.9</u>	<u>—</u>	<u>(28.9)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>695.6</u>	<u>(19.2)</u>	<u>—</u>	<u>676.4</u>
NON-CURRENT LIABILITIES					
Bank loans		(204.6)	—	—	(204.6)
Deferred income	(g)	—	(5.0)	—	(5.0)
Obligations under finance leases	(f)	—	(1.8)	—	(1.8)
Provisions	(h)	(3.9)	1.0	—	(2.9)
Deferred tax liabilities	(i)	(19.9)	(46.8)	—	(66.7)
Loan notes		(0.9)	—	—	(0.9)
		<u>(229.3)</u>	<u>(52.6)</u>	<u>—</u>	<u>(281.9)</u>
NET ASSETS		<u>466.3</u>	<u>(71.8)</u>	<u>—</u>	<u>394.5</u>
CAPITAL AND RESERVES					
Share capital		18.3	—	—	18.3
Share premium		60.9	—	—	60.9
Capital reserve		2.3	—	—	2.3
Merger reserve	(j)	342.4	(11.1)	(17.6)	313.7
Equity reserve	(k)	—	0.1	—	0.1
Retained earnings		42.4	(60.8)	17.6	(0.8)
SHAREHOLDERS' EQUITY		<u>466.3</u>	<u>(71.8)</u>	<u>—</u>	<u>394.5</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 2 MARCH 2006

36 RECONCILIATION OF PROFIT AND NET ASSETS UNDER UK GAAP TO IFRS (continued)

(iv) EXPLANATION OF RECONCILING ITEMS BETWEEN UK GAAP AND IFRS

On transition to IFRS, the Group has recognised the following adjustments in reconciling between UK GAAP and IFRS:

- (a) Goodwill is no longer amortised under IFRS, but instead is reviewed annually for impairment. Goodwill amortisation of £12.9m charged in the year to 27 February 2005 has therefore been reversed for IFRS reporting. Following a transitional and annual impairment review, impairment charges of £4.7m and £4.9m have been recorded at 29 February 2004 and in the year ended 27 February 2005 respectively.
- (b) Under IAS 38, software not integral to the operation of the related hardware is classified as an intangible asset rather than as property, plant and equipment as under UK GAAP. A balance sheet reclassification of £1.1m at 29 February 2004 and £1.0m at 27 February 2005 has therefore been recorded on transition to IFRS.
- (c) Following the provisions of IAS 36, the Group has recognised an impairment charge of £21.9m at transition after testing all individual cash generating units for impairment because of a market capitalisation trigger. In the year ended 27 February 2005, impairment charges of £9.3m recognised under UK GAAP, and depreciation charges of £0.9m, have subsequently been reversed as a result of the recognition of the transitional impairment under IFRS.

Further GAAP differences within property, plant and equipment relate to the classification of software (see (b)), lease premiums (see (d)), assets relating to properties held under finance leases (see (f)), and incremental depreciation of £2.4m for the year ended 27 February 2005 following a review of residual values at transition date as required by IAS 16.

- (d) Under IAS 17, premiums paid to acquire leasehold properties are recorded as other non-current assets and not as property, plant and equipment as under UK GAAP. A reclassification adjustment of £11.6m and £11.2m at transition and 27 February 2005 has therefore been made to classify these assets as other non-current assets. These premiums still have to be charged to the income statement over the life of the lease; however, under IFRS this charge is classified as rental expense not depreciation, with a consequential reduction of EBITDA by £0.4m when reporting under IFRS.
- (e) Under IAS 10, dividends proposed are not classified as liabilities until the period in which they are approved and authorised — as a result the liabilities recognised under UK GAAP at transition and in the balance sheet as at 27 February 2005 of £6.5m and £7.1m respectively have been reversed.
- (f) Under IAS 17, the property element of certain of the Group's leases have been classified as finance leases. A liability and the related asset have been recognised on balance sheet, and rental expense replaced with a depreciation charge on the asset and finance costs on the liability.
- (g) Following the provisions of IAS 17, incentives received to enter leases are recognised as income over the life of the lease, rather than to the first rent review date as under UK GAAP. As a result, additional deferred income of £5.0m at transition and 27 February 2005 has been brought back on balance sheet.
- (h) As a result of the recognition of certain of the Group's leases as finance leases (see (f) above), provisions for onerous lease commitments relating to the property element of leases now classified as finance leases have been reversed.
- (i) As a result of the implementation of IAS 12, deferred tax has been recognised on temporary differences between the tax base cost and the carrying value of assets and liabilities in the Financial Statements. Under IAS 12, deferred tax was recognised on all timing differences expected to reverse in the future. An additional liability of £46.8m as at transition date, and £41.9m as at 27 February 2005, has therefore been recognised on adoption of IAS 12.
- (j) Following impairments of goodwill and property, plant and equipment as a result of the implementation of IFRS (see (a) and (c) above), the Group has transferred those losses relating to units acquired through the Northern Leisure acquisition to the merger reserve. A merger reserve adjustment has also been recorded to transfer to the merger reserve losses in respect of the impairment of Northern Leisure units recognised under UK GAAP in the periods to 29 February 2004 and 27 February 2005 respectively.
- (k) On adoption of IFRS 2, the Group has recognised a charge of £0.2m for the year ended 27 February 2005 in respect of share-based payment arrangements granted subsequent to 7 November 2002. Under UK GAAP, the intrinsic value of these awards was nil, as the market value of the shares equated to the option price as at the date of grant; therefore, no charge was previously recognised within the Group's UK GAAP Financial Statements.

36 RECONCILIATION OF PROFIT AND NET ASSETS UNDER UK GAAP TO IFRS (continued)**(v) EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW FOR THE YEAR TO 27 FEBRUARY 2005**

Cash outflows in respect of taxation of £6.8m during the year ended 27 February 2005 have been classified as part of operating cash flows under IFRS, where previously these payments were included in a separate category of cash flows under UK GAAP.

Interest paid of £13.9m during the year ended 27 February 2005 has been classified as part of operating cash flows under IFRS, whereas this outflow was classified under returns on investment and servicing of finance under UK GAAP. Interest received of £1.1m has been classified as part of investing activities under IFRS, whereas under UK GAAP this inflow has been categorised within returns on investment and servicing of finance. Interest paid under IFRS totals £14.3m as an additional £0.4m of interest on the property element of leases treated as finance leases, included within operating cash flows as rental expense under UK GAAP, has been classified as interest paid under IFRS.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

(vi) DISCONTINUED OPERATIONS

The composition of discontinued operations for the year ended 27 February 2005 represents the composition of the disposal groups within the restatement to IFRS, representing the Enterprise division and the Non-Core bars held for sale, as at the balance sheet date, i.e. 27 February 2005.

Subsequent to the prior year end the composition of these disposal groups has changed. The discontinued operations presented for the comparative year to 27 February 2005 within these Financial Statements represent the composition of the disposal groups as at 2 March 2006.

