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# GEORGICA

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COMPANIES HOUSE

ANNUAL REPORT 2006

# Contents

# Directors, secretary and advisors

**Directors:**
Don Hanson (Chairman)
Vineet Arora
David Barrett
Kaye Collins
Peter Collins
Peter Haspel
Margaret Mountford
Nicholas Oppenheim
Clive Preston
Simon Prew
Robert Wickham

**Company Secretary:**
Peter Smith

**Registered Office:**
33, King Street, London, SW1Y 6RJ. Tel: 020 7600 7900

**Nominated Advisor:**
Cenkos Securities Ltd, 6,7,8, Token House Yard, London, EC2R 7AS.

**Solicitors:**
Herbert Smith LLP, Exchange House, Primrose Street, London, EC2A 2HS.
McDermott Will & Emery UK LLP, 7, Bishopsgate, London, EC2N 3AR.

**Joint Stockbrokers:**
KBC Peel Hunt Limited, 111, Old Broad Street, London, EC2N 1PH.
Oriel Securities Ltd, 125, Wood Street, London, EC2V 7AN.

**Auditors:**
PricewaterhouseCoopers LLP, 1, Embankment Place, London, WC2N 6RH.

**Registrars:**
Capita Registrars, The Registry, 34, Beckenham Road, Beckenham, Kent, BR3 4TU. Tel: 0870 162 3100

**Company number:**
4039562

**Country of registration:**
England and Wales

# Board of directors

**Don Hanson**
**– Non-executive chairman (72)**
Don was a managing partner of Andersen Worldwide from 1989 to 1997 and senior partner of Arthur Andersen in the UK from 1982 to 1989. From July 1999 to July 2000 he was chairman of Northern Leisure PLC. He has been non-executive chairman of Georgica since September 2000.

**Vineet Arora**
**– Pricing and IT director (36)**
Vineet has a Masters of International Affairs with specialisation in finance and business from Columbia University in the City of New York and has previously worked with Dell Computer and Citibank. He joined Georgica in November 2002 as a pricing and profitability expert and was appointed to the board on 27th November 2003.

**David Barrett**
**– Non-executive director (59)**
David worked for 26 years as a legal executive before joining Allied Leisure in October 1989. David was the deputy managing director of Georgica until 1st January 2006.

**Kaye Collins**
**– Managing director, Tenpin Limited (38)**
Kaye has many years of leisure sector experience, most recently running the Burger King and bowling estates for Allied Leisure. She joined the group in August 1998 and was appointed to the board on 27th November 2003.

**Peter Collins**
**– Managing director, Rileys Limited (48)**
Peter has over 20 years experience in the leisure sector, including 10 in senior management: he has previously worked for Luminar Leisure, Rank Leisure Limited and Waterfall Holdings Limited. He joined the group in February 1998 and was appointed to the board on 12th August 2002.

**Peter Haspel**
**– Managing director (36)**
Peter qualified as a chartered accountant at Arthur Andersen in 1995. He joined Prudential in 1996 where he was ultimately employed as finance director of Prudential UK – Operations, Distribution and Shared Services. He was appointed to the board as finance director on 1st March 2004, and was appointed managing director on 20th November 2006.

**Margaret Mountford**
**– Non-executive director (55)**
Margaret was a partner at Herbert Smith, solicitors, from 1983 to 1999 during which time she became joint head of corporate finance advising a wide range of clients including various listed companies. Margaret has been a non-executive director of Georgica since September 2000 and is also a non-executive director of Amstrad PLC.

**Nicholas Oppenheim**
**– Executive deputy chairman (59)**
Nicholas graduated from Columbia University in the City of New York in 1972 with a Masters degree in Business Administration. Since then he has been a director and substantial shareholder in a number of quoted companies. He joined Georgica in September 2000. Until 20th November 2006, Nicholas was both deputy chairman and chief executive of Georgica.

**Clive Preston**
**– Non-executive director (70)**
Clive has 42 years experience in the leisure industry. From 1992 until 2000 he was managing director of Northern Leisure PLC. Following the takeover of Northern Leisure PLC by Luminar PLC in June 2000 he served as a director of Luminar Leisure Limited until retiring on 30th April 2001 and is Chairman of Amber Taverns Limited and Nexum Leisure Limited. Clive has been a non-executive director of Georgica since May 2002.

**Simon Prew**
**– Finance director (46)**
Simon was appointed to the board on 20th November 2006. He was an audit partner with Arthur Andersen from 1995 to 2000 and has been deputy finance director of Georgica since 2004.

**Robert Wickham**
**– Non-executive director (72)**
Robert was appointed a non-executive director on 2nd February 2004. Until his retirement in 1993 he was on the Management Board of Bank of Scotland with responsibility for England. He is a non-executive director of Rutland Trust PLC, non-executive deputy chairman of Arbuthnot Banking Group PLC and has been a non-executive director of Luminar PLC and Northern Leisure PLC.

# Chairman's statement

Profit before tax for the year increased by £4.3m to £6.7m. However underlying trading during the year was somewhat lower than during 2005 as a consequence of high summer temperatures, the World Cup in June, macroeconomic pressure on consumers, increased utility costs and the introduction of the smoking ban in Scotland. Your board estimates that excluding the benefits of the 53rd week in 2005 in order to give a comparable basis, EBITDA was approximately £3.5m lower than in 2005 at £17.8m. However progress was made both in enlarging and improving the quality of the underlying estate and in realising freehold properties for development and, in the last quarter, trading has improved substantially in both businesses.

In November it was decided to obtain a separate listing for each of Georgica's two businesses in order to maximise shareholder value.

On 4th January 2007 the proposed demerger was given the necessary tax clearances. On 31st January 2007 the High Court approved an internal reorganisation of the group which was required to effect the demerger.

However, considerable work remains to be carried out to determine the best financial structure for each of the two AIM listed companies. Major matters requiring determination are the question of how to apportion debt and how to deal with the numerous freehold and long leasehold properties from which the operating companies trade.

Under the terms of the floating rate note Georgica can either repay the note at its option, at any time from 30th June 2007 or repay it sooner by agreement with the bond holders. It is expected that the demerger will become effective as soon as the floating rate note is repaid.

**Tenpin**

Tenpin, the UK market leader in tenpin bowling currently operates 39 outlets and has contracted to open 6 more. Although same outlet sales declined by 0.5% during the year as a whole, in the last quarter such sales rose by 1.7%. During the year two freehold bowls were sold for redevelopment for an aggregate consideration of £17.3m which together contributed £0.35m to annual EBITDA.

The refurbishment of the Tenpin estate is substantially complete, and will be completed in 2007. Once completed, only minor capital improvements will be required to the existing estate.

From May the Tenpin website should enable customers who wish to book online to do so. It will also open up the opportunity to maximise revenue by promoting different prices at different times of the day and on different days of the week. Whilst Tenpin will start to experiment with variable online pricing from May, it will not be until 2008 that sufficient experience will be gained to be able to maximise revenues.

**Rileys**

Trading in Rileys during the year was uneven due to the impact of the exceptionally hot summer weather and the World Cup. Overall, same outlet sales were 2.9% lower than in 2005. Since the last

# Chairman's statement

Continued

annual report, 12 new outlets were acquired or opened and agreements to lease a further 8 outlets were signed. An outlet which contributed £0.16m to EBITDA in 2006 was conditionally sold for £2.95m for development and 2 outlets which contributed virtually nothing to EBITDA were sold for £0.9m. The refurbishment programme of Rileys has now been substantially completed.

In Scotland the smoking ban was implemented in April 2006 which adversely affected our Scottish outlets particularly during the early autumn. However trading over the last 7 weeks has shown definite signs of improvement.

During the second half of 2006, Rileys trialled live poker tournaments within its clubs. Following these successful trials, Rileys is planning to roll out live poker to over 100 clubs by Easter and to the majority of the remaining estate by the end of 2007. At the beginning of February 2007, Rileys signed a partnership arrangement with 888.com under which 888.com will assist Rileys with the roll out of live poker and will develop the Rileyspoker.com online poker and gaming site. The combination of live poker and online poker under the Rileys brand is a unique proposition to players and, whilst it is too early to say what the ultimate potential for poker will be, the board of Rileys is confident that, with the assistance and experience of 888.com, it will have a substantial beneficial impact on the business.

**Finance**

As at 23rd February 2007 Georgica had net debt of £93m (2006: 27th January £86m). £19m of capital expenditure in the year was funded from a combination of bank debt and the proceeds from asset realisations. A further £9.3m of contracted disposal proceeds are expected to be received in March 2007.

During the year Georgica acquired for cancellation 675,000 ordinary shares at an average price of 126 pence per share (2005: 750,000 ordinary shares at an average price of 95 pence per share).

The board intends that each of these two highly cash generative leisure businesses will expand during the coming year and believes that the demerger initiative will enable shareholders to realise substantial value in 2007.

Don Hanson

23rd February 2007

# Unaudited segmental analysis

52 week period ended 31st December 2006

This analysis has been adjusted from the information shown in the consolidated income statement with additional information to explain more clearly the results of the group. The comparative information for the 53 week period ended 1st January 2006 has been extracted from the 2005 annual report prepared under UK GAAP, adjusted as appropriate to present the information in accordance with the group's IFRS accounting policies (see note 32).

| | Rileys | | Tenpin | | Georgica overheads[1] | | Georgica consolidated | |
|---|---|---|---|---|---|---|---|---|
| £000 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| **Revenue** | **58,161** | **60,230** | **67,443** | **68,811** | - | - | **125,604** | **129,041** |
| Cost of sales | (28,115) | (27,391) | (28,100) | (29,570) | - | - | (56,215) | (56,961) |
| Operating costs | (12,080) | (11,391) | (17,574) | (16,818) | - | - | (29,654) | (28,209) |
| Rent | (3,801) | (3,475) | (7,451) | (6,810) | - | - | (11,252) | (10,285) |
| **Contribution** | **14,165** | **17,973** | **14,318** | **15,613** | - | - | **28,483** | **33,586** |
| Overheads | (4,631) | (4,792) | (3,344) | (3,364) | (2,743) | (2,289) | (10,718) | (10,445) |
| **EBITDA[2]** | **9,534** | **13,181** | **10,974** | **12,249** | **(2,743)** | **(2,289)** | **17,765** | **23,141** |
| Non recurring items and net movement on provisions[3] | (339) | (79) | 9,006 | 666 | (809) | (241) | 7,858 | 346 |
| Depreciation and impairment | | | | | | | | |
| - goodwill impairment | (721) | (140) | (289) | - | - | - | (1,010) | (140) |
| - software | – | – | (21) | (21) | - | (34) | (21) | (55) |
| - property | (1,448) | (1,267) | (1,117) | (1,441) | - | - | (2,565) | (2,708) |
| - fixtures, fittings & equipment | (3,591) | (3,230) | (3,371) | (3,476) | - | - | (6,962) | (6,706) |
| - non-operating assets | (83) | (154) | (164) | (92) | (167) | (123) | (414) | (369) |
| Total depreciation and impairment | (5,843) | (4,791) | (4,962) | (5,030) | (167) | (157) | (10,972) | (9,978) |
| **Operating profit** | **3,352** | **8,311** | **15,018** | **7,885** | **(3,719)** | **(2,687)** | **14,651** | **13,509** |
| Net interest | | | | | | | (9,887) | (9,177) |
| Financial instruments and bank charges[4] | | | | | | | (829) | (1,931) |
| Discontinued operations[5] | | | | | | | 2,790 | - |
| **Profit before tax** | | | | | | | **6,725** | **2,401** |
| Tax[6] | | | | | | | (2,613) | 5,770 |
| **Profit after tax for the period** | | | | | | | **4,112** | **8,171** |

[1] Georgica overheads includes the charge for movements in the valuation of performance shares in the Georgica Executive Participation Plan, which is volatile as it varies with the Georgica share price. The charge in 2006 was £0.7m (2005: £0.02m).

[2] EBITDA represents earnings before interest, tax, depreciation, impairment, non recurring items and net movement on provisions.

[3] The non recurring items and net movement on provisions in 2006 includes £9.1m profit on disposal of two bowls in Tenpin; and £0.2m of costs associated with the asset realisation programme and £0.7m of costs associated with vendor due diligence and the forthcoming demerger in Georgica overheads.

[4] Financial instruments and bank charges includes the movement in the fair value of financial instruments in each period, which fluctuate with interest rate expectations. These were responsible for a benefit of £0.4m in 2006 (2005: cost of £0.2m).

[5] Discontinued operations is shown gross of tax of £374,000.

[6] Tax in 2005 included a £5.1m benefit from recognising additional tax losses in Tenpin, carried forward from Megabowl. Tax in 2006 comprises £2,239,000 in respect of continuing operations and £374,000 in respect of discontinued operations.

# Directors' report

The directors present their annual report on the affairs of the group, together with the audited financial statements for the 52 week period ended 31st December 2006.

**Principal activity**
The principal activity of the group comprises the operation of pool and snooker clubs (cue sports) and tenpin bowling centres. The subsidiary undertakings principally affecting the profits or net assets of the group in the period are listed in note 12 to the financial statements.