Results of units which were within discontinued operations as at 27 February 2005, but are no longer within the relevant disposal groups at 2 March 2006, have been reclassified to within continuing operations within the primary statements for all periods presented.

(vii) EXCEPTIONAL ITEMS

The differences to the amount and presentation of exceptional items under IFRS for the year ended 27 February 2005 are as follows:

	UK GAAP £m	IFRS adjustments £m	Sub-total £m	Less IFRS adjustment Discontinued £m	IFRS Continuing £m
Impairment of property, plant and equipment					
— on units held for sale	(36.2)	4.2	(32.0)	(24.9)	(7.1)
— on trading units	(10.3)	(0.2)	(10.5)	—	(10.5)
	(46.5)	4.0	(42.5)	(24.9)	(17.6)
Impairment of goodwill	—	(4.9)	(4.9)	—	(4.9)
Provision for onerous lease commitments	(6.2)	2.4	(3.8)	—	(3.8)
Other costs associated with disposal	(1.5)	—	(1.5)	(1.5)	—
Realised loss on disposals	(0.8)	—	(0.8)	—	(0.8)
	(55.0)	1.5	(53.5)	(26.4)	(27.1)

The changes to exceptional items as recognised under UK GAAP are as follows:

- A net credit to exceptional items of £4.0m, representing a reversal of impairment charges of £9.3m as a result of earlier recognition under IFRS at transition date following a market capitalisation impairment trigger, offset by an additional impairment of £5.3m on closed properties held under finance leases under IFRS.
- Impairment of goodwill of £4.9m following annual impairment test required under IFRS 3.
- Reduction of the provision for onerous lease commitments by £2.4m for the building element of leases recognised as finance leases under IAS 17.

The split of exceptional items between discontinued and continuing operations reflects the composition of these categories as at 27 February 2005. The split of exceptional items included within these Financial Statements have been restated in accordance with IFRS 5 to reflect the composition of discontinued operations as at 2 March 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUMINAR PLC

We have audited the parent company Financial Statements of Luminar plc for the year ended 2 March 2006 which comprise the Balance Sheet and the related notes. These parent company Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Consolidated Financial Statements of Luminar plc for the year ended 2 March 2006.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company Financial Statements 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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company Financial Statements give a true and fair view and whether 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company 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 read other information contained in the Annual Report and consider whether it is consistent with the audited parent company Financial Statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Operating Review, the Financial Review, the Corporate Social Responsibility Report, the details of the Board of Directors, the Corporate Governance Statement, the Remuneration Report and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company Financial Statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

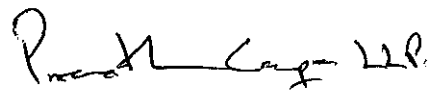
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company Financial Statements and the part of the Directors' 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 parent company Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company Financial Statements 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 parent company Financial Statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- The parent company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 2 March 2006; and
- 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.



PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London
17 May 2006

COMPANY BALANCE SHEET AT 2 MARCH 2006

	Note	2 March 2006 £m	2 March 2006 £m	Restated 27 February 2005 £m	Restated 27 February 2005 £m
FIXED ASSETS					
Investments	4		145.8		145.8
CURRENT ASSETS					
Debtors	5	434.5		423.0	
		434.5		423.0	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	6	(132.3)		(119.9)	
NET CURRENT ASSETS			302.2		303.1
TOTAL ASSETS LESS CURRENT LIABILITIES			448.0		448.9
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	7		(179.2)		(179.1)
NET ASSETS			268.8		269.8
CAPITAL AND RESERVES					
Called up share capital	9		18.3		18.3
Share premium account	11		60.9		60.9
Equity reserve	11		0.5		0.3
Profit and loss reserve	11		189.1		190.3
EQUITY SHAREHOLDERS' FUNDS			268.8		269.8

The Financial Statements were approved by the Board of Directors on 17 May 2006.



NICK BEIGHTON
Finance Director

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

These Financial Statements present financial information for Luminar plc as a separate entity, and are prepared in accordance with the historical cost convention, the Companies Act 1985 and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice). The Group's Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, are separately presented. The principal accounting policies adopted in these Company Financial Statements are set out below and, unless otherwise indicated, have been consistently applied for all periods presented.

The Company has adopted FRS 20, *Share-based payment*, FRS 21, *Events after the balance sheet date*, FRS 25, *Financial Instruments: Disclosure and presentation* and FRS 26, *Financial Instruments: Measurement* during the year ended 2 March 2006. The effect of the adoption of FRS 20 and FRS 21 has been treated as a change in accounting policy with effect from 1 March 2004. The Company has also adopted FRS 23, *The effects of changes in foreign exchange rates* and FRS 28, *Corresponding amounts*. However, neither standards' adoption has affected these Financial Statements.

In accordance with the transitional requirements of FRS 25 and FRS 26, the adoption of these standards has been treated as a change in accounting policy with effect from 28 February 2005.

The effect of the adoption of the FRSs during the period on net assets and profits is outlined in note 13.

In accordance with FRS 18, the Directors have reviewed the accounting policies of the Group as set out below and consider them to be appropriate.

TURNOVER

Turnover is the total amount receivable by the Company for management and other services provided to other Group companies, excluding VAT, and is recognised on performance of these services.

INVESTMENTS

Investments in subsidiary undertakings and associates are stated at cost less amounts written off for impairment. Amounts advanced to subsidiary undertakings with no intention of being repaid in the foreseeable future are classified as investments.

BASIS OF IMPAIRMENT

On an annual basis the Company performs a review of its investments to determine whether there have been any impairment trigger events. If such a trigger event is noted then the recoverable amount of the asset, or where appropriate group of assets, in cash generating units that comprise the investment is estimated and compared to the carrying amount of the asset. Recoverable amount is the higher of the value-in-use to the Company of the asset and the net realisable value from disposal of the asset. Value-in-use is estimated by calculating the net present value of the estimated future cash flows relating to the cash generating units that comprise the investment after applying a discount factor. Net realisable value is estimated by applying the knowledge and experience of management, together with external market indicators. If the recoverable amount is below the carrying value of the asset then the carrying value of the asset is reduced to recoverable amount, and the resulting charge is taken to the profit and loss account.

RETIREMENT BENEFIT COSTS

Payments made to defined contribution retirement benefit schemes are charged as an expense when they fall due. The Company has no other retirement benefit schemes.

FINANCIAL INSTRUMENTS 2005 COMPARATIVE FINANCIAL STATEMENTS

The Company has taken the exemption not to restate comparatives for FRS 25, *Financial Instruments: Disclosure and presentation* and FRS 26, *Financial Instruments: Measurement*. Comparative information presented for the year to 27 February 2005 has been presented as previously under FRS 4, *Capital Instruments* and FRS 13, *Derivatives and other financial instruments: disclosures*.

The Company uses derivative financial instruments, primarily to manage exposures to fluctuations in interest rates. Discounts and premiums are charged or credited to the profit and loss account over the life of the asset or liability to which they relate.

Discounts or premiums on financial instruments designated as interest rate hedges are reflected as adjustments to interest payable. Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Interest differentials, under which the amounts and periods for which interest rates on borrowing are varied, are reflected as adjustments to interest payable.

2006 FINANCIAL STATEMENTS

Within the 2006 Financial Statements, the Company has applied FRS 25, *Financial Instruments: Disclosure and Presentation* and FRS 26, *Financial Instruments: Recognition and Measurement*. The effect of the adoption of these standards has been treated as a change in accounting policy, with effect from 28 February 2005. The effect of the change is outlined in the note 13.

Financial assets and liabilities — measurement basis

Financial assets and liabilities are recognised on the date on which the Company becomes a party to the contractual provisions of the instrument giving rise to the asset or liability. Financial assets and liabilities are initially recognised at fair value plus transaction costs. Any impairment of a financial asset is charged to the income statement when incurred. Financial assets are derecognised when the Company's rights to cash inflows from the asset expire; financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

Financial assets are classified according to the purpose for which the asset was acquired. The Company's financial assets are classified as:

- "debtors" — these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides goods or services directly to a debtor, or advances money, with no intention of trading the loan or receivable. Subsequent to initial recognition loans and receivables are included in the balance sheet at amortised cost using the effective interest method less any amounts written off to reflect impairment, with changes in carrying amount recognised in the income statement. This category includes amounts owed by Group undertakings.

The Company's financial liabilities are classified as either "creditors: amounts falling due within one year" or "creditors: amounts falling due after more than one year". These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Company receives goods or services directly from a creditor or supplier, or borrows money, with no intention of trading the liability. This category includes:

- trade and other payables — these are typically non-interest bearing and following initial recognition are included in the balance sheet at amortised cost.
- bank loans and overdrafts — these are initially recorded at fair value based on proceeds received, net of issue costs. Finance charges are accounted for on an accruals basis and charged to the income statement using the effective interest rate method.

Derivative financial instruments and hedge accounting — measurement basis

The Company's activities expose it to the financial risks of changes in interest rates, and the Company uses interest rate swaps to manage these exposures. The use of derivative financial instruments is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of derivative financial instruments.

The Company does not qualify for hedge accounting for its interest rate swaps under FRS 26, *Financial Instruments: Recognition and Measurement*. These swaps are therefore classified as "financial assets (or liabilities) at fair value through profit or loss". They are initially recognised at fair value, with fair value being remeasured each reporting date. The fair value of the interest rate swaps is based on the market price of comparable instruments at the balance sheet date. Realised and unrealised gains and losses arising from changes in fair value are included in the income statement. Where the fair value at a point in time gives rise to an asset (liability) the fair value is classified on the balance sheet within current financial assets (liabilities).

The Company has no embedded derivatives that are not closely related to the host instrument.

Financial instruments — other disclosures

The Company's debt financing and other activities expose it to a variety of financial risks that include the effects of changes in the following:

Interest Rate Risk

Interest rate risk on debt financing is managed through swapping floating rate debt into fixed rate debt. This has been achieved through the purchase of two £35.0m five year swaps and two £32.5m five year swaps callable by the counterparty after three years.

Currency Risk

The Company operates predominantly within the United Kingdom and substantially all transactions are denominated in sterling; therefore, the Company does not suffer from a significant concentration of currency risk.

Credit risk

The Company does not have a significant concentration of credit risk. All receivables arise from transactions in the ordinary course of business with trading subsidiaries.

Liquidity risk

Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts to ensure the adequacy of committed debt facilities. Short-term liquidity risk is managed through overdraft facilities and short-term deposits.

Price risk

The Company is not exposed to equity security price risk or commodity price risk.

SHARE-BASED PAYMENTS

The Company has applied the requirements of FRS 20, *Share-based payment*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

Where equity instruments are granted to employees of subsidiary undertakings for the services provided by the employees to those companies, the fair value at the grant date of the equity instrument represents an additional investment in the subsidiary undertaking by the parent.

The Company issues some equity instruments where the counterparty has choice of either cash or equity settlement, and some equity instruments where the settlement can only be in equity.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will actually vest. Fair value is measured by means of a binomial model.

A liability equal to the portion of the goods or services received is recognised at the current fair value at each balance sheet date for cash settled share-based payments.

ISSUE COSTS

Costs directly related with establishing loan finance are offset against the value of the loan. Such costs are amortised over the period of the loan with the resulting charge being recognised in interest expense.

TAXATION

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates and laws that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities recognised have not been discounted.

BORROWING COSTS

All borrowing costs are recognised as an expense in the period in which they are incurred.

DIVIDENDS PAYABLE

The Company has adopted FRS 21, *Events after the Balance Sheet Date* in these Financial Statements. Proposed dividends are not recorded as liabilities until the period in which they are approved and authorised by shareholders.

NOTES TO THE FINANCIAL STATEMENTS

1 PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own Profit and Loss Account or Statement of Total Recognised Gains and Losses (STRGL) in these Financial Statements. The Company profit after tax for the year ended 2 March 2006 under UK GAAP was £9.6m (2005: £15.5m). In addition, in the year ended 27 February 2005, an unrealised profit on the disposal of investments in a subsidiary undertaking was recognised in the STRGL.

Audit fees for the year were £0.2m (2005: £0.2m), with additional fees of £0.9m (2005: £0.6m) relating to other assurance and non-audit services.

2 DIRECTORS AND EMPLOYEES

Employee costs charged during the year were as follows:

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Wages and salaries	0.9	1.1
Social security costs	0.1	0.1
Pension costs	0.2	0.3
	<u>1.2</u>	<u>1.5</u>

During the year the Company had nine (2005: nine) Directors, including Non-Executive Directors, providing services to the Company. There were no other employees.

Remuneration in respect of Directors (including Non-Executive Directors) of Luminar plc was as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Aggregate emoluments	1,364.8	1,361.0
Company contributions to money purchase pension schemes	198.5	269.0
	<u>1,563.3</u>	<u>1,630.0</u>

Aggregate emoluments disclosed above include amounts paid by other group companies. During the year five Directors including one former Director (2005: four) participated in defined contribution pension schemes. The amounts set out above include remuneration of the highest paid Director as follows:

	Year ended 2 March 2006 £000	Year ended 27 February 2005 £000
Aggregate emoluments	470	487
Company contributions to money purchase pension schemes	109	185

More detailed audited information concerning remuneration of Directors is set out in the Remuneration Report on pages 26 to 30.

3 DIVIDENDS

	Year ended 2 March 2006 £m	Year ended 27 February 2005 £m
Ordinary shares — final dividend paid for 2005: 9.76p per share (final dividend paid for 2004: 8.87p) per share	7.1	6.5
Ordinary shares — interim dividend paid for 2006: 4.44p per share (interim dividend paid for 2005: 4.04p per share)	3.2	3.0
	<u>10.3</u>	<u>9.5</u>

In addition, the Directors are proposing a final dividend in respect of the financial year of 10.74p per share, which will absorb an estimated £7.9m of shareholders' funds. It will be paid on 20 July 2006. This dividend is subject to approval at the Annual General Meeting, and has not been included as a liability within these Financial Statements.