**Business review**
Details of the group's performance during the period and expected future developments are contained in the Chairman's statement. Details of the performance of the two operating businesses, Rileys and Tenpin, together with their key performance indicators are contained in the operating review included in the supplementary information following the notes to the accounts. The information that fulfils the requirements of the Business Review can be found in the Operating Review on pages 58 to 62, and in the Chairman's Statement on pages 4 and 5 in respect of future developments, which are incorporated in this report by reference.

**Results and dividends**
The results for the 52 week period ended 31st December 2006 are set out in the consolidated income statement. The group profit before taxation for continuing operations for the period was £3,935,000 (2005: £2,401,000); for discontinued operations was £2,790,000 (£2,416,000 net of tax) (2005: £nil) and group profit after taxation was £4,112,000 (2005: £8,171,000).

The directors do not recommend the payment of a dividend for the period to 31st December 2006 (2005: £nil).

**Directors**
The directors during the period were as follows:

| | | Date of appointment/resignation |
|---|---|---|
| Don Hanson | Non-executive chairman | |
| Vineet Arora | Pricing and IT director | |
| David Barrett* | Non-executive director | |
| Kaye Collins | Managing director, Tenpin Limited | |
| Peter Collins | Managing director, Rileys Limited | |
| Peter Haspel** | Managing director | |
| Margaret Mountford | Non-executive director | |
| Nicholas Oppenheim*** | Executive deputy chairman | |
| Clive Preston | Non-executive director | |
| Simon Prew | Finance director | Appointed 20th November 2006 |
| Robert Wickham | Senior independent director | |

* The role performed by David Barrett changed from that of an executive director to that of a non-executive director with effect from 2nd January 2006.
** On 20th November 2006 Peter Haspel, formerly finance director, was appointed managing director.
*** On 20th November 2006 Nicholas Oppenheim, formerly deputy chairman & chief executive, was appointed executive deputy chairman.

Don Hanson, Margaret Mountford, Clive Preston and Robert Wickham are each members of the audit committee (chaired by Don Hanson), the remuneration committee (chaired by Margaret Mountford) and the nomination committee (chaired by Clive Preston).

Simon Prew, was appointed a director during the period and, being eligible, offers himself for election. Vineet Arora, David Barrett, Kaye Collins, Peter Collins, Don Hanson, Peter Haspel, Margaret Mountford, Nicholas Oppenheim and Clive Preston retire by rotation at the next annual general meeting and, being eligible, offer themselves for re-election.

### Directors' interests

| | Ordinary shares of 5p each 31st December 2006 | 1st January 2006 or date of appointment |
|---|---|---|
| Don Hanson | **610,500** | 610,500 |
| Vineet Arora* | **5,863** | 4,183 |
| David Barrett | **12,283** | 12,833 |
| Kaye Collins* | **16,390** | 15,244 |
| Peter Collins* | **16,390** | 15,244 |
| Peter Haspel* | **13,321** | 11,642 |
| Margaret Mountford | **25,000** | 25,000 |
| Nicholas Oppenheim | **500,000** | 500,000 |
| Clive Preston | **605,000** | 605,000 |
| Simon Prew | **–** | – |
| Robert Wickham | **10,000** | 10,000 |

* The number of ordinary shares held by these directors includes ordinary shares held in trust under the share incentive plan, details of which are provided in the remuneration report.

Details of the directors' interests in performance shares is included in the remuneration report.

At 31st December 2006 Nicholas Oppenheim also held 1,015,230 (1st January 2005: 1,015,230) convertible ordinary shares of 50p each, and Don Hanson held £1m of the floating rate notes issued by the company.

### Supplier payment policy
The group's policy for settlement of debts is to maintain satisfactory relationships with suppliers whilst maximising shareholder value. Trade payables of the group at 31st December 2006 were equivalent to 37 days purchases (2005: 37 days). The company has no trade payables.

### Substantial shareholdings
On 20th February 2007 the company had been notified in accordance with sections 198 to 208 of the Companies Act 1985 of the following interests in the ordinary share capital of the company.

| | Number of 5p ordinary shares | Percentage of 5p ordinary shares |
|---|---|---|
| North Atlantic Value | 17,760,320 | 18.23% |
| Schroder Investment Management Limited | 16,554,075 | 16.99% |
| M & G Investment Management | 12,830,208 | 13.17% |
| Man Financial | 9,938,963 | 10.20% |
| UBS Global Asset Management | 5,918,939 | 6.08% |
| Pendragon Capital | 3,284,571 | 3.37% |
| J.P. Morgan Asset Management | 3,273,750 | 3.36% |
| Deutsche Bank | 3,142,945 | 3.23% |

In addition, N M Oppenheim, B S Oppenheim and S A Oppenheim each have an interest in 507,615 convertible ordinary shares representing in total 60% of that class of share.

# Directors' report

Continued

### Acquisition of the company's own shares

Further to a shareholders' resolution dated 26th April 2006 the company purchased for cancellation during the period 675,000 (0.69%) ordinary shares for a total consideration of £864,000. These purchases of shares form part of a regular strategy of share buy backs pursued by the group.

A resolution to give the company authority to make market purchases of up to 14,613,405 of the company's shares, having a nominal value of £730,670.25 and representing approximately 15% of its current issued ordinary shares will be presented to shareholders at the Annual General Meeting.

### Land and buildings

The directors believe that the market value of freehold land for the properties held for redevelopment is currently £3m higher than its book value of £1.1m. If planning permission is obtained for a property which is subject to a conditional offer, the market value would be £5.8m higher than book value. All other freehold land is believed to be held at a book value which is not materially different from its market value.

### Financial instruments

The company holds an interest rate swap and an interest rate cap. The risks associated with interest rates and these financial instruments are set out in note 26 to the financial statements.

### Disabled employees

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled efforts are made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should as far as possible be identical with that of other employees.

### Employee consultation

The group attaches importance to good communications and relations with employees. Meetings are held to fulfil the objective when appropriate.

### Auditors

PricewaterhouseCoopers LLP are the auditors of Georgica Plc.

For each of the persons who were directors at the time this report was prepared, the following applies:

(i) so far as the directors are aware, there is no relevant audit information (ie information needed by the companies' auditors in connection with preparing their report) of which the companies' auditors are unaware; and

(ii) the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the companies' auditors are aware of that information.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to reappoint them as auditors will be proposed at the forthcoming Annual General Meeting.

33, King Street,
London,
SW1Y 6RJ.

23rd February 2007

By order of the board,

Peter Smith – Company Secretary

# Corporate governance statement

Georgica PLC is committed to high standards of corporate governance as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "2003 FRC Combined Code"). Although as an AIM listed company Georgica PLC is not required to comply with the 2003 FRC Combined Code, the directors of Georgica PLC have stated their intention, to the extent possible, to conduct the affairs of Georgica PLC as though it were listed on the Official List. The FRC have released an updated version of the Combined Code in 2006. This does not yet formally apply and has not been followed by Georgica in 2006.

**Statement of compliance with the Combined Code on Corporate Governance**

Throughout the period ended 31st December 2006 the company has been in compliance with the code provisions set out in section 1 of the 2003 FRC Combined Code, except where noted below. Further explanations of how the principles have been applied are set out below and, in connection with directors' remuneration, in the directors' remuneration report.

**The board**

The company has taken advantage of the exemption applying to smaller PLCs (below FTSE 350 size) allowing the non-executive directors to comprise less than half the board, and believes its balance of executive and non-executive directors to be appropriate - five non-executive directors and six executive directors. The chairman has held the position since September 2000 and, although he holds board positions in other smaller companies, he has no commitments which affect his ability to perform his duties as chairman of Georgica. The senior independent director, Robert Wickham, is available to shareholders if they have concerns which have not or cannot be resolved through the chairman, executive deputy chairman or managing director.

All of the non-executive directors who served in the period are considered to be independent with the exception of the chairman, Don Hanson (who is deemed not to be independent because he is the chairman) and David Barrett, a former executive director of the company. It was recognised that Margaret Mountford had completed six years service as a non-executive director and in the view of the board remains independent. The board notes the Code requirement that all members of the audit, remuneration and nominations committees should be independent non-executives. However, the board has taken the view that a committee of three members is insufficient to ensure the appropriate debate and thus the board chairman has been included. Fees received by Clive Preston in relation to the evaluation of investment opportunities for the company are not considered by the board to be of sufficient magnitude to impinge on his independence.

The board meets four times a year at a minimum, more frequently if circumstances require it. It met four times in 2006. The board has an established schedule of matters specifically reserved for its decision, including proposed changes to capital structure, significant acquisitions and disposals, strategic plans, accounting policies, dividends and share purchases, group budgets, financing loans and agreements, treasury policy, financial statements, major press releases and Stock Exchange releases, long term incentive programmes, material agreements and major capital expenditure. Other operational decisions are delegated to the company's management. All directors are required to attend each board meeting, and attendance in 2006 was 97.5%. The chairman and non-executive directors meet without the executives for a part of the meeting, or informally before or after the meeting.

The directors are all covered by a Directors' and Officers' Liability Insurance policy.

All of the executive directors and 80% of the non-executive directors are submitted for re-election at the AGM each year. The non-executives being submitted for re-election this year are David Barrett, Don Hanson, Margaret Mountford and Clive Preston. No director has a contract with a notice period of longer than 6 months.

The directors, including the non-executive directors, have substantial experience in the leisure sector. Any new director receives such induction into the company and training in the leisure sector as is required for them competently to perform their job. The board has sought to ensure that directors are properly briefed on issues arising at board meetings by establishing procedures for; distributing board papers in advance of meetings; considering the adequacy of the information provided before making decisions; adjourning meetings or deferring decisions when directors have concerns about the information available to them; having a standing agenda item to consider the timeliness and quality of information; and making the company secretary responsible to the board for the timeliness and quality of information.

# Corporate governance statement

Continued

The board has established three committees, the remuneration committee, the audit committee and the nomination committee, which all comprise four non-executive directors. All three committees are authorised to obtain outside professional advice at the company's expense if it considers this necessary.

**Remuneration committee**

The remuneration committee is chaired by Margaret Mountford and meets at least twice a year. It met twice in 2006 and all of the members attended each meeting. The purpose of the committee is to ensure that the executive directors and their senior executives are fairly, but responsibly, rewarded for their individual contributions to the performance of the group. This is done independently of the executive directors, avoiding any possible conflicting personal interests and with due regard to the interests of the shareholders.

Recommendations are made with respect to individual remuneration and the overall framework of remuneration of senior executives in accordance with the general terms of reference of the committee, which are available for review. Further details are given in the remuneration report. As set out in this report, a significant proportion of executive directors' remuneration is linked to corporate performance. The remuneration of the non-executive directors is established by the board as a whole.

**Audit committee**

The audit committee is chaired by Don Hanson and meets at least twice a year. It met twice in 2006 with over 87% attendance experienced. This committee reviews the financial statements and monitors financial procedures and policies including statutory reporting and compliance. It is responsible for ensuring that the company's accounting and financial policies and controls are proper and effective, that the internal and external auditing processes are properly co-ordinated and work effectively and to ensure the integrity of the financial statements and information published by the company. The formal terms of reference of the audit committee are available for review from the company secretary. Meetings are normally attended by the company's auditors. Executive directors may also attend the meetings at the invitation of the chairman.

Non-audit services supplied by the auditors are kept to a minimum and are generally other assurance services in nature which complement the audit process and do not risk compromising the auditors' independence e.g. vendor due diligence services in connection with the approaches made to the company in mid 2006 and structuring and due diligence services in connection with the proposed demerger.

There are operational internal audit teams based at Rileys and Tenpin who report to the boards of those businesses, but there is no corporate internal audit function due to the relatively small size of the group. The need for a corporate internal audit function is considered annually by the audit committee.

The audit committee does periodically review the arrangements by which staff of the company, in confidence, raise concerns about possible improprieties in financial reporting or other matters, and the independent investigation and resolution of such concerns.

**Nomination committee**

The nomination committee is chaired by Clive Preston. Its purpose is to make recommendations to the board on the appointment of new executive and non-executive directors, including making recommendations as to the composition of the board generally and the balance as between executive and non-executive directors. In exercising its duties the committee will liaise with the board and remuneration committee; seek advice from outside advisors; advertise vacancies where appropriate; consider guidance from the board and consider the guidance in the 2003 FRC Combined Code, as required. Meetings shall normally be held at such times as the committee deems appropriate but shall not be less than once a year. In 2006 the committee met twice and all of the members attended each meeting. The nomination committee has formal terms of reference which are available for review from the company secretary. The terms and conditions of appointment of non-executive directors are included in their letters of appointment, which are available for review from the company secretary. Where appropriate an external search consultancy is employed for board appointments.

**Communication with shareholders**

Communication with shareholders is given a high priority. In addition to the publication of the annual report, interim report and quarterly reports, there is regular dialogue with shareholders and analysts normally led by the executive deputy chairman and the managing director. The Annual General Meeting is attended by all directors, including the senior independent director, and is considered to be an important forum for communicating with private shareholders, allowing them to raise questions with the board.

**Performance evaluation**

The board undertakes an examination of its own performance, of the performance of its committees and of the performance of individual directors including the chairman. No separate meetings are held, and the appraisals have not resulted in the identification of any shortcomings.

**Risk assessment**

Risks are assessed and measured on a four point scale for impact and likelihood, the assessment then being used as the basis for prioritising the risks and raising the most significant to the attention of the audit committee and the board.