4 INVESTMENTS

	Shares in subsidiary undertakings £m	Loan to subsidiary undertaking £m	Employee share-based payments £m	Total £m
At 27 February 2005 as previously stated	121.2	24.5	—	145.7
Prior period adjustment	—	—	0.1	0.1
AT 27 FEBRUARY 2005 AS RESTATED AND AT 2 MARCH 2006	121.2	24.5	0.1	145.8

The prior period adjustment relates to the implementation of FRS 20, *Share-based payment*, and recognises as an investment the fair value of options granted over the Company's shares to employees of other Luminar group companies.

SUBSIDIARY UNDERTAKINGS

The Company's direct principal subsidiary undertaking, which is wholly owned, is listed below together with details of its businesses. The share capital consists of ordinary shares.

	Class of share capital	Proportion held	Nature of business
Luminar Dancing Finance Limited	Ordinary	100%	Holding company

Unless otherwise stated, all subsidiaries are registered in England and Wales. Other principal subsidiaries which the Company indirectly owns are included in note 15 of the Consolidated Financial Statements.

INTERESTS IN ASSOCIATES

The Company has a 40% interest in the ordinary share capital of Choir IT Limited, a company incorporated in the United Kingdom. The investment is accounted for at its historical cost, which is less than £50,000, which accordingly when rounded does not appear in the presentation of these Financial Statements. The profit and share capital of the associates is also not material to the Group.

INTERESTS IN JOINT VENTURES

During the year, the Company entered into an arrangement with Lucinne Barriere to form a joint venture company called Waterimage Limited, a company incorporated in the United Kingdom. Both parties own a 50% shareholding in the company, representing one £1 share each. No trading took place in the company during the year.

5 DEBTORS

	2 March 2006 £m	27 February 2005 £m
Amounts owed by Group undertakings	434.4	422.9
Prepayments and accrued income	0.1	0.1
	434.5	423.0

All amounts owed by Group undertakings are repayable on demand.

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2 March 2006 £m	Restated 27 February 2005 £m
Loan notes	—	0.9
Trade creditors	0.2	—
Amounts owed to Group undertakings	129.2	116.0
Corporation tax	1.7	1.7
Social security and other taxes	—	0.2
Accruals and deferred income	0.7	1.1
Derivative financial instruments	0.5	—
	132.3	119.9

All amounts owed to Group undertakings are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2 March 2006 £m	27 February 2005 £m
Bank loans	180.0	180.0
Issue costs	(0.8)	(0.9)
	<u>179.2</u>	<u>179.1</u>

8 FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments in order to reduce its exposure to financial risk. The use of such derivative financial instruments constitutes an integral part of the Company's funding strategy. The Company manages its derivative financial instrument credit risk by only undertaking transactions with relationship banks holding good credit ratings. Such transactions are governed by Board policies and procedures.

As all the Company's operations are transacted in the reporting currency, there is no currency exposure.

Short-term debtors and creditors have been excluded from all the following disclosures as their fair value at the year end approximates their carrying value.

INTEREST RATE RISK

The Company finances its operations through a mixture of retained profits and bank borrowings.

The principal area of financial risk is interest rate risk.

Interest rate risk on borrowings is managed by using interest rate swaps and forward rate agreements.

(A) INTEREST RATE EXPOSURE OF FINANCIAL ASSETS AND LIABILITIES

The interest rate exposure of the Company's financial assets was as follows:

	Fixed rate £m	Floating rate £m	Total £m	Floating rate weighted average %
2 March 2006	—	434.4	434.4	5.1
27 February 2005	—	422.9	422.9	5.8

After taking into account the various interest rate swaps entered into by the Company, the interest rate profile of the Company's financial liabilities at 2 March 2006 was:

	Fixed rate £m	Floating rate £m	Total £m	Floating interest rate %	Fixed rate weighted average Interest rate %	Time period Years
2 March 2006	135.0	174.2	309.2	1.2	5.4	0.2
27 February 2005	135.9	161.0	296.9	1.7	5.4	1.1

Included within the above is £135.0m (2005: £135.0m) of notional principal amounts in relation to four interest rate swaps. The fair value of the interest rate swaps (note 8D) was estimated by the finance providers based on market conditions at the year end. The values were calculated using their valuation models with mid-market rates. The floating rate borrowings bear interest at rates based on LIBOR for periods of between one month and six months. All four swaps matured on 26 April 2006.

Subsequent to the year end, the Company has taken out three interest rate swaps with a principal amount of £60.0m.

The floating rate debt included above includes £129.2m (2005: £116.0m) which is interest free.

8 FINANCIAL INSTRUMENTS (continued)**(B) MATURITY ANALYSIS OF FINANCIAL LIABILITIES**

The maturity profile of the Company's financial liabilities was as follows:

	2 March 2006		27 February 2005	
	Bank and other borrowings £m	Total £m	Bank and other borrowings £m	Total £m
Within one year or on demand	129.2	129.2	116.9	116.9
Between one and two years	—	—	—	—
Between two and five years	180.0	180.0	180.0	180.0
Over five years	—	—	—	—
As at year end	<u>309.2</u>	<u>309.2</u>	<u>296.9</u>	<u>296.9</u>

After the year end, the Company has paid down £30.0m of the £180.0m drawings under its facility following partial repayment of intercompany receivables. The bank loans can be repaid by the Company upon giving 10 working days' notice. However, the facility is committed for a term up to December 2009 unless the Company contravenes covenant arrangements.

(C) BORROWING FACILITIES

The Company's undrawn floating facilities at the balance sheet date were as follows:

	2 March 2006 £m	27 February 2005 £m
Expiring after two years	<u>70.0</u>	<u>70.0</u>
	<u>70.0</u>	<u>70.0</u>

Of these facilities, £70.0m (2005: £70.0m) is committed and secured by means of a floating charge over the Company's current and future assets. The floating charge also secures the bank loans drawn down of £180.0m in (B) above.

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	2 March 2006		27 February 2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
PRIMARY FINANCIAL INSTRUMENTS HELD OR ISSUED TO FINANCE THE GROUP OPERATIONS				
Short-term financial liabilities and current portion of long-term borrowings (i)	—	—	(0.9)	(0.9)
Long-term borrowings (ii)	(180.0)	(180.0)	(180.0)	(180.0)
Amounts owed by Group undertakings (iii)	434.4	434.4	422.9	422.9
Amounts owed to Group undertakings (iii)	<u>(129.2)</u>	<u>(129.2)</u>	<u>(116.0)</u>	<u>(116.0)</u>
DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE AND CURRENCY PROFILE				
Interest rate swaps (iv)	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.7)</u>

The fair value of other financial assets and liabilities included in notes 5 and 6 approximate their carrying value.

- (i) Loan notes repaid during April 2005, stated at their amortised cost, with the difference between book value and fair value deemed immaterial given the short period to maturity of these liabilities.
- (ii) Drawings made under the Company's floating rate facility, where fair value approximates to book value.
- (iii) Amounts owed by or to Group undertakings are repayable upon demand, and the fair value of these items is deemed not to be materially different to their book value.
- (iv) The fair value of interest rate swaps have been determined with reference to market rates at the balance sheet date. At 2 March 2006 the book value of these swaps equates to their fair value as these derivatives are stated at their fair value under FRS 26.

(E) HEDGES ON FUTURE TRANSACTIONS

The Company's policy is to manage interest rate risk by using interest rate swaps and forward rate agreements. The unrecognised losses on interest rate swaps as at 27 February 2005 are disclosed in note 8D. Following the implementation of FRS 25 and FRS 26 during the year to 2 March 2006, these interest rate swaps are held within liabilities at their fair value. These interest rate swaps do not qualify for hedge accounting under FRS 26; therefore, changes in their fair value are recorded through the profit and loss account.

(F) FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

The Company does not trade in financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

9 SHARE CAPITAL

	Number	2 March 2006 £m	27 February 2005 £m
AUTHORISED			
Ordinary shares of 25p (2005: 106,000,000)	106,000,000	<u>26.5</u>	<u>26.5</u>
ISSUED AND FULLY PAID			
Ordinary shares of 25p each (2005: 73,175,280)	73,176,187	<u>18.3</u>	<u>18.3</u>

During the year 907 shares were issued for a cash consideration of £1,737 to satisfy exercises of options under the Group's 1996 Executive Share Option Scheme.

Potential issues of ordinary shares are as follows:

1996 EXECUTIVE SHARE OPTION SCHEME

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
18/11/98	121,500	6.64	18/11/01 to 17/11/08
22/02/99	90,000	8.05	22/02/02 to 21/02/09
04/08/99	6,500	9.366	04/08/02 to 03/08/09
14/02/00	40,000	8.35	14/02/03 to 13/02/10
11/07/00	645,000	7.14	11/07/03 to 10/07/10
21/08/00	4,875	6.85	21/08/03 to 20/08/10
16/01/01	63,830	7.52	16/01/04 to 15/01/11
23/02/01	35,435	8.13	23/02/04 to 22/02/11
04/07/01	53,674	8.80	04/07/04 to 03/07/11
09/07/01	12,300	8.94	09/07/04 to 08/07/11
10/07/02	31,210	7.85	10/07/05 to 09/07/12
09/12/02	211,133	4.19	09/12/05 to 08/12/12
22/05/03	197,044	4.06	22/05/06 to 21/05/13
18/06/03	21,455	4.66	18/06/06 to 17/06/13
25/07/03	31,952	4.513	25/07/06 to 24/07/13
14/07/04	136,500	4.200	14/07/07 to 13/07/14
25/07/05	303,442	5.24	25/07/08 to 24/07/15

SAVE AS YOU EARN OPTION SCHEME

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
23/07/03	25,545	4.69	01/09/06 to 28/02/07
27/07/04	30,491	4.13	01/09/07 to 28/02/08

1999 COMPANY SHARE OPTION PLAN

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
27/07/99	8,118	9.375	27/07/02 to 26/07/09
04/08/99	7,300	9.366	04/08/02 to 03/08/09
21/08/00	20,183	6.85	21/08/03 to 20/08/10
04/07/01	13,636	8.80	04/07/04 to 03/07/11
09/07/01	7,061	8.94	09/07/04 to 08/07/11
25/07/03	41,495	4.513	25/07/06 to 24/07/13
25/07/05	39,943	5.24	25/07/08 to 24/07/15

9 SHARE CAPITAL (continued)

NORTHERN LEISURE 1998 EXECUTIVE SHARE OPTION SCHEME ('ROLLED OVER' OPTIONS)

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
16/06/98	86,000	8.74	16/06/03 to 15/06/08

WARRANTS

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
24/02/99	4,081,012	6.675	2003 to 2009

Warrants may be exercised in the period of 28 days following the publication of the Annual Report of each financial year up to the year ending on or around 1 March 2009.

MR JOOLS HOLLAND

Date of Grant	Number of Ordinary Shares under option	Exercise price £	Exercise period
03/07/01	50,000	8.77	03/07/06 to 02/01/07

The options granted to Mr Holland only become exercisable on the fifth anniversary of the grant date, and only if Mr Holland is still involved with the Group and its Jam House brand at that time.

DEFERRED BONUS PLAN

Additional potential issues of ordinary shares may arise under the terms and conditions of the Deferred Bonus Plan, as described in note 10 below.

10 SHARE-BASED PAYMENTS

The Company has followed the transitional arrangements within FRS 20, *Share-based payment*, and has adopted the exemption from full retrospective application of all equity-settled share-based payment awards, and has only applied the measurement requirements of FRS 20 to awards made after 7 November 2002. However, the following disclosures include all share-based payment awards, therefore including those awards granted prior to 7 November 2002.

The Company operates the following share-based payment plans:

(A) DEFERRED BONUS PLAN

In March 2004 the shareholders approved the establishment of the Deferred Bonus Plan ('the Plan'), which seeks to incentivise, retain and reward Executive Directors. Under the terms of the Plan, 50% of the bonus entitlement of Executive Directors is deferred, being credited to the purchase of notional shares in the Company within the Plan.

The earliest vesting of notional shares awarded under the Plan is three years after the crediting of the notional holding. Any dividends accrued on the notional shares are accrued to the benefit of the Executive Directors. The Company will award matching shares, based on the shareholder return of the Company relative to the FTSE 250 Index over the relevant three year period. Initial awards will vest after 3 years and are dependent on the satisfaction of performance conditions.

The settlement of benefits accruing under the Plan is in equity or cash, at the discretion of the Remuneration Committee. Accounting for the Plan has assumed that awards will be equity-settled. Awards will not vest unless the Executive Director remains in the service of the Company, unless in exceptional circumstances.

(B) 1996 EXECUTIVE SHARE OPTION SCHEME & 1999 COMPANY SHARE OPTION PLAN

Options granted under the 1996 and 1999 Scheme are granted to senior employees at the market price of the Company's ordinary shares, determined by the average of the mid-market price of one ordinary share on the three days preceding the date of grant.

The options vest between three to ten years following grant date. Options will not vest unless the employee remains in the service of the Company, and that the relevant performance conditions are met, being that normalised EPS growth must exceed RPI plus 3% compounded over a three year period.

All options granted under the 1996 and 1999 Scheme are equity-settled. Awards will not vest unless the Executive remains in the service of the Company, unless in exceptional circumstances.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

10 SHARE-BASED PAYMENTS (continued)

(C) NORTHERN LEISURE 1998 EXECUTIVE SHARE OPTION SCHEME ('ROLLED OVER' OPTIONS)

Options granted under the Northern Leisure scheme are granted to holders of existing Super Options of Northern Leisure Plc, who have elected to release these in exchange for an equivalent option over Luminar plc shares.