**Internal control**

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. Through discussion with management throughout the business, risks are identified and plans established to minimise them. In considering the risk assessment and maintenance of controls, only reasonable and not absolute assurance against misstatement or loss can be provided.

The key procedures in place to enable the directors to discharge these responsibilities are as follows:

A comprehensive system of financial reporting based on annual budgets is in place, agreed at board level. Detailed trading results are reported weekly for key line items, and monthly for all items, and compared with budget. Periodic forecasts are prepared during the year and reviewed by the board.

Operational and financial control procedures at the operational businesses are reviewed periodically with a senior management team responsible for the development of company policy and procedures. A full review at Rileys and Tenpin was conducted in 2004 is reassessed annually.

All capital expenditure is subject to a detailed approval and appraisal process, and monthly performance reviews at individual project level.

The operation of an internal audit department focused primarily on cash and inventory controls, and on the adequacy of the security at each of the units. They report their findings to the boards of the operating businesses on a regular basis and assist in addressing issues when risks are identified.

**Going concern**

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate.

# Remuneration report

As well as complying with the provisions of the 2003 FRC Combined Code as disclosed in the company's corporate governance statement, the board has applied the principles of corporate governance relating to directors' remuneration as disclosed below.

This report has been prepared as if the Directors' Remuneration Report Regulations 2002 were applicable to Georgica PLC. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the 2003 FRC Combined Code relating to directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

We have asked our auditors to audit the parts of the remuneration report that they would be required to audit if Georgica PLC was admitted to the Official List, and to state whether in their opinion that part of the report has been properly prepared in accordance with Schedule VII A of the Companies Act 1985.

**Unaudited information**

**Remuneration committee**

The company has established a remuneration committee which is constituted in accordance with the recommendations of the 2003 FRC Combined Code. Membership of the remuneration committee comprises the following non-executive directors; Margaret Mountford (Chairman), Don Hanson, Clive Preston and Robert Wickham, none of whom has day-to-day involvement in running the business. The remuneration committee meets at least twice a year to determine the company's policy on executive directors' remuneration, to review that remuneration and to consider and decide upon grants under the company's long-term incentive schemes.

**Remuneration policy**

The company's remuneration policy is to provide compensation packages at market rates and retain the directors to run the company successfully. There is no formal policy in place regarding the proportion of fixed and variable pay for executive directors. The company allows executive directors to accept appointments and receive payments from sources outside the group, subject to the approval of the board on a case by case basis.

**Basic salary**

The salary of individual directors is reviewed with effect from 1st January each year. Account is taken of the performance of the individual concerned, together with any change in responsibilities that may have occurred and the salary levels of similar roles in comparable companies.

**Bonus payments**

Nicholas Oppenheim does not participate in any of the company's incentive schemes.

A discretionary bonus scheme exists for the executive directors and other senior managers. The performance conditions relate to the achievement of financial targets designed to enhance the business and the achievement of individual objectives. Bonuses are either paid in cash or are paid under a scheme where two thirds of the bonus is paid in cash and one third of the bonus is used to buy shares in Georgica PLC. Payments are made two months after they are earned. The shares are held in a bonus scheme account for an average 2.5 years after which they vest automatically. Participants have the option to increase the proportion of bonus paid in shares from one third to 50% or 75%.

One-off cash bonuses may also be payable to board members, at the discretion of the remuneration committee, as reward for particular work.

**Pensions**

All directors are responsible for their own pension arrangements.

**Performance table**

The following table shows the company's share price performance since the date of admission to the Alternative Investment Market (AIM), relative to the AIM All Share index.

| Date | AIM All Share index | | Georgica PLC | |
|---|---|---|---|---|
| | Level | Ratio | Price | Ratio |
| 9th Oct 2000 | 1,728.1 | 100.00 | 108.5p | 100.00 |
| 29th Dec 2000 | 1,437.8 | 83.20 | 76p | 70.05 |
| 30th Mar 2001 | 1,171.9 | 67.81 | 70.5p | 64.98 |
| 29th June 2001 | 1,137.0 | 65.79 | 98p | 90.32 |
| 28th Sep 2001 | 820.5 | 47.48 | 76p | 70.05 |
| 31st Dec 2001 | 879.8 | 50.91 | 91p | 83.87 |
| 28th Mar 2002 | 841.2 | 48.68 | 109.5p | 100.92 |
| 28th Jun 2002 | 760.5 | 44.01 | 113.5p | 104.61 |
| 30th Sep 2002 | 605.1 | 35.02 | 85.5p | 78.80 |
| 27th Dec 2002 | 602.9 | 34.89 | 69p | 63.59 |
| 31st Mar 2003 | 542.7 | 31.40 | 31.5p | 29.03 |
| 30th Jun 2003 | 641.4 | 37.12 | 54p | 49.77 |
| 30th Sep 2003 | 751.9 | 43.51 | 78.5p | 72.35 |
| 28th Dec 2003 | 818.3 | 47.35 | 77.5p | 71.43 |
| 31st Mar 2004 | 908.5 | 52.57 | 84.5p | 77.88 |
| 30th Jun 2004 | 888.2 | 51.40 | 77.5p | 71.43 |
| 30th Sep 2004 | 918.9 | 53.17 | 66.0p | 60.83 |
| 26th Dec 2004 | 992.2 | 57.20 | 78.5p | 72.35 |
| 31st Mar 2005 | 1,088.8 | 63.00 | 80.0p | 73.73 |
| 30th Jun 2005 | 998.3 | 57.76 | 87.5p | 80.65 |
| 30th Sep 2005 | 1,093.8 | 63.29 | 98.0p | 90.32 |
| 1st Jan 2006 | 1,046.1 | 60.53 | 93.0p | 85.71 |
| 31st Mar 2006 | 1,198.9 | 69.38 | 133.0p | 122.58 |
| 30th Jun 2006 | 1,080.4 | 62.52 | 145.0p | 133.64 |
| 30th Sep 2006 | 1,016.4 | 58.82 | 148.0p | 136.41 |
| 31st Dec 2006 | 1,054.6 | 61.02 | 150.5p | 138.71 |

**Directors' contracts**

It is the company's policy that executive directors should have rolling contracts with a six month notice period. New directors will be offered a six month notice contract.

| Name of director | Date of contract or letter of appointment | Notice period |
|---|---|---|
| **Executive directors** | | |
| Vineet Arora | 23rd December 2003 | 6 months |
| Kaye Collins | 27th January 2004 | 6 months |
| Peter Collins | 23rd December 2003 | 6 months |
| Peter Haspel | 1st March 2004 | 6 months |
| Nicholas Oppenheim | 30th November 2000 | 6 months |
| Simon Prew | 20th November 2006 | 6 months |
| **Non-executive directors** | | |
| David Barrett | 2nd January 2006 | 6 months |
| Don Hanson | 30th November 2000 | 6 months |
| Margaret Mountford | 30th November 2000 | 6 months |
| Clive Preston | 1st May 2002 | 6 months |
| Robert Wickham | 2nd February 2004 | 6 months |

There are no special arrangements for compensation payments on termination of any of the directors' contracts.

**Non-executive directors**

The basic fee paid to each non-executive director in the period was £20,000, except for the chairman who was paid £30,000. Additional fees of £96,000 were also paid to Clive Preston for site reviews performed in connection with Georgica's capital expenditure programme and for participating in investor presentations. These fees are not considered of sufficient magnitude to impinge on his independence.

Non-executive directors cannot participate in any of the company's incentive schemes.

**Audited information**

**Aggregate remuneration**

The remuneration of the directors was as follows:

| | **52 week period to 31st December 2006 £** | 53 week period to 1st January 2006 £ |
|---|---|---|
| Emoluments | **838,785** | 1,183,616 |

| **Director** | Salary £ | Fees £ | Benefits* £ | **52 week period to 31st December 2006 Total £** | 53 week period to 1st January 2006 Total £ |
|---|---|---|---|---|---|
| Don Hanson | – | 30,000 | – | **30,000** | 30,000 |
| Vineet Arora | 100,577 | – | – | **100,577** | 100,103 |
| David Barrett** | – | 20,000 | – | **20,000** | 134,272 |
| Kaye Collins | 114,990 | – | – | **114,990** | 114,990 |
| Peter Collins | 127,051 | – | – | **127,051** | 122,794 |
| Peter Haspel | 154,480 | – | – | **154,480** | 259,904 |
| Margaret Mountford | – | 20,000 | – | **20,000** | 20,000 |
| Nicholas Oppenheim | 98,150 | – | 20,229 | **118,379** | 118,655 |
| Clive Preston*** | – | 116,000 | – | **116,000** | 98,000 |
| Simon Prew (appointed 20th November 2006) | 17,308 | – | – | **17,308** | - |
| Robert Wickham | – | 20,000 | – | **20,000** | 20,000 |
| Former directors | | | | | |
| Alastair Mitchell (resigned 25th February 2005) | – | – | – | – | 164,898 |
| Total | 612,556 | 206,000 | 20,229 | **838,785** | 1,183,616 |

* These amounts are the estimated taxable benefits provided to directors. The benefits received by Nicholas Oppenheim relate to the provision of a car to him under his service contract.

** The role performed by David Barrett changed from that of an executive director to that of a non-executive director with effect from 2nd January 2006. David Barrett also received £81,875 in the period from the exercise of performance share options.

*** Clive Preston received a fee of £20,000 (2005: £20,000) for his position of non-executive director and fees of £96,000 relating to consultancy work in relation to the programme of capital expenditure currently being undertaken by the group.

No third party fees were incurred.

# Remuneration report

Continued

### Long-term incentives

Vineet Arora, David Barrett, Kaye Collins, Peter Collins, Peter Haspel and Simon Prew participate in the Georgica PLC Executive Participation Plan, which is a long-term incentive plan linked to growth in shareholder value. Grants of options over performance shares to directors and senior employees under the plan are decided by the remuneration committee in order to align their longer-term objectives with those of the group. Participants receive an option over a number of performance shares. The performance share is a unit of measurement for the purposes of calculating rewards under the plan and is equivalent in value to one ordinary share in the company. The option over performance shares enables the participant to realise a cash sum (or, at the discretion of the remuneration committee, a number of ordinary shares) subject to the satisfaction of performance criteria and continuing employment. The performance criteria are currently linked to growth in the market value of the share price from the date the options were granted to the exercise date. The options are exercisable on an unconditional offer for the company, subject to certain criteria.

Directors' interests in performance shares:

| | Number of options during the period | | | | | |
|---|---|---|---|---|---|---|
| | At start of period or date of appointment | Granted | Exercised | At end of period | Exercise price | Period exercisable |
| Vineet Arora | 300,000 | - | - | 300,000 | £0.78 | 28th November 2007 to 28th November 2011 |
| David Barrett | 18,750 | - | (18,750) | - | £1.00 | |
| | 431,250 | - | (431,250) | - | £0.78 | |
| Kaye Collins | 12,500 | - | - | 12,500 | £1.00 | 1st July 2005 to 1st July 2006* |
| | 437,500 | - | - | 437,500 | £0.78 | 28th November 2007 to 28th November 2011 |
| Peter Collins | 25,000 | - | - | 25,000 | £1.00 | 1st July 2005 to 1st July 2006* |
| | 425,000 | - | - | 425,000 | £0.78 | 28th November 2007 to 28th November 2011 |
| Peter Haspel | 450,000 | - | - | 450,000 | £0.875 | 15th March 2008 to 15th March 2012 |
| Simon Prew | 400,000 | - | - | 400,000 | £0.825 | 2nd February 2009 to 2nd February 2013 |

*this period has been extended to one month following publication of the 2006 results.

David Barrett received £81,875, before deduction of tax in respect of his options which were exercised on 15th May 2006.

The first tranche of options over performance shares was granted on 1st July 2001. The second tranche of options over performance shares was granted on 28th November 2003. 60% of the options in this tranche are exercisable in the year from 28th November 2007 and 10% on each subsequent anniversary. Peter Haspel was granted 450,000 options on 15th March 2004. 60% of his options are exercisable in the year from 15th March 2008 and 10% in each subsequent year. Simon Prew was granted 400,000 options on 2nd February 2005. 60% of his options are exercisable in the year from 2nd February 2009 and 10% in each subsequent year. In all cases the exercisable part of an option lapses on the first anniversary of its becoming exercisable.

The mid-market price of ordinary 5p shares in the company at 29th December 2006 (the last trading day before 31st December 2006) was 150.5p (2005: 93.0p), and the range during the period was 93.0p to 156.0p (2005: 75.0p to 101.0p).

### Share plans

The company introduced an Inland Revenue approved share incentive plan, the Georgica Share Incentive Plan (GSIP) in 2003. Under the plan employees including eligible directors who had been employed with Georgica 12 months or more were entitled to free shares in the company, subject to certain restrictions and forfeiture. Under the GSIP, employees also have the opportunity to purchase shares in the company each month at market value. The shares purchased by employees will be matched by the company with further shares, which again are subject to certain restrictions and forfeiture. Vineet Arora, Kaye Collins, Peter Collins and Peter Haspel are members of the GSIP and their holdings are included in the table of Directors' Interests in the Directors' report.