The options vest from three to ten years from grant date of the original Super Options. All options were granted prior to 7 November 2002 and accordingly are excluded from the scope of FRS 20.

(D) SAYE SCHEME

Options granted under the all-employee Save-As-You-Earn scheme are available to all Executive Directors and employees with over one year's service, with options granted at the prevailing market rate, with no discount given on grant.

Options are exercisable three years after the date of grant, with options exercisable for an 18 month period following the earliest vesting date. If the employee does not withdraw savings from the plan, all options are equity-settled.

(E) WARRANT SCHEME

On 22 February 1999 the shareholders approved the establishment of a discretionary Trust to hold warrants as part of incentive arrangements under which they are subsequently allocated to employees. Each warrant carried the right to subscribe for one ordinary share at the price of £6.67½ per share.

Performance criteria attached to the warrant scheme were met in full in February 2002, and an allocation of 50% of the warrants was made by the Trustee in May 2002. The remaining warrants are allocable in the absolute discretion of the Trustee who may call for guidance from the Remuneration Committee.

The subscription period in the approved scheme provides that warrants may be exercised in the period of 28 days following the publication of the Annual Report of each financial year up to the year ending on or around 1 March 2009.

(F) JOOLS HOLLAND

The options granted are exercisable five years after the date of grant, and are exercisable for a six month period thereafter, if Mr Holland is still involved with the Group and the Jam House brand at vesting date. All options granted to Mr Holland will be equity-settled.

Reconciliations of the number and weighted average exercise price by option scheme are presented below (including grants of options prior to 7 November 2002):

Number of Shares	Deferred bonus plan	1996 & 1999 Scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
At 1 March 2004	44,642	3,143,867	143,617	4,081,012	203,203	50,000
Granted	11,285	233,737	70,587	—	—	—
Forfeited	—	(477,689)	(61,667)	—	(80,000)	—
Lapsed	—	—	—	—	(3,453)	—
Exercised	—	—	—	—	—	—
AT 27 FEBRUARY 2005	55,927	2,899,915	152,537	4,081,012	119,750	50,000
Granted	23,973	387,494	—	—	—	—
Forfeited	—	(1,143,006)	(44,883)	—	(33,750)	—
Lapsed	—	—	(51,618)	—	—	—
Exercised	—	(907)	—	—	—	—
AT 2 MARCH 2006	79,900	2,143,496	56,036	4,081,012	86,000	50,000
EXERCISABLE AT END OF THE YEAR						
— 2 March 2006	—	1,371,665	—	—	86,000	—
— 27 February 2005	—	1,812,546	36,907	—	119,750	—

10 SHARE-BASED PAYMENTS (continued)

Weighted Average Exercise Price (£)	Deferred bonus plan	1996 & 1999 Scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
At 1 March 2004	4.48	6.54	5.81	6.68	8.71	8.77
Granted	5.03	3.98	4.13	—	—	—
Forfeited	—	(6.60)	(5.10)	—	(8.74)	—
Lapsed	—	—	—	—	(6.80)	—
Exercised	—	—	—	—	—	—
AT 27 FEBRUARY 2005	4.59	6.35	5.32	6.68	8.74	8.77
Granted	5.17	5.24	—	—	—	—
Forfeited	—	(6.40)	(4.43)	—	(8.74)	—
Lapsed	—	—	(7.09)	—	—	—
Exercised	—	—	—	—	—	—
AT 2 MARCH 2006	4.76	6.12	4.39	6.68	8.74	8.77
EXERCISABLE AT END OF THE YEAR						
— 2 March 2006	—	6.97	—	—	8.74	—
— 27 February 2005	—	7.42	7.28	—	8.70	—
Weighted Average Exercise Price (£)	Deferred bonus plan	1996 & 1999 Scheme	SAYE	Warrants	Northern Leisure 1998	Jools Holland
FOR SHARE OPTIONS EXERCISED DURING THE YEAR:						
AVERAGE EXERCISE PRICE FOR OPTIONS EXERCISED						
— year to 2 March 2006	—	£1.92	—	—	—	—
— year to 27 February 2005	—	—	—	—	—	—
FOR SHARE OPTIONS OUTSTANDING AT THE END OF THE YEAR:						
RANGE OF EXERCISE PRICE						
— year to 2 March 2006	£4.48–£5.215	£4.06–£9.38	£4.13–£4.69	£6.675	£8.74	£8.77
— year to 27 February 2005	£4.48–£5.10	£1.92–£9.38	£4.13–£7.28	£6.675	£8.74	£8.77
WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE						
— year to 2 March 2006	—	6.0	1.5	3.3	2.3	0.8
— year to 27 February 2005	—	6.4	1.8	4.3	3.3	1.8

The fair value for options granted during the period has been determined using a binomial model. The assumptions and inputs to the model for options granted during the period are as follows:

	1996 & 1999 Scheme	Deferred bonus plan
Weighted average fair value of options at grant date	£1.66	£4.95–£5.11
Weighted average share price	£5.24	£4.64
Weighted average exercise price	£5.24	£nil
Expected volatility	35.3%	34.8%
Option life	4 years	3 years
Risk-free interest rate	4.13%	4.13%
Expected dividend growth	10%	10%

The expected volatility is estimated using the historical volatility of the Company's shares over a period equivalent to the expected life of the option.

The Company recognised a total expense within administrative expenses of £0.2m (2005: £0.1m), related to share-based payment transactions, all of which were accounted for as equity-settled share-based payment arrangements with a corresponding credit direct to equity reserves. The cumulative credit to equity reserves in respect of share-based payments totalled £0.5m (2005: £0.3m).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

11 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £m	Equity reserve £m	Profit and loss reserve £m
At 27 February 2005 as previously reported	60.9	—	183.2
Prior year adjustment for implementation of FRS 21	—	—	7.1
Prior year adjustment for implementation of FRS 20	—	0.3	—
At 27 February 2005 restated	60.9	0.3	190.3
Adjustment for implementation of FRS 26	—	—	(0.5)
Restated brought forward at 28 February 2005	60.9	0.3	189.8
Profit for the year	—	—	9.6
Dividends paid	—	—	(10.3)
Share-based payment expense	—	0.2	—
AT 2 MARCH 2006	60.9	0.5	189.1
Distributable reserves			57.6
Non-distributable reserves			131.5

The non-distributable reserves arose on the disposal of investments to other Luminar Group companies, where the consideration received did not represent qualifying consideration.

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£m
Opening shareholders' funds at 28 February 2005	262.4
Prior year adjustment (see note 13)	7.4
OPENING SHAREHOLDERS' FUNDS AT 28 FEBRUARY 2005 AS RESTATED	269.8
Adjustment for implementation of FRS 26	(0.5)
Profit for the financial year	9.6
Share-based payment expense	0.2
Dividends	(10.3)
CLOSING SHAREHOLDERS' FUNDS AT 2 MARCH 2006	268.8

13 PRIOR YEAR ADJUSTMENTS

During the year to 2 March 2006, the Group implemented FRS 20, *Share-based payment*, FRS 21, *Events after the balance sheet date*, FRS 25, *Financial Instruments: Disclosure and presentation* and FRS 26, *Financial Instruments: Measurement*.

(A) PRIOR YEAR ADJUSTMENT FOR FRS 20 AND FRS 21

The effect of the adoption of FRS 20 and FRS 21 is as follows:

	FRS 20 £m	FRS 21 £m	Total £m
Adjustment to opening reserves at 1 March 2004:			
— Equity reserve	0.1	—	0.1
— Profit and loss reserve	(0.1)	6.5	6.4
	—	6.5	6.5
Changes to reserves during the year ended 27 February 2005:			
Profit for the year	0.1	—	0.1
Dividends for the year:			
— As previously reported	—	10.1	10.1
— As restated	—	(9.5)	(9.5)
Share-based payments charged to equity reserve for:			
— Subsidiary company employees against investments	0.1	—	0.1
— Parent company employees against profit for the year	0.1	—	0.1
Changes to reserves during the year ended 27 February 2005	0.3	0.6	0.9
RESTATEMENT OF EQUITY AT 27 FEBRUARY 2005	0.3	7.1	7.4

The implementation of FRS 20, *Share-based payment* changes the Company's accounting for share options. Previously, the Company recognised a charge for share-based payment awards as the intrinsic value of the award at the date of grant. Under FRS 20, the Company recognises, at the fair value on grant date, a charge for these share-based payment awards, with a corresponding credit to equity. For share-based payment awards granted over the Company's shares, but where the employee is employed by other Luminar Group companies, the Company records an investment for the value of these awards, with a corresponding credit to the equity reserve.

The implementation of FRS 21, *Events after the Balance Sheet Date* changes the Company's accounting for proposed dividends. Previously under SSAP 17, *Accounting for Post-Balance Sheet Events*, the Company recorded proposed dividends, with a corresponding liability, within the period to which the dividends related. Under FRS 21, dividends proposed are not classified as liabilities until the period in which they are approved and authorised.

(B) PRIOR YEAR ADJUSTMENT FOR FRS 25 AND FRS 26

The Company has taken advantage of the transitional exemption, and not restated the comparative period for the implementation of FRS 25, *Financial Instruments: Disclosure and presentation* and FRS 26, *Financial Instruments: Measurement*. Instead the implementation adjustment of £0.5m has been charged to retained earnings at the beginning of the current year. No deferred tax asset has been recognised in relation to this adjustment due to the uncertainty over future liabilities against which the asset can be offset.

Under FRS 4, *Capital Instruments*, the Company accounted for its interest rate swaps by accruing the interest differentials over the life of the swap. Under FRS 26, as the Company does not qualify for hedge accounting, the change in fair value of its interest rate swaps are taken through the profit and loss account within the interest line. As a result of the implementation of FRS 26, the Company recorded a liability of £0.5m on balance sheet at 28 February 2005 in respect of these interest rate swaps.

The implementation of the presentational requirements of FRS 25 did not result in any changes to the Company's Financial Statements.

14 CONTINGENT LIABILITIES

The Company has guaranteed certain lease commitments of third parties, although the Company's potential exposure under these guarantees is unlikely to be material.

15 CAPITAL COMMITMENTS

The Company had no capital commitments at 2 March 2006 (2005: None).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the tenth Annual General Meeting of Luminar plc will be held at the offices of CMS Cameron McKenna, 160 Aldersgate Street, London, EC1A 4DD on Tuesday 18 July 2006 at 2.30pm for the transaction of the following business:

ORDINARY BUSINESS

1. To receive the audited accounts for the year ended 2 March 2006 together with the reports of the Directors and the Auditors thereon.
2. To approve the Directors' Report on Remuneration.
3. To declare a final dividend of 10.74p per ordinary share.
4. To elect Nick Beighton as a Director.
5. To re-elect Keith Hamill as a Director.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

THAT PricewaterhouseCoopers LLP be appointed as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

7. To consider and, if thought fit, to pass the following resolution, as an ordinary resolution:

THAT the Directors be authorised to agree the auditor's remuneration.

8. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £6,037,035 and that this authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution and the date falling 15 months after the passing of this resolution (unless

previously renewed, varied or revoked by the Company), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

9. To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT, subject to the passing of resolution 8 above, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) for cash pursuant to the authority conferred by resolution 8 as if sub-section 89(1) of that Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with an issue in favour of ordinary shareholders on a fixed record date (whether by way of a rights issue, open offer or otherwise) where the equity securities attributable to such ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them on such record date, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £914,702;

and shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution and the date falling fifteen months after the passing of this resolution (unless previously renewed, varied or revoked by the Company) save that the Company may before such expiry make an offer or arrangement which would or might require equity securities to be allotted after

such expiry and the Directors may allot equity securities pursuant to such offer or arrangement as if the power conferred hereby had not expired.

10. To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT, subject to the Company's Articles of Association from time to time, the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163 (3) of that Act) of its own ordinary shares on such terms and in such manner as the Directors shall determine, provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 7,317,618 representing approximately 10% of the Company's issued ordinary share capital;
- (b) the maximum price which may be paid for each ordinary share is an amount equal to 105% of the average of the closing mid-market prices for the ordinary shares of the Company (derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date of purchase and the minimum price per ordinary share is the nominal value thereof exclusive of any expenses payable by the Company; and
- (c) unless previously renewed, varied or revoked, the authority hereby given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution and the date falling twelve months after the passing of this resolution, save that the Company may make any purchase of ordinary shares after the expiry of such authority in execution of a contract of purchase that was made under and before the expiry of such authority.

By order of the Board

HARRY WILLITS
Company Secretary
17 May 2006

EXPLANATION OF RESOLUTIONS

This is an important document. If there is anything you do not understand, please contact an appropriate professional adviser.

1. DIRECTORS' REPORT AND ACCOUNTS (ITEM 1 ON THE AGENDA)

The Directors are required to present to the meeting the Directors' and Auditors' reports and the accounts for the year ended 2 March 2006.

2. CONSIDER AND ADOPT THE REPORT ON REMUNERATION (ITEM 2 ON THE AGENDA)

In accordance with recommended best practice, the Directors are presenting the Report of the Remuneration Committee for approval. The Report is set out on pages 26 to 30.

3. DECLARATION OF DIVIDEND (ITEM 3 ON THE AGENDA)

The proposed final dividend of 10.74p per ordinary share will be paid on 20 July 2006 to shareholders who are on the Register of Members as at the close of business on 16 June 2006. This dividend is in addition to the interim dividend of 4.44p per ordinary share, which was paid on 6 January 2006. The shares will become ex dividend on 14 June 2006.