**Georgica senior management incentive scheme**
In addition to the long-term incentives noted above a new Georgica senior management incentive scheme was introduced on 25th January 2006. The scheme is designed to align the objectives of management with those of shareholders to realise shareholder value. The scheme will reward senior management with a payment in cash if (i) an offer for the ordinary shares of the company or a takeover effected by a scheme of arrangement becomes or is declared unconditional in all respects (ii) one or both of the company's main operating subsidiaries are bought and an amount is returned to shareholders (iii) amounts are returned to shareholders on a refinancing of the group. Payments under the scheme will only be made if one of the above named events takes place on or before 31st December 2008. Payments under the scheme will be of an amount equal to a percentage of either (a) the value placed on the equity share capital of the company by an offer or (b) by the amount returned to shareholders. In all cases payments under the scheme will only be effected once an amount in excess of £108,250,000 has been realised by shareholders (being £1 per ordinary share based on the 98,097,700 ordinary shares in issue at 25th January 2006, together with £1 per 10,152,300 ordinary shares which would arise on conversion of the convertible ordinary shares at the maximum level of conversion).

| The following executive directors are participants in the Georgica senior management incentive scheme | Percentage of the value in excess of £108,250,000 |
|---|---|
| Kaye Collins | 1.0% |
| Peter Collins | 1.0% |
| Peter Haspel | 1.0% |
| Simon Prew | 0.25% |
| | 3.25% |

Awards totalling 0.125% of the value in excess of £108,250,000 received by shareholders have also been made to a senior employee of the group who is not a director of the company.

In addition an award of 0.25% of the value in excess of the fully diluted capital value of the company on the day of the results announcement was made to Simon Prew on 23rd February 2007, and a further award of 0.125% was made on the same basis to a senior employee of the group who is not a director of the company.

This report was approved by the board of directors on 23rd February 2007 and signed on its behalf by:

Margaret Mountford
Chairman, Remuneration Committee

# Statement of directors' responsibilities

## in respect of the annual report, the directors' remuneration report and the financial statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report (because the Company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a listed company) and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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.

# Independent auditors' report

**To the members of Georgica PLC**

We have audited the group and parent company financial statements (the "financial statements") of Georgica PLC for the 52 week period ended 31st December 2006 which comprise the consolidated income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statement of change in shareholders' equity and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited, at the request of the directors, 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 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. The directors are also responsible for preparing the directors' remuneration report (because the company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a listed company).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We also, at the request of the directors, audit the part of the directors' remuneration report to be audited (because the company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a listed company). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the chairman's statement, the unaudited segmental analysis, the directors' report, the corporate governance statement, the unaudited part of the directors' remuneration report and the supplementary information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a listed company), 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 company's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December 2006 and of its profit and cash flows for the 52 week period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2006 and cash flows for the 52 week period then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
23rd February 2007

# Consolidated income statement

for the 52 week period ended 31st December 2006

| | Notes | 52 weeks to 31st December 2006 £000 | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| **Revenue** | 1 | 125,604 | 129,041 |
| Cost of sales | | (56,215) | (56,961) |
| **Gross profit** | | 69,389 | 72,080 |
| Profit on disposal of properties | 2 | 9,097 | 244 |
| Administrative expenses | | (63,835) | (58,815) |
| **Operating profit** | | 14,651 | 13,509 |
| Interest payable and similar charges | 4 | (10,951) | (11,315) |
| Interest receivable | 5 | 235 | 207 |
| **Profit before taxation** | 6 | 3,935 | 2,401 |
| Taxation | 7 | (2,239) | 5,770 |
| **Profit from continuing operations** | | 1,696 | 8,171 |
| **Discontinued operations:** | | | |
| **Net profit from discontinued operations** | 8 | 2,416 | – |
| **Profit for the period attributable to equity shareholders** | | 4,112 | 8,171 |
| **Earnings per share – continuing operations** | | | |
| Basic earnings per share | 20 | 1.6p | 7.9p |
| Diluted earnings per share | 20 | 1.6p | 7.9p |
| **Earnings per share** | | | |
| Basic earnings per share | 20 | 4.0p | 7.9p |
| Diluted earnings per share | 20 | 4.0p | 7.9p |

# Balance sheets

at 31st December 2006

| | Notes | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 11 | **81,102** | 77,869 | – | – |
| Intangible assets | 11 | **62** | 50 | – | – |
| Investments | 12 | – | – | **70,076** | 67,353 |
| Property, plant and equipment | 13 | **119,650** | 120,961 | **572** | 678 |
| | | **200,814** | 198,880 | **70,648** | 68,031 |
| **Current assets** | | | | | |
| Inventories | 15 | **2,130** | 1,986 | – | – |
| Trade and other receivables | 16 | **15,615** | 8,413 | **123,479** | 112,445 |
| Financial assets | 17 | **388** | 238 | **388** | 238 |
| Cash and cash equivalents | 18 | **8,680** | 3,590 | **7,443** | 2,489 |
| | | **26,813** | 14,227 | **131,310** | 115,172 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities | 22 | **(10,645)** | (10,023) | **(10,616)** | (10,614) |
| Trade and other payables | 23 | **(17,774)** | (19,934) | **(14,926)** | (1,607) |
| Provisions | 24 | **(289)** | (150) | **(44)** | (43) |
| | | **(28,708)** | (30,107) | **(25,586)** | (12,264) |
| **Net current liabilities** | | **(1,895)** | (15,880) | **105,724** | 102,908 |
| **Non-current liabilities** | | | | | |
| Financial liabilities | 22 | **(98,275)** | (88,984) | **(92,732)** | (82,080) |
| Other non-current liabilities | 23 | **(1,639)** | (1,092) | **(734)** | (148) |
| Provisions | 24 | **(457)** | (229) | – | (43) |
| Deferred tax | 25 | **(8,777)** | (6,164) | – | – |
| | | **(109,148)** | (96,469) | **(93,466)** | (82,271) |
| **Net assets** | | **89,771** | 86,531 | **82,906** | 88,668 |
| **Equity** | | | | | |
| Share capital | 19 | **6,140** | 6,174 | **6,140** | 6,174 |
| Share premium | | **34,841** | 34,841 | **34,841** | 34,841 |
| Other reserves | | **57,724** | 57,690 | **166** | 132 |
| Retained earnings | | **(8,934)** | (12,174) | **41,759** | 47,521 |
| **Total equity** | | **89,771** | 86,531 | **82,906** | 88,668 |

The financial statements which comprise the consolidated income statement, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated and company cash flow statements and the related notes were approved by the board of directors and authorised for issue on 23rd February 2007 and signed on its behalf by:

Peter Haspel

Don Hanson

# Cash flow statements

for the 52 week period ended 31st December 2006

| Group | Notes | 52 weeks to 31st December 2006 £000 | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 21 | 17,423 | 21,665 |
| Interest received | | 235 | 207 |
| Interest paid | | (10,694) | (11,281) |
| **Net cash from operating activities** | | 6,964 | 10,591 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 9,410 | 639 |
| Purchase of property, plant and equipment | | (18,912) | (7,959) |
| Discontinued businesses | | 221 | - |
| **Net cash used in investing activities** | | (9,281) | (7,320) |
| **Cash flows from financing activities** | | | |
| Finance lease principal payments | | (99) | (89) |
| Receipts from borrowings | | 21,210 | 144,979 |
| Repayment of borrowings | | (12,036) | (148,957) |
| Purchase of treasury shares | | (895) | (718) |
| **Net cash from/(used in) financing activities** | | 8,180 | (4,785) |
| **Net increase/(decrease) in cash, cash equivalents and bank overdrafts** | | 5,863 | (1,514) |
| Cash, cash equivalents and bank overdrafts – beginning of period | 18 | (1,181) | 333 |
| **Cash, cash equivalents and bank overdrafts – end of period** | 18 | 4,682 | (1,181) |

| Company | Notes | 52 weeks to 31st December 2006 £000 | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 21 | (2,862) | (2,987) |
| Interest received | | 233 | 175 |
| Interest paid | | (9,407) | (7,368) |
| **Net cash used in operating activities** | | (12,036) | (10,180) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 5 | 14 |
| Purchase of property, plant and equipment | | (86) | (408) |
| Dividends from subsidiaries | | 1,750 | 9,500 |
| **Net cash from investing activities** | | 1,669 | 9,106 |
| **Cash flows from financing activities** | | | |
| Receipts from borrowings | | 21,240 | 144,979 |
| Borrowings from subsidiaries, net | | 6,685 | 5,226 |
| Repayment of borrowings | | (10,357) | (147,707) |
| Purchase of treasury shares | | (895) | (685) |
| **Net cash from financing activities** | | 16,673 | 1,813 |
| **Net increase in cash, cash equivalents and bank overdrafts** | | 6,306 | 739 |
| Cash, cash equivalents and bank overdrafts – beginning of period | 18 | (2,970) | (3,709) |
| **Cash, cash equivalents and bank overdrafts – end of period** | 18 | 3,336 | (2,970) |

# Statements of changes in equity

for the 52 week period ended 31st December 2006

| Group | Share capital £000 | Share premium £000 | Other reserves £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| **Balance at 27th December 2004** | **6,211** | **34,841** | **57,653** | **(19,595)** | **79,110** |
| Profit for the period | – | – | – | 8,171 | 8,171 |
| Share incentive plan | – | – | – | (33) | (33) |
| Buy back of ordinary shares | (37) | – | 37 | (717) | (717) |
| **Balance at 1st January 2006** | **6,174** | **34,841** | **57,690** | **(12,174)** | **86,531** |
| Profit for the period | – | – | – | 4,112 | 4,112 |
| Share incentive plan | – | – | – | (20) | (20) |
| Buy back of ordinary shares | (34) | – | 34 | (852) | (852) |
| **Balance at 31st December 2006** | **6,140** | **34,841** | **57,724** | **(8,934)** | **89,771** |

| Company | Share capital £000 | Share premium £000 | Other reserves £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| **Balance at 27th December 2004** | **6,211** | **34,841** | **95** | **40,365** | **81,512** |
| Profit for the period | – | – | – | 7,906 | 7,906 |
| Share incentive plan | – | – | – | (33) | (33) |
| Buy back of ordinary shares | (37) | – | 37 | (717) | (717) |
| **Balance at 1st January 2006** | **6,174** | **34,841** | **132** | **47,521** | **88,668** |
| Loss for the period | – | – | – | (4,890) | (4,890) |
| Share incentive plan | – | – | – | (20) | (20) |
| Buy back of ordinary shares | (34) | – | 34 | (852) | (852) |
| **Balance at 31st December 2006** | **6,140** | **34,841** | **166** | **41,759** | **82,906** |

# Statement of accounting policies

Georgica PLC (the "company") is a company incorporated in the United Kingdom. The consolidated financial statements of the company for the period ended 31st December 2006 comprise the company and its subsidiaries (together referred to as the "group"). The parent company financial statements present information about the company as a separate entity and not about its group.

**Statement of compliance**

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

An explanation of how the transition to adopted IFRSs has affected the reported financial position, financial performance and cash flows of the group is provided in note 32.

The following standards and interpretations are likely to have an impact on Georgica PLC's future accounting policies but have yet to be formally adopted; IFRS 7 – Financial instrument: Disclosures. The adoption of IFRS 7 is expected to lead to different disclosure of financial instruments in the financial statements.

**Basis of preparation**

The financial information has been prepared under the historical cost convention, as modified by the revaluation of derivative instruments to fair value through the income statement, and incorporates the consolidated results of Georgica PLC and all its subsidiaries for the year ended 31st December 2006.

Until 1st January 2006 the group prepared its financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). As an AIM listed company, Georgica is not required to prepare its consolidated financial statements for the 52 week period ending 31st December 2006 under International Financial Reporting Standards as adopted by the European Union (Adopted IFRS) and IFRIC interpretations, but has chosen to do so. IFRS is subject to an ongoing process of review and endorsement by the European Commission and amendment and interpretation by the International Accounting Standards Board.

The financial information for the 53 week period to 1st January 2006 has been extracted from the statutory accounts for this period prepared under UK GAAP, adjusted as appropriate to present the information in accordance with the group's IFRS accounting policies. The financial statements for this period, on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies. These are the group's first consolidated financial statements and IFRS 1 has been applied.

The preparation of financial statements requires the use of accounting estimates, and requires management to exercise judgement in the process of applying the group's accounting policies. Accounting estimates are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily available from other sources. The principal balance sheet accounts affected by judgement are goodwill (affected by the valuation of assets acquired and by impairment assessments), tangible fixed assets (affected by impairment assessments and estimates of useful life and residual value), financial assets (affected by valuation assumptions), other non-current liabilities (affected by the assumptions used to value share based payments), onerous lease provisions and deferred tax. Actual results may differ from these estimates.

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

**Basis of consolidation**

Subsidiaries, which are companies in which the group holds more than 50% of the voting rights and over which it has the power to govern the financial and operating policies, are consolidated from the date on which control passes to the group, and cease to be consolidated from the date on which control passes from the group. All intercompany balances and transactions, and any unrealised gains on transactions between group companies are eliminated.

On acquisition of a subsidiary, all of the identifiable acquired assets (including intangible assets), liabilities and contingent liabilities are recorded at their fair values, reflecting their condition on the date control passes. The cost of an acquisition is measured as the

# Statement of accounting policies

Continued

fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus expenses directly attributable to the acquisition. The excess of the cost of the acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

**Functional currency**

The financial information in this report is presented in sterling, the functional currency of the company and group, rounded to the nearest thousand.