4. RE-ELECTION OF DIRECTORS (ITEMS 4 AND 5 ON THE AGENDA)

Article 87 of the Company's Articles of Association states that any Director who has not been appointed or reappointed at either of the Company's last two Annual General Meetings should retire. Nick Beighton was appointed on 1 August 2005 and is offering himself for re-election. Keith Hamill is retiring and offering himself for re-election under this provision.

5. APPOINTMENT AND REMUNERATION OF AUDITORS (ITEMS 6 AND 7 ON THE AGENDA)

This resolution proposes the reappointment of PricewaterhouseCoopers LLP as the Company's auditors, and permits the Directors to fix their remuneration.

6. RENEWAL OF AUTHORITY TO ALLOT SHARES (ITEMS 8 AND 9 ON THE AGENDA)

The existing authorities given to the Directors at the last Annual General Meeting to allot unissued share capital and to allot shares for cash in limited circumstances expire on 18 July 2006. It is proposed that further authorities be granted which shall expire on the earlier of the date of the next Annual General Meeting to be held after the passing of the resolution and the date falling fifteen months after the passing of the resolution. An ordinary resolution (item 8) will be proposed to authorise the Directors to allot unissued share capital up to an aggregate nominal amount of £6,037,035 being 24,148,141 ordinary shares of 25p each representing approximately 33% of the share capital currently in issue. A special resolution (item 9) will be proposed authorising the Directors to allot shares in connection with a pre-emptive issue to existing shareholders or for cash up to £914,702 (being approximately 5% of the share capital currently in issue). There are no present plans to issue shares, except as required to satisfy the exercise of options or warrants under the Company's employee share incentive schemes.

7. AUTHORITY TO PURCHASE OWN SHARES (ITEM 10 ON THE AGENDA)

The special resolution proposed at item 10 would authorise the Company to acquire its own shares subject to the constraints set out in the resolution. The Directors would exercise this power only if satisfied that it was in the interests of the shareholders as a whole to do so and that it was likely to result in an increase in earnings per share. Any shares purchased in accordance with this authority will subsequently be cancelled.

As at 17 May 2006, options and warrants were outstanding to subscribe for a total number of 6,416,544 ordinary shares, or 8.77% of the Company's issued share capital. If this authority to purchase shares is ever used in full, the proportion of issued share capital represented by this figure would be 9.74%.

ACTION TO BE TAKEN

Whether or not you intend to attend the Annual General Meeting, you are requested to complete the enclosed form of proxy and return it to the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA as soon as possible and in any event so as to be received no later than 48 hours before the time appointed for the Annual General Meeting. The completion and submission of a form of proxy will not prevent you from attending and voting in person if you so wish.

RECOMMENDATION

Your Board believes that the proposed resolutions to be put to the meeting are in the best interests of shareholders as a whole 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.

ATTENDANCE AND VOTING

As a shareholder of Luminar plc, you have the right to attend and vote at the Annual General Meeting.

Please bring with you the accompanying form of proxy/admission card. It will authenticate your right to attend, speak and vote and will speed your admission. Please keep it until the end of the meeting. The meeting will commence at 2.30pm and refreshments will be available from 2.00pm.

You may also find it helpful to bring your Annual Report with you so that you can refer to it at the meeting.

If you do not wish, or are unable, to attend, you may appoint either the Chairman of the meeting or someone else of your choice to act on your behalf and to vote in the event of a poll. That person is known as a "proxy". You can use the enclosed form of proxy to appoint a proxy.

A proxy need not be a shareholder and may attend and vote (on a poll) on behalf of the shareholder who appointed him or her.

At the meeting, the proxy can act for the member he or she represents. This includes the right to join in or demand a poll, but it does not include the right to vote on a show of hands. The proxy is valid for any adjournment of the meeting.

EXPLANATION OF RESOLUTIONS CONTINUED

Please tick the appropriate box alongside each resolution to indicate whether you wish your votes to be cast "for" or "against" that resolution. Unless you give specific instructions on how you wish to vote on a particular resolution, your proxy will be able, at his or her discretion, either to vote "for" or "against" that resolution or to abstain from voting.

Before posting the form of proxy to the Registrars, please check that you have signed it. In the case of joint holders, either of you may sign it.

To be effective, the form of proxy must be received by the Company's Registrars at the address shown above by no later than 8.30am on 17 July 2006. Any form of proxy received after this time will be declared void.

NOTES

1. Any member entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member.
2. Instruments appointing proxies must be received by the Company's Registrars not less than 48 hours before the time the meeting is to be held.
3. For the purpose of determining entitlement to attend and vote at the meeting, the name of the member must be entered on the register of members at 8.30am on 17 July 2006. If you have recently sold or transferred all of your shares in the Company please send this notice and the accompanying proxy form to the broker who sold your shares for you. The broker can then send them to the new owner of the shares.
4. The following documents are available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the Company's registered office and at the offices of CMS Cameron McKenna at 160 Aldersgate Street, London, EC1A 4DD from the date of this notice until the conclusion of the Annual General Meeting:
 - a) The Register of Directors' (and their families') interests in the share capital of the Company.
 - b) Copies of all Directors' service contracts for periods in excess of one year with the Company or any of its subsidiaries.
 - c) The existing Memorandum and Articles of Association.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

18 July 2006, 2.30pm at the offices of CMS
Cameron McKenna, 160 Aldersgate Street,
London, EC1A 4DD

TIMETABLE FOR RESULTS

Interim Results announced
— 8 November 2006
Interim Statement circulated
— 8 November 2006
Preliminary announcement of full year results
— May 2007*
Annual Report circulated
— June 2007*

DIVIDEND PAYMENTS

The proposed final dividend (if approved) will
be paid on 20 July 2006 to shareholders
registered on 16 June 2006.
The expected dividend payment dates for the
year to 1 March 2007 are:
Interim Dividend — January 2007
Final Dividend — July 2007

SHAREHOLDER SERVICES

On the Company's behalf, Natwest
Stockbrokers Limited operates a low cost share
dealing service in Luminar plc shares. Details are
available on telephone 0870 6002050 or email
on Contactees@natwest.com quoting reference:
Luminar plc.

PRIVATE SHAREHOLDERS

If you have a query about your holding of
Luminar plc shares or need to change your
details, for example your address or payment of
dividend requirements, please contact the
registrars at the address shown below.

WEBSITE

Further details of the Group's activities and
products can be seen on its website at
www.luminar.co.uk.

COMPANY SECRETARY AND REGISTERED OFFICE

Harry Willits
Luminar House, Deltic Avenue, Rooksley,
Milton Keynes, Bucks, MK13 8LW
Telephone 01908 544100
Facsimile 01908 203597

REGISTRATION

Luminar plc is registered in England and Wales
(no. 3170142)

REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
Sussex
BN99 6DA
Telephone 0870 6015366
Facsimile 0870 9000030

You can check details of your shareholding on
Lloyds TSB Registrars website at
www.shareview.co.uk

STOCKBROKER

UBS Investment Bank
1 Finsbury Avenue
London
EC2M 2PP

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6NN

SOLICITORS

CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

* Provisional date, to be confirmed