**Revenue**

Revenue represents the total amounts earned from members and customers for membership income, bowling games, use of snooker and pool tables, use of amusement machines and bar and food sales, together with any other goods and services delivered in the normal course of business, net of VAT.

Revenue from annual membership income is recognised in the income statement over the year of membership. All other revenue is derived from daily takings and is recorded at the point of sale.

**Intangible assets**

Goodwill

Goodwill represents the excess of the cost of the acquisition of a subsidiary or business over the fair value of the group's share of the identifiable net assets acquired. Goodwill is carried at cost less impairment, and is tested annually for impairment, or earlier if circumstances indicate that an impairment may have occurred.

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

Trademarks

Trademarks acquired by the group are capitalised on acquisition at cost. They are amortised to the income statement in equal annual instalments over a period of 5 years which is their estimated useful economic life.

Software

Software costs are capitalised and depreciated over their estimated useful lives.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Depreciation is calculated so as to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful economic life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Freehold buildings | 50 years |
| Long leasehold premises | The shorter of 50 years or their estimated useful lives |
| Short leasehold premises | Their estimated useful lives |
| Fixtures, fittings and equipment | Between 3 and 20 years |
| Bowling lanes | 40 years |

Freehold land is not depreciated. Assets in the course of construction are not depreciated until they are brought into use. Residual value is calculated based upon prices prevailing at the date of acquisition.

**Impairment of assets**

At each reporting date, all assets other than inventories and deferred tax assets are considered for evidence of impairment. If there is an indication of impairment, the group carries out an impairment test by measuring the asset's recoverable amount, which is the higher of the fair value less costs to sell and the value in use. If this recoverable amount is below the carrying value, an impairment loss is recognised in the income statement and the asset is written down to the recoverable amount. In assessing value in use, the estimated future cash flows arising from the use of the asset are discounted to their present value using a discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment of the group's operating businesses is assessed at the cash generating unit (CGU) level, with goodwill allocated to each CGU for this purpose. Impairment losses are charged to the income statement in the period in which they are identified and are allocated first to goodwill, then to carrying amounts of other assets in the CGU on a pro rata basis.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Property disposals**
Disposals of properties and any resultant gain or loss on disposal are recognised in the income statement once all conditions of the sale contract become unconditional.

**Investments**
Except as stated below, fixed asset investments are stated at cost less any provision for impairment in value.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is calculated as cost of purchase on a first in, first out basis based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Trade and other receivables**
Trade and other receivables are stated at their cost less impairment losses.

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

**Interest-bearing borrowings**
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**Trade and other payables**
Trade and other payables are stated at cost.

**Leases**
Costs incurred in respect of operating leases are charged to the income statement on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term. The majority of the group's short term property leases are treated as operating leases.

Finance lease arrangements, which transfer substantially all of the benefits and risks of ownership of the related property to the group, are treated as if the property had been acquired. The properties are included in property, plant and equipment, classified as long leasehold properties, and the capital element of the leasing commitment is shown as a finance lease obligation in liabilities. Lease rentals are separated into capital and interest elements, with the capital element applied to reduce the finance lease obligation and the interest element charged to finance costs in the income statement, so as to give a constant periodic rate of charge on the remaining balance of the obligation outstanding at each accounting period end.

**Cash settled share based payments**
The group operates a long-term cash settled incentive plan linked to growth in shareholder value. It consists of a number of tranches of options, linked to the performance of the company's shares, granted to executive directors and senior employees. The options are accounted for at valuation, using the Binomial Model and taking into account relevant factors such as share price volatility, share price growth hurdles, lapse rates and dividend expectations. The fair value of each tranche of options over performance shares made under the plan is recognised in the income statement over the period from the effective date of grant to the vesting date for that tranche. Operating profit for the period is reduced by the cost of options allocated to that period, based on the valuation as at the period end, together with any adjustment to charges recorded in earlier periods due to revisions in the valuation in the period, which principally arise from changes in Georgica's share price.

A management incentive scheme, introduced in January 2006, will reward senior management with a payment in cash if (i) an offer for the ordinary shares of the company or a takeover effected by a scheme of arrangement becomes or is declared unconditional in all respects (ii) one or both of the company's main operating subsidiaries are bought and an amount is returned to shareholders (iii) amounts are returned to shareholders on a refinancing of the group before 31st December 2008. Payments under the scheme will be linked to the return to shareholders, computed as a percentage of the value delivered to shareholders in excess of the value of Georgica at the date of grant. In accordance with IFRS 2 the expense recognised in the income statement is based on an estimate of the fair value of the awards issued under the scheme at each reporting date. These awards will either vest in full, following a return to shareholders, or lapse if there has not been a qualifying return to shareholders before the scheme expires and accordingly, the expense is

# Statement of accounting policies

Continued

recognised in the income statement in full or not at all, dependent on the assessment of the likelihood that the awards will vest at the reporting date. Currently, no expense is being recognised.

**Provisions**

Provisions are recognised when the group has a present obligation (legal or constructive) as the result of a past event and it is both probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Where the group expects to be reimbursed for an outflow of resources associated with a provision, for example under an insurance contract, the expected reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are calculated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the unwinding of the discount over time is charged to finance costs in the income statement.

**Onerous lease commitments**

Provisions are recognised for the present value of onerous leases and vacant properties, calculated as the expected net cash out flows over the remaining life of the lease, discounted at a rate which approximates the group's weighted average cost of capital. Notional interest is charged in respect of the unwinding of the discount.

**Derivative financial instruments**

The group uses two forms of derivative financial instrument to reduce exposure to interest rate increases; interest rate caps and interest rate swaps. These derivatives are initially recognised at fair value on the date the contract is entered into, and are subsequently recognised at fair value re-measured as at each reporting date. The gain or loss on re-measurement to fair value is recognised in finance costs in the income statement.

**Intra-group financial instruments**

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

**Debt issue costs**

Issue costs of debt are recognised in the income statement on a systematic basis over the term of the debt.

**Tax**

The tax charge comprises current tax payable and deferred tax. The current tax charge represents an estimate of the tax payable in respect of the group's taxable profits and is based on an interpretation of existing tax laws.

As required by IAS 12 (revised), the group provides deferred income tax using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying values at the balance sheet date. Deferred income tax assets and liabilities so recognised are determined using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are based on the expected manner of realisation or settlement of the carrying amount of the assets or liabilities. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax balances are not discounted. Deferred tax is not recognised in respect of the initial recognition of an asset or liability acquired in a transaction which is not a business combination and at the time of the transaction does not affect accounting or taxable profits.

**Segment reporting**

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment). The group wholly operates within the United Kingdom.

**Discontinued operations**

A discontinued operation is a component of the group's business that either has been disposed of or classified as held for sale or is a company or group of companies to which a receiver or administrator has been appointed and over which the group does not exercise control.

**Dividends**

Dividends receivable are recognised when the right to receive the dividend is established, which is generally when the dividend is received.

**Company reserves**

The company's reserves comprise a share premium account, a special capital reserve and a capital redemption reserve. None of these reserves is distributable.

## 1 Segment reporting

Segment information is presented in respect of the group's business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business segments

The group comprises the following main business segments:

Rileys (Cue sports) – Rileys is the largest and only national cue sports operator in the UK, accounting for approximately 15% of the total number of dedicated cue sports venues.

Tenpin (Bowls) – Tenpin is the largest tenpin bowling operator in the UK with an approximate 20% share of the UK market.

Georgica – this comprises central management, being company secretarial and the board, central finance, head office assets and costs and group debt.

The segment results and capital expenditure for the 52 week period ended 31st December 2006 and the segment assets and liabilities at 31st December 2006 are as follows:

| | Rileys £000 | Tenpin £000 | Georgica £000 | Group £000 |
|---|---|---|---|---|
| **Segment revenue** | 58,161 | 67,443 | – | 125,604 |
| **Operating profit – segment result** | 3,352 | 15,018 | (3,719) | 14,651 |
| Net interest | | | | (10,716) |
| **Profit before tax** | | | | **3,935** |
| Tax | | | | (2,239) |
| Discontinued operations, net (see note 8) | | | | 2,416 |
| **Profit after tax for the period** | | | | **4,112** |
| **Other segment items included in the income statement** | | | | |
| Impairment of goodwill | 721 | 289 | – | 1,010 |
| Depreciation of property plant and equipment | 4,543 | 4,363 | 167 | 9,073 |
| Impairment of property, plant and equipment | 579 | 289 | – | 868 |
| Segment assets | 97,455 | 121,774 | 8,398 | 227,627 |
| Segment liabilities | (16,445) | (14,140) | (107,271) | (137,856) |
| **Net assets** | **81,010** | **107,634** | **(98,873)** | **89,771** |
| **Capital expenditure** | **10,624** | **8,491** | **86** | **19,201** |

# Notes to the financial statements

Continued

### 1 Segment reporting (continued)

The segment results and capital expenditure for the 53 week period ended 1st January 2006 and the segment assets and liabilities at 1st January 2006 are as follows:

| | Rileys £000 | Tenpin £000 | Georgica £000 | Group £000 |
|---|---|---|---|---|
| Segment revenue | 60,230 | 68,811 | – | **129,041** |
| Operating profit – segment result | 8,311 | 7,885 | (2,687) | **13,509** |
| Net interest | | | | **(11,108)** |
| **Profit before tax** | | | | **2,401** |
| Tax | | | | **5,770** |
| Discontinued operations, net (see note 8) | | | | **–** |
| **Profit after tax for the period** | | | | **8,171** |
| Other segment items included in the income statement | | | | |
| Impairment of goodwill | 140 | – | – | **140** |
| Depreciation of property plant and equipment | 4,587 | 5,009 | 123 | **9,719** |
| Impairment of property, plant and equipment | 89 | – | – | **89** |
| Segment assets | 93,572 | 117,422 | 2,113 | **213,107** |
| Segment liabilities | (19,288) | (12,193) | (95,095) | **(126,576)** |
| **Net assets** | **74,284** | **105,229** | **(92,982)** | **86,531** |
| **Capital expenditure** | **3,699** | **3,960** | **292** | **7,951** |

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

**Geographical segments**

All activities are conducted in the United Kingdom.

### 2 Profit on disposal of properties

During the period Tenpin completed the sale of its Streatham site and exchanged an unconditional contract for the sale of its Bristol site, both for redevelopment. The consideration received for Streatham was £8.0m, and the profit on disposal of £4.6m was recorded net of the net book value of the bowl of £2.5m and costs of £0.9m. The annual EBITDA of the business was £0.15m on turnover of £1.1m. The consideration agreed for Bristol was £9.3m. A profit on disposal of £4.5m was recorded, net of the net book value of the bowl of £3.9m (including goodwill) and costs of £0.9m. The annual EBITDA of the business was £0.2m on turnover of £1.2m.

A bowl was disposed of in December 2005 after being served with a compulsory purchase order. The developer paid £0.6m for an option to buy the business for £3.4m when the site was vacated. The option was exercised in December 2005 and the site was vacated in January 2006. £1.0m was received on exercise of the option and the balance of the consideration was received in January 2006. The profit on disposal was £0.2m. The site had an annual turnover of approximately £1.5m and an annual EBITDA of approximately £0.4m.

# Notes to the financial statements

Continued

### 3 Staff costs and numbers

| | Group | | Company | |
|---|---|---|---|---|
| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
| Wages and salaries | **37,786** | 34,388 | **783** | 1,071 |
| Social security contributions | **2,625** | 2,646 | **111** | 169 |
| Cash-settled share based payments (note 9) | **668** | 23 | **668** | 23 |
| | **41,079** | 37,057 | **1,562** | 1,263 |

Staff costs included within cost of sales is £35.1m (2005: £34.9m). The balance is recorded as an administrative expense within overheads. Details of directors' remuneration are disclosed in the remuneration report.

All key management positions are held by executive directors of Georgica PLC and accordingly, no further disclosure of key management remuneration beyond that in the remuneration report is deemed necessary other than that the cash-settled share based payment charge in the period which relates to executive directors is £586,000 (2005: £20,000).

The average number of persons employed (including directors) during the period, analysed by category, was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **52 week period ended 31st December 2006** | 53 week period ended 1st January 2006 | **52 week period ended 31st December 2006** | 53 week period ended 1st January 2006 |
| Weighted average number of employees: | | | | |
| Staff | **3,096** | 2,822 | **–** | – |
| Administration | **131** | 134 | **10** | 12 |
| Unit management | **613** | 536 | **–** | – |
| | **3,840** | 3,492 | **10** | 12 |

### 4 Interest payable and similar charges

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Floating rate note | **7,001** | 3,550 |
| Bank loans and overdrafts | **2,698** | 5,413 |
| Amortisation of deferred financing costs | **919** | 1,420 |
| Financial instruments | **(385)** | 183 |
| Finance leases | **395** | 405 |
| Other | **323** | 344 |
| | **10,951** | 11,315 |

### 5 Interest receivable

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Interest income on bank deposits | **235** | 207 |

# Notes to the financial statements

Continued

### 6 Profit before taxation

The following items have been included in arriving at profit before taxation:

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Staff costs (see note 3) | **41,079** | 37,057 |
| Consumables charged to cost of sales | **13,080** | 12,542 |
| Depreciation of property, plant and equipment | **9,073** | 9,719 |
| Impairment of property, plant and equipment | **868** | 89 |
| Impairment of goodwill | **1,010** | 140 |
| Depreciation and amortisation of intangible assets | **46** | 80 |
| Operating lease rentals payable - property | **10,830** | 10,643 |
| Repairs on property, plant and equipment | **3,501** | 3,726 |
| Auditors remuneration: | | |
| Audit of financial statements | **113** | 113 |
| Transaction due diligence | **270** | 240 |
| Accounting services | **15** | 35 |
| Consulting services | **70** | - |

### 7 Taxation

**Recognised in the income statement:**

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Current tax | **-** | - |
| Deferred tax: | | |
| Continuing operations: | | |
| Origination and reversal of temporary differences | **2,239** | (613) |
| Benefit of tax losses recognised | **-** | (5,157) |
| Total continuing operations | **2,239** | (5,770) |
| Discontinued operations: | | |
| Origination and reversal of temporary differences | **374** | - |
| Tax charge/(credit) in income statement | **2,613** | (5,770) |

**Reconciliation of effective tax rate for continuing operations:**

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Profit before tax | **3,935** | 2,401 |
| Tax using the UK corporation tax rate of 30% (2005: 30%) | **1,181** | 720 |
| Disallowable items | **1,058** | 200 |
| Accelerated capital allowances | **-** | (613) |
| Effect of tax losses utilised | **-** | (920) |
| Recognition of tax losses | **-** | (5,157) |
| Tax charge/(credit) in income statement | **2,239** | (5,770) |

### 8 Discontinued operations

In 2004 a receiver was appointed to Allied Leisure Limited and an administrator was appointed to Megabowl Limited, both subsidiaries of the company at that time. In June 2006 a settlement agreement was signed with the Allied receiver, in accordance with which the group made a settlement payment of £1.0m. In July 2006 a settlement agreement was signed with the Megabowl administrator, in accordance with which the group made a settlement payment of £50,000. The Megabowl administrator ceased to act in September 2006 and Megabowl was dissolved in December 2006. Georgica's funding banks, being the secured creditors of Megabowl, have received payments of £1.3m from the administrator during the period which, under the terms of the loan agreement, have been applied to reduce Georgica's borrowings. A profit of £2.4m, being £2.8m less tax of £0.4m, has been recorded in the period (2005: £nil) in respect of these discontinued operations, being the benefit of the payments from the administrator of Megabowl together with the release of payables and provisions in respect of both Allied Leisure and Megabowl.

### 9 Share-based payments

In 2001, the company established the Georgica Executive Participation Plan under which share based payment options are granted to key management personnel and senior employees. Grants on similar terms have been made each year since 2001. Participants receive an option over a number of performance shares. The performance share is a unit of measurement for the purposes of calculating rewards under the plan and is equivalent in value to one ordinary share in the company. The option over performance shares enables the participant to realise a cash sum (or, at the discretion of the remuneration committee, a number of ordinary shares) subject to the satisfaction of performance criteria and continuing employment. The performance criteria are currently linked to growth in the market value of the share price from the date the options were granted to the exercise date. The options are exercisable on an unconditional offer for the company, subject to certain criteria.

The number of performance shares currently issued under the scheme, and their terms, is as follows:

| Grant date | Number of performance shares | Exercise price | Period exercisable |
|---|---|---|---|
| 1st July 2001 | 37,500 | £1.00 | 1st July 2005 to 1st July 2006* |
| 28th November 2003 - block | 1,300,000 | £0.78 | 28th November 2007 to 28th November 2011 |
| 28th November 2003 - 4 tranches | 80,000 | £0.78 | 28th November 2007 |
| 15th March 2004 - block | 450,000 | £0.875 | 15th March 2008 to 15th March 2012 |
| 11th June 2004 - 4 tranches | 47,500 | £0.875 | 15th March 2008 |
| 2nd February 2005 - block | 400,000 | £0.825 | 2nd February 2009 to 2nd February 2013 |
| 2nd February 2005 - 4 tranches | 112,500 | £0.825 | 2nd February 2009 |
| 31st January 2006 - 4 tranches | 97,500 | £1.060 | 31st January 2010 |

* this period has been extended to one month following publication of the 2006 results.

# Notes to the financial statements

Continued

### 9 Share-based payments (continued)

Performance shares outstanding at the end of the period have the following expiry dates and valuations:

| Grant date | Number | Expiry date | Value (pence per share) | Value (£) |
|---|---|---|---|---|
| 1st July 2001 | 37,500 | 26th March 2007 | – | – |
| 28th November 2003 | 860,000 | 28th November 2008 | 49 | 421,400 |
| 28th November 2003 | 130,000 | 28th November 2009 | 57 | 74,100 |
| 28th November 2003 | 130,000 | 28th November 2010 | 64 | 83,200 |
| 28th November 2003 | 130,000 | 28th November 2011 | 77 | 100,100 |
| 28th November 2003 | 130,000 | 28th November 2012 | 81 | 105,300 |
| 15th March 2004 | 270,000 | 15th March 2009 | 42 | 113,400 |
| 15th March 2004 | 45,000 | 15th March 2010 | 49 | 22,050 |
| 15th March 2004 | 45,000 | 15th March 2011 | 57 | 25,650 |
| 15th March 2004 | 45,000 | 15th March 2012 | 71 | 31,950 |
| 15th March 2004 | 45,000 | 15th March 2013 | 76 | 34,200 |
| 11th June 2004 | 47,500 | 11th June 2009 | 53 | 25,175 |
| 2nd February 2005 | 240,000 | 2nd February 2010 | 54 | 129,600 |
| 2nd February 2005 | 40,000 | 2nd February 2011 | 61 | 24,400 |
| 2nd February 2005 | 40,000 | 2nd February 2012 | 74 | 29,600 |
| 2nd February 2005 | 40,000 | 2nd February 2013 | 79 | 31,600 |
| 2nd February 2005 | 40,000 | 2nd February 2014 | 85 | 34,000 |
| 2nd February 2005 | 112,500 | 2nd February 2010 | 54 | 60,750 |
| 31st January 2006 | 97,500 | 31st January 2011 | 41 | 39,975 |

There is no material difference between the actual remaining life and the contractual remaining life.

**The number and weighted average value of performance shares is as follows:**

| | **52 week period ended 31st December 2006** | | | | 53 week period ended 1st January 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Weighted average exercise price p** | **Value in pence per Binomial Model p** | **Number of performance shares** | **Charge/ (credit) and liability £000** | Weighted average exercise price p | Value in pence per Binomial Model p | Number of performance shares | Charge/ (credit) and liability £000 |
| Beginning of the period | **80.7** | **19.5** | **2,945,000** | **148** | 80.0 | 17.2 | 3,397,500 | 125 |
| Granted during the period | **106.0** | **41.0** | **97,500** | **–** | 82.5 | 27.0 | 567,500 | – |
| Exercised during the period* | **78.9** | **18.2** | **(450,000)** | **82** | – | – | – | – |
| Lapsed during the period | **79.9** | **–** | **(67,500)** | **–** | 86.4 | – | (1,020,000) | – |
| Change in fair value (spread) | **–** | **–** | **–** | **586** | – | – | – | 23 |
| Outstanding at the end of the period | **81.7** | **55.6** | **2,525,000** | **734** | 80.7 | 19.5 | 2,945,000 | 148 |
| Exercisable at the end of the period | **100.0** | **–** | **37,500** | **–** | 100.0 | – | 56,250 | – |

* The share price at the measurement date for exercise was £1.335.

**The change in fair value in the period is spread over the period to first exercise date of each tranche of performance shares, representing the period over which the benefit of the shares is being earned.**

**The fair value of services received in return for performance shares granted is measured by reference to the fair value of the performance shares granted. The estimate of the fair value of the services received is measured based on the Binomial Model. The contractual life of the performance share is used as an input into this model. Expectations of exercise are also incorporated into the model.**

**In valuing the performance shares, it has been assumed that 10% of the shares will lapse before reaching the exercise date. Past experience indicates that the lapse rate may be higher than this.**

### 9 Share-based payments (continued)

| Key assumptions in the Binomial Model used | 31st December 2006 | 1st January 2006 |
|---|---|---|
| Fair value at measurement date | £0.556 | £0.195 |
| Share price at measurement date | £1.505 | £0.930 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Binomial model) | 24%-34% | 21%-36% |
| Option life (expressed as weighted average life used in the modelling under the Binomial model) | 1.4-6.6 years | 2.4-7.6 years |
| Expected dividends | – | – |
| Risk-free interest rate | 4.9%-5.2% | 4.2%-4.3% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the performance shares at the reporting date).

Performance shares are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the performance share grants.

### 10 Result attributable to Georgica PLC

The financial statements of the parent company, Georgica PLC, were approved by the board of directors on 23rd February 2007. The result for the financial period dealt with in the accounts of Georgica PLC was a loss of £4.9m (2005: profit of £7.9m). As permitted by Section 230 of the Companies Act 1985, no separate Income Statement is presented in respect of the parent company. The profit for 2006 benefited from the receipt of a dividend from Rileys Limited of £1.75m (2005: £9.5m).

### 11 Intangible assets

| Group | Goodwill £000 | Software £000 | Trademarks £000 | Total £000 |
|---|---|---|---|---|
| Cost | | | | |
| At 27th December 2004 | 77,954 | 338 | 75 | 78,367 |
| Additions | 55 | 24 | – | 79 |
| At 1st January 2006 | 78,009 | 362 | 75 | 78,446 |
| Additions | 3,061 | 58 | – | 3,119 |
| Disposals | 1,182 | – | – | 1,182 |
| **At 31st December 2006** | **82,252** | **420** | **75** | **82,747** |
| Amortisation and impairment losses | | | | |
| At 27th December 2004 | – | 307 | – | 307 |
| Charge for the period - amortisation | – | 55 | 25 | 80 |
| Impairment losses | 140 | – | – | 140 |
| At 1st January 2006 | 140 | 362 | 25 | 527 |
| Charge for the period – amortisation | – | 21 | 25 | 46 |
| Impairment losses | 1,010 | – | – | 1,010 |
| **At 31st December 2006** | **1,150** | **383** | **50** | **1,583** |
| Net book value | | | | |
| **At 31st December 2006** | **81,102** | **37** | **25** | **81,164** |
| At 1st January 2006 | 77,869 | – | 50 | 77,919 |
| At 27th December 2004 | 77,954 | 31 | 75 | 78,060 |

Goodwill additions are set out in note 14.

The amortisation and impairment charges are recognised in administrative expenses in the income statement.

# Notes to the financial statements

Continued

### 11 Intangible assets (continued)

**Impairment loss**

Goodwill has been allocated to cash generating units and is summarised by business segment as follows:

| | **31st December 2006 Rileys £000** | **31st December 2006 Tenpin £000** | 1st January 2006 Rileys £000 | 1st January 2006 Tenpin £000 |
|---|---|---|---|---|
| Goodwill at the period end | 32,877 | 48,225 | 32,509 | 45,360 |
| Impairment of goodwill recorded in the period | 721 | 289 | 140 | – |

The recoverable amount of each cash generating unit has been calculated with reference to its value in use and its fair value less cost to sell. The calculations of value in use are based on pre-tax cash flow projections from the financial budgets approved by the board covering a two to three year period. Cash flows beyond this two to three year period are extrapolated over the life of the lease relating to that site, extended by 15 years for short leasehold premises in England and Wales where the provisions of the Landlord and Tenants Act apply and the company has the right and expects to extend the lease on expiry, or over 50 years for a long leasehold or freehold site.

The key features of this calculation are shown below:

| | **31st December 2006** | 1st January 2006 |
|---|---|---|
| Period on which management approved forecasts are based | 2 to 3 years | 2 years |
| Growth rate applied beyond approved forecast period | 0% | 0% |
| Pre-tax discount rate | 10% | 10% |

For both Rileys and Tenpin, the budgets which underlie the calculations are compiled on a site by site basis, with gross margin, staff cost, property cost and other operating profit assumptions being based on past performance and known factors specific to that site which are expected by management to affect future performance, to reflect the operating circumstances and risks relevant to each part of the business. The pre-tax discount rate applied to the cash flow projections approximates each company's weighted average cost of capital. The key assumption to which the calculation is sensitive is the future trading performance expected of each club or bowl, which has a more significant effect than the discount or growth rates assumed.

For the calculation of fair value less cost to sell, management have assumed that each Rileys business could be sold for a multiple of 5.5 x EBITDA and each Tenpin business could be sold for a multiple of 5.75 x EBITDA. This is believed to be a conservative assumption.

## 12 Investments

| Company | Shares £000 | Subsidiaries Loans £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 27th December 2004 | 41,965 | 23,155 | 65,120 |
| Additions | – | 2,233 | 2,233 |
| At 1st January 2006 | 41,965 | 25,388 | 67,353 |
| Additions | – | 2,723 | 2,723 |
| **At 31st December 2006** | **41,965** | **28,111** | **70,076** |

### Principal group investments

The parent company has investments in the following subsidiary undertakings, which principally affected the results and net assets of the group. Details of investments which are not significant have been omitted.

| | Country of registration | Country of incorporation and operation | Principal activity | Percentage of ordinary shares held |
|---|---|---|---|---|
| Companies directly owned by Georgica PLC | | | | |
| Georgica Bowling Limited | England & Wales | Great Britain | Holding Company | 100% |
| Rileys Limited | England & Wales | Great Britain | Leisure | 100% |
| Georgica Realisations Limited | England & Wales | Great Britain | Holding Company | 100% |
| Georgica Franchises Limited | England & Wales | Great Britain | Holding Company | 100% |
| Georgica Share Incentive Plan Limited | England & Wales | Great Britain | Share Incentive Plan | 100% |
| Companies owned indirectly by Georgica PLC | | | | |
| Megabowl Group Limited ** | England & Wales | Great Britain | Holding Company | 100% |
| Megabowl Services (CI) Limited ** | Guernsey | Guernsey | Non trading | 100% |
| Pondtrail Limited ** | England & Wales | Great Britain | Holding Company | 100% |
| Rileys (Folkestone) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Lancaster) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Norwich) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys Snooker Clubs Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (St Albans) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Southend) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys Peterborough C Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys Peterborough B Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Gillingham) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Hereford) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Chesterfield) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Chester) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Burton on Trent) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Lewisham) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Rileys (Wavertree) Limited * | England & Wales | Great Britain | Leisure | 100% |
| Tenpin Limited ** | England & Wales | Great Britain | Bowling | 100% |
| Tenpin (Ashford) Limited ** | England & Wales | Great Britain | Bowling | 100% |
| Tenpin Sunderland Limited ** | England & Wales | Great Britain | Bowling | 100% |
| Tenpin Halifax Limited ** | England & Wales | Great Britain | Bowling | 100% |
| Tenpin New Unit 3 Limited ** | England & Wales | Great Britain | Bowling | 100% |
| Tenpin Finance Limited ** | England & Wales | Great Britain | Holding Company | 100% |
| Tenpin Group Limited ** | England & Wales | Great Britain | Holding Company | 100% |

* These companies are all directly held subsidiaries of Rileys Limited.

** These companies are all either directly or indirectly held subsidiaries of Georgica Bowling Limited.

# Notes to the financial statements

Continued

## 13 Property, plant and equipment

| Group | Freehold land and buildings £000 | Long leasehold premises £000 | Short leasehold premises £000 | Fixtures, fittings and equipment £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 27th December 2004 | 34,770 | 21,928 | 35,692 | 60,491 | 152,881 |
| Additions | 1,079 | 31 | 1,092 | 5,670 | 7,872 |
| Disposals | – | (3,040) | (1,178) | (838) | (5,056) |
| At 1st January 2006 | 35,849 | 18,919 | 35,606 | 65,323 | 155,697 |
| Additions | 1,153 | 2,075 | 5,087 | 7,767 | 16,082 |
| Disposals | (7,093) | – | (171) | (1,660) | (8,924) |
| **At 31st December 2006** | **29,909** | **20,994** | **40,522** | **71,430** | **162,855** |
| **Depreciation and impairment** | | | | | |
| At 27th December 2004 | 2,117 | 2,074 | 7,691 | 14,865 | 26,747 |
| Charge for the period | 484 | 497 | 1,796 | 6,942 | 9,719 |
| Disposals | – | (385) | (1,178) | (256) | (1,819) |
| Impairment | – | – | – | 89 | 89 |
| At 1st January 2006 | 2,601 | 2,186 | 8,309 | 21,640 | 34,736 |
| Charge for the period | 487 | 451 | 1,599 | 6,536 | 9,073 |
| Disposals | (677) | – | (204) | (591) | (1,472) |
| Impairment | – | – | – | 868 | 868 |
| **At 31st December 2006** | **2,411** | **2,637** | **9,704** | **28,453** | **43,205** |
| Net book value | | | | | |
| **At 31st December 2006** | **27,498** | **18,357** | **30,818** | **42,977** | **119,650** |
| At 1st January 2006 | 33,248 | 16,733 | 27,297 | 43,683 | 120,961 |
| At 27th December 2004 | 32,653 | 19,854 | 28,001 | 45,626 | 126,134 |

Freehold land, amounting to £9.0m (2005: £11.7m) for the group, has not been depreciated. The directors believe that the market value of freehold land for the properties held for redevelopment is currently £3m higher than its book value of £1.1m. If planning permission is obtained for a property which is subject to a conditional offer, the market value would be £5.8m higher than book value. All other freehold land is believed to be held at a book value which is not materially different from its market value.

Bank borrowings are secured on land and buildings for the value of £48,230,000 (2005: £39,286,000).

Properties held under finance leases had a net book value of £2.6m (2005: £2.7m) and the depreciation charged in the period was £144,000 (2005: £144,000).

### 13 Property, plant and equipment (continued)

| Company | Fixtures, fittings and equipment £000 | Total £000 |
|---|---|---|
| **Cost** | | |
| At 27th December 2004 | 686 | 686 |
| Additions | 292 | 292 |
| Disposals | (14) | (14) |
| At 1st January 2006 | 964 | 964 |
| Additions | 86 | 86 |
| Disposals | (49) | (49) |
| **At 31st December 2006** | **1,001** | **1,001** |
| **Depreciation** | | |
| At 27th December 2004 | 129 | 129 |
| Charge for the period | 157 | 157 |
| At 1st January 2006 | 286 | 286 |
| Charge for the period | 167 | 167 |
| Disposals | (24) | (24) |
| At 31st December 2006 | **429** | **429** |
| **Net book value** | | |
| **At 31st December 2006** | **572** | **572** |
| At 1st January 2006 | 678 | 678 |
| At 27th December 2004 | 557 | 557 |

### 14 Acquisition of trade and assets

The group has made no acquisitions of companies in either period. It acquired the trade and assets of five businesses (3 cuesports clubs and 2 bowls) as going concerns for cash in the 52 week period ended 31st December 2006 and of one business (1 bowl) as a going concern for cash in the 53 week period ended 1st January 2006.

The acquisitions, which are not individually material to the group, had the following aggregate effect on the group's assets and liabilities:

| | **52 week period ended 31st December 2006 £000** | 53 week period ended 1st January 2006 £000 |
|---|---|---|
| Property, plant and equipment | **1,005** | 620 |
| Stocks | **48** | 20 |
| Trade and other receivables | **111** | 75 |
| Cash and cash equivalents | **4** | 5 |
| Trade and other payables | – | – |
| Net identifiable assets and liabilities acquired | **1,168** | 720 |
| Goodwill | **3,061** | 55 |
| Consideration | **4,229** | 775 |
| Consideration paid (including legal fees of £118,600 (2005: £26,100)), satisfied in cash | **4,229** | 775 |
| Cash (acquired) | **(4)** | (5) |
| Net cash outflow | **4,225** | 770 |

# Notes to the financial statements

Continued

## 15 Inventories

| | **Group 31st December 2006 £000** | Group 1st January 2006 £000 | **Company 31st December 2006 £000** | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Goods held for resale | **2,130** | 1,986 | **–** | – |

## 16 Trade and other receivables

| | **Group 31st December 2006 £000** | Group 1st January 2006 £000 | **Company 31st December 2006 £000** | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Trade receivables | **58** | 30 | **–** | – |
| Amounts owed by subsidiary undertakings | **–** | – | **122,901** | 111,836 |
| Amounts owed by related parties | **62** | 78 | **62** | 78 |
| Other receivables | **10,004** | 3,549 | **391** | 403 |
| Prepayments and accrued income | **5,491** | 4,756 | **125** | 128 |
| | **15,615** | 8,413 | **123,479** | 112,445 |

Amounts owed by subsidiary undertakings are loaned at the group's average borrowing rate, as they are commercial loans. Other receivables includes £9.3m receivable on the sale of Bristol bowl.

## 17 Financial assets

| | **Group 31st December 2006 £000** | Group 1st January 2006 £000 | **Company 31st December 2006 £000** | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Interest rate cap | **327** | 238 | **327** | 238 |
| Interest rate swap | **61** | – | **61** | – |
| | **388** | 238 | **388** | 238 |

## 18 Cash and cash equivalents

| | **Group 31st December 2006 £000** | Group 1st January 2006 £000 | **Company 31st December 2006 £000** | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Cash at bank and on hand | **1,237** | 1,101 | **–** | – |
| Short term bank deposits | **7,443** | 2,489 | **7,443** | 2,489 |
| Cash and cash equivalents | **8,680** | 3,590 | **7,443** | 2,489 |
| Overdrafts | **(3,998)** | (4,771) | **(4,107)** | (5,459) |
| Cash and cash equivalents as reported in the cash flow statement | **4,682** | (1,181) | **3,336** | (2,970) |

### 19 Share capital

| Group and company | 31st December 2006 £000 | 1st January 2006 £000 |
|---|---|---|
| Authorised share capital | | |
| 130,000,000 (2005: 130,000,000) ordinary shares of 5p each | 6,500 | 6,500 |
| 2,538,075 (2005: 2,538,075) convertible ordinary shares of 50p each | 1,269 | 1,269 |
| | 7,769 | 7,769 |
| Allotted and called up share capital | | |
| 97,422,700 (2005: 98,097,700) ordinary shares of 5p each | 4,871 | 4,905 |
| 2,538,075 (2005: 2,538,075) convertible ordinary shares of 50p each | 1,269 | 1,269 |
| | 6,140 | 6,174 |

| | Number | £000 |
|---|---|---|
| Movements in ordinary shares | | |
| At 27th December 2004 | 98,847,700 | 4,942 |
| Buy back of ordinary shares | (750,000) | (37) |
| At 1st January 2006 | 98,097,700 | 4,905 |
| Buy back of ordinary shares | (675,000) | (34) |
| At 31st December 2006 | 97,422,700 | 4,871 |

Further to the shareholders' resolution dated 26th April 2006, during the period the company purchased for cancellation 675,000 (2005: 750,000) ordinary shares with a nominal value of £33,750 (2005: £37,500) and representing 0.7% (2005: 0.8%) of the company's called-up ordinary shares, for an average price of £1.26 (2005: £0.95) per share for a total consideration of £852,000 (2005: £717,000) including expenses of £5,000 (2005: £6,000).

The convertible ordinary shares are freely transferable and can be converted into ordinary shares at the prevailing conversion rate at any time. The rate of conversion varies according to a conversion rate formula or if certain other events occur as specified in the company's Articles of Association. The main factor affecting the conversion rate is future increases in Georgica's share price. The shares will convert automatically on the share price reaching £4 or on 9th October 2010 if earlier, at the conversion rate then applicable.

The maximum rate of conversion, subject to necessary adjustments resulting from a change in the capital structure of Georgica, is currently 4.0 ordinary shares for 1 convertible ordinary share.

Based upon the share price at 31st December 2006 the rate of conversion was 2.181818 (2005: 2.033898) ordinary shares for 1 convertible ordinary share.

The rights and benefits attaching to each convertible ordinary share at 31st December 2006 were equivalent to those attaching to 2.181818 (2005: 2.033898) ordinary shares.

# Notes to the financial statements

Continued

### 20 Earnings per share

Basic earnings per share for each period is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, including convertible ordinary shares which are converted at the conversion rate applicable at each period end.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to reflect the impact of all dilutive potential ordinary shares. The potential dilutive effects of the shares held by the Georgica Share Incentive Plan Limited are set out below. The group's incentive schemes, although based on share price movements, will all be cash settled and so are not dilutive.

Details of the earnings and weighted average number of ordinary shares used in each calculation are set out below.

| | **52 weeks to 31st December 2006 £000** | 53 weeks 1st January 2006 £000 |
|---|---|---|
| Earnings attributable to ordinary shareholders – continuing operations | **1,696** | 8,171 |
| Earnings attributable to ordinary shareholders – discontinued operations | **2,416** | – |
| Earnings attributable to ordinary shareholders | **4,112** | 8,171 |
| | **Number of shares** | |
| Weighted average number of ordinary shares: | | |
| For basic earnings per share | **103,036,264** | 103,713,054 |
| Effect of shares held by the Georgica Share Incentive Plan | **149,177** | 133,854 |
| For diluted earnings per share | **103,185,441** | 103,846,908 |
| Effective number of ordinary shares in issue at the period end, assuming maximum conversion of convertible shares | **107,575,000** | 108,250,000 |
| | **Pence per share** | |
| Basic earnings per share – continuing | **1.6p** | 7.9p |
| Diluted earnings per share – continuing | **1.6p** | 7.9p |
| Basic earnings per share – discontinued | **2.4p** | – |
| Diluted earnings per share – discontinued | **2.4p** | – |
| Basic earnings per share | **4.0p** | 7.9p |
| Diluted earnings per share | **4.0p** | 7.9p |

The weighted average number of shares includes convertible ordinary shares which convert to ordinary shares based upon changes in the ordinary share price or if certain other events occur as specified in the company's Articles of Association.

For the purposes of calculating the weighted average number of shares for basic earnings per share the ratio of conversion for the convertible ordinary shares was 2.181818 (2005: 2.033898) ordinary shares for each convertible share. This was the rate at which the shares could have been converted on 31st December 2006 had the option been exercised. The rights and benefits attaching to each convertible ordinary share at 31st December 2006 were equivalent to those attaching to 2.181818 (2005: 2.033898) ordinary shares.

For diluted earnings per share the ratio of conversion for the convertible ordinary shares was also 2.181818 (2005: 2.033898) ordinary shares for each convertible ordinary share. Based upon the share price at 31st December 2006 this was the maximum rate the shares could be converted at in the future based upon the passage of time. Consequently, the convertible ordinary shares did not have a dilutive effect on earnings per share in 2006 or 2005.

The maximum rate of conversion, subject to necessary adjustments resulting from a change in the capital structure of Georgica, is currently 4.0 ordinary shares for 1 convertible ordinary share. The convertible ordinary shares will also convert at the rate of 4.0 ordinary shares for 1 convertible ordinary share in the event that an offer for the company is posted.

The Georgica Share Incentive Plan Limited acquired 12,909 (2005: 18,886) ordinary shares in the period to be offered as "matching" or "free" shares to members of the plan. The effect of these shares, together with the "matching" or "free" shares issued in previous years, on earnings per share in 2006 and 2005 is shown above.

### 21 Cash generated from operations

| Cash flows from operating activities | Group 52 weeks to 31st December 2006 £000 | Group 53 weeks to 1st January 2006 £000 | Company 52 weeks to 31st December 2006 £000 | Company 53 weeks to 1st January 2006 £000 |
|---|---|---|---|---|
| Profit/(loss) for the period | 4,112 | 8,171 | (6,640) | (1,594) |
| Adjustments for: | | | | |
| Tax | 2,239 | (5,770) | – | – |
| Interest income | (235) | (207) | (7,863) | (9,584) |
| Interest expense and finance charges | 10,951 | 11,315 | 10,607 | 8,482 |
| Impairment of property, plant and equipment | 868 | 89 | – | – |
| Impairment of goodwill | 1,010 | 140 | – | – |
| Depreciation and amortisation of intangible assets | 46 | 80 | – | – |
| Depreciation | 9,073 | 9,719 | 167 | 157 |
| Profit on disposal | (9,097) | (244) | 15 | – |
| Changes in working capital: | | | | |
| (Increase)/decrease in inventories | (144) | 325 | – | – |
| (Increase)/decrease in trade and other receivables | 272 | 1,795 | (9) | (45) |
| Increase/(decrease) in payables | 406 | (3,922) | 903 | (489) |
| Increase/(decrease) in provisions | 338 | 174 | (42) | 86 |
| Cash generated from continuing operations | 19,839 | 21,665 | (2,862) | (2,987) |
| Discontinued operations – profit before tax | (2,790) | – | – | – |
| Discontinued operations – tax | 374 | – | – | – |
| Cash generated from operations | 17,423 | 21,665 | (2,862) | (2,987) |

### 22 Financial liabilities

**Current liabilities**

| | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Bank overdrafts | 3,998 | 4,771 | 4,107 | 5,459 |
| Bank loans | 6,151 | 5,155 | 6,151 | 5,155 |
| Finance leases | 108 | 97 | – | – |
| Other | 388 | – | 358 | – |
| | 10,645 | 10,023 | 10,616 | 10,614 |

Bank loans due within one year are shown net of deferred financing costs of £849,000 (2005: £845,000), of which £364,000 (2005: £360,000) relates to the senior debt and £485,000 (2005: £485,000) relates to the floating rate note.

**Non-current liabilities**

| | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Bank loans | 36,606 | 27,525 | 34,915 | 24,583 |
| Floating rate note | 57,817 | 57,332 | 57,817 | 57,332 |
| Finance leases | 3,852 | 3,962 | – | – |
| Derivative financial instruments | – | 165 | – | 165 |
| | 98,275 | 88,984 | 92,732 | 82,080 |

Bank loans due after more than one year are shown net of £626,000 (2005: £990,000) of deferred financing costs. The floating rate note is shown net of deferred financing costs of £2,183,000 (2005: £2,668,000).

# Notes to the financial statements

Continued

## 22 Financial liabilities (continued)

The bank loans and overdrafts are secured by fixed and floating charges on all of the group's properties and assets. The floating rate note is second secured over the same assets. The directors have reviewed all loans and borrowings and have concluded that the terms of the agreements are on a commercial basis. The carrying value represents fair value to the group for all non current borrowings.

Borrowings are repayable as follows:

| | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Bank loans and floating rate note | | | | |
| Between one and two years | 11,550 | 7,000 | 11,550 | 7,000 |
| Between two and five years | 25,682 | 21,515 | 23,931 | 18,515 |
| After five years | 60,000 | 60,000 | 60,000 | 60,000 |
| | 97,232 | 88,515 | 95,481 | 85,515 |
| Within one year | 7,000 | 6,000 | 7,000 | 6,000 |
| | 104,232 | 94,515 | 102,481 | 91,515 |

The group had £19,000 (2005: £3m) of approved but undrawn capex facilities and £18.5m (2005: £19.5m) of undrawn revolving facilities at 31st December 2006, which are available for immediate draw down, but had no other undrawn facilities for which all conditions precedent had been met. In addition the group had cash on deposit of £7.4m (2005: £2.5m).

### Finance lease liabilities – Group

The payment profile of minimum lease payments under finance leases is as follows:

| | Net | | Gross | |
|---|---|---|---|---|
| | 31st December 2006 £000 | 1st January 2006 £000 | 31st December 2006 £000 | 1st January 2006 £000 |
| Less than one year | 108 | 97 | 494 | 494 |
| Between two and five years | 526 | 502 | 1,950 | 1,976 |
| More than five years | 3,326 | 3,460 | 6,936 | 7,405 |
| | 3,960 | 4,059 | 9,380 | 9,875 |
| Future finance charges on finance leases | – | – | (5,420) | (5,816) |
| **Present value of finance lease liabilities** | 3,960 | 4,059 | 3,960 | 4,059 |

## 23 Trade and other payables and other non-current liabilities

| Trade and other payables | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Trade payables | 3,106 | 3,388 | – | – |
| Amounts due to subsidiary undertakings | – | – | 13,790 | 807 |
| Social security and other taxes | 2,612 | 2,993 | – | – |
| Other payables | 964 | 4,431 | 496 | 181 |
| Accruals | 10,004 | 8,165 | 640 | 619 |
| Deferred income | 1,088 | 957 | – | – |
| | 17,774 | 19,934 | 14,926 | 1,607 |

Amounts due to subsidiary undertakings are loaned at the group's average borrowing rate, being commercial loans repayable on demand.

| Other non-current liabilities | Group 31st December 2006 £000 | Group 1st January 2006 £000 | Company 31st December 2006 £000 | Company 1st January 2006 £000 |
|---|---|---|---|---|
| Cash-settled share based payment accrual | 734 | 148 | 734 | 148 |
| Deferred income – lease incentives | 905 | 944 | – | – |
| | 1,639 | 1,092 | 734 | 148 |

## 24 Provisions

| | Group £000 | Company £000 |
|---|---|---|
| Onerous lease provisions | | |
| At 27th December 2004 | 189 | – |
| Provided in the period | 256 | 97 |
| Utilised in the period | (82) | (11) |
| Notional interest on unwinding of discount | 16 | – |
| At 1st January 2006 | 379 | 86 |
| Provided in the period | 530 | – |
| Utilised in the period | (192) | (42) |
| Notional interest on unwinding of discount | 29 | – |
| **At 31st December 2006** | **746** | **44** |
| **Current** | **289** | **44** |
| **Non current** | **457** | **-** |

The provision for onerous contracts comprises provision for the onerous element of the property leases on certain trading units, covering the expected period of the onerous commitment, and provision for establishment costs at vacant properties or properties to be vacated, based on the directors' best estimate of the costs arising on a property by property basis, covering the expected period of vacant possession and any lease incentive anticipated to be required to sublease the property. The assumptions underlying the onerous lease provisions are consistent with the assumptions used for impairment (see note 11).

# Notes to the financial statements

Continued

### 25 Deferred tax

The company has no deferred tax asset or liability.

**Group:**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **31st December 2006 £000** | 1st January 2006 £000 | **31st December 2006 £000** | 1st January 2006 £000 | **31st December 2006 £000** | 1st January 2006 £000 |
| Property, plant and equipment | **2,791** | 5,253 | **(16,598)** | (18,456) | **(13,807)** | (13,203) |
| Tax losses | **5,925** | 7,039 | **-** | - | **5,925** | 7,039 |
| Other | **-** | - | **(895)** | - | **(895)** | - |
| **Total** | **8,716** | 12,292 | **(17,493)** | (18,456) | **(8,777)** | (6,164) |

Movement in deferred tax during the 52 week period ended 31st December 2006:

| | 2nd January 2006 £000 | Recognised in income statement £000 | Recognised in equity £000 | **31st December 2006 £000** |
|---|---|---|---|---|
| Property, plant and equipment | (13,203) | (604) | - | **(13,807)** |
| Tax losses | (7,039) | (1,114) | - | **5,925** |
| Other | - | (895) | - | **(895)** |
| **Total** | **(6,164)** | **(2,613)** | **-** | **(8,777)** |

Movement in deferred tax during the 53 week period ended 1st January 2006:

| | 27th December 2004 £000 | Recognised in income statement £000 | Recognised in equity £000 | 1st January 2006 £000 |
|---|---|---|---|---|
| Property, plant and equipment | (13,816) | 613 | - | (13,203) |
| Tax losses | 1,882 | 5,157 | - | 7,039 |
| **Total** | **(11,934)** | **5,770** | **-** | **(6,164)** |

The capital allowance pools at 31st December 2006 total £52m (2005: £59m), £9m (2005: £16m) greater than the net book value of the related qualifying assets. The group also has carry forward tax losses of an estimated £19.7m (2005: £27m). These tax attributes have been included in the assessment of deferred tax assets set out above.

### 26 Derivatives and other financial instruments

The group's principal financial instruments comprise a floating rate note, bank loans, interest rate caps and swaps, cash and short-term deposits and are held in sterling. The purpose of these financial instruments is to provide finance for the group's operations. The group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations.

### 26 Derivatives and other financial instruments (continued)

**Interest rate risk**

The group borrows in sterling at floating rates of interest and has entered into interest rate cap and swap agreements for the interest rate of its financial liabilities. After taking account of these instruments the interest rate profile of the group's financial liabilities, gross of debt issue costs, was as follows:

| | 31st December 2006 £000 | 1st January 2006 £000 |
|---|---|---|
| Fixed rate financial liabilities | 15,000 | 15,000 |
| Floating rate financial liabilities | 93,230 | 84,286 |
| Finance leases | 3,960 | 4,059 |
| Financial liabilities on which no interest is paid | 746 | 379 |
| | 112,936 | 103,724 |

The interest rate applicable to the fixed rate financial liabilities is 5.03% and is fixed until 1st January 2008, under a £15m interest rate swap. A further £85m of the group's floating rate interest risk is capped at 6% increasing to £100m from January 2008 to April 2010. The interest rate on floating rate financial liabilities is linked to 3 months LIBOR. The weighted average period to maturity of the interest-free financial liabilities, being onerous lease provisions, is 2 years (2005: 2 years).

**Bank debt**

The group's bank debt bears interest at 3 month LIBOR plus a margin. For 2006 the margin for the loan facilities was 1.25% falling to 1.00%, and for the overdraft facility was 2.5%.

**Floating rate note**

In June 2005 the company issued £60m of senior second secured floating rate notes due 2012. The notes were issued at par and bear interest at 7% over 3 month LIBOR, payable quarterly. The notes may be redeemed in full or in part from 30th June 2007 for a redemption premium of 6%, from 30th June 2008 for a premium of 4%, from 30th June 2009 for a premium of 2%, and from 30th June 2010 at par.

Of the £60m proceeds, £40m was used to cancel senior debt and £20m was placed on deposit. The issuance of the floating rate note resulted in an additional £23m (to a total of £30m) of facilities becoming available under our group facilities agreement to fund capital expenditure in the three years to December 2007. The £20m deposit was used to repay revolving facilities, which are now available to be redrawn, at the discretion of the board, for share buybacks or for general corporate purposes including further capital expenditure (subject to certain conditions).

**Credit risk**

As almost all of the group's sales are for cash, the group is exposed to minimal credit risk.

**Sensitivity analysis**

In managing interest rate risk the group aims to reduce the impact of short-term fluctuations on the group's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

It is estimated that a general increase of one percentage point in interest rates would decrease the group's profit before tax by approximately £0.7m (2005: £0.9m). The interest rate swap and cap have been included in this calculation.

### 27 Capital commitments

Neither the company nor the group had any capital commitments which were contracted for but not provided for at 31st December 2006 or at 1st January 2006.

# Notes to the financial statements

Continued

### 28 Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | **31st December 2006 £000** | 1st January 2006 £000 |
|---|---|---|
| Group | | |
| Within one year | 10,059 | 9,497 |
| Between two and five years | 37,726 | 36,310 |
| After five years | 83,015 | 86,346 |
| | 130,800 | 132,153 |
| Company | | |
| Within one year | 273 | 273 |
| Between two and five years | 1,013 | 1,044 |
| After five years | 3,061 | 3,305 |
| | 4,347 | 4,622 |

### 29 Contingent liabilities

The company is contingently liable as a guarantor under the terms of the group's bank loan agreements for the borrowings under these agreements by each group company.

### 30 Related party transactions

The company sub-lets part of its London office to a company in which Nicholas Oppenheim has a significant interest. In 2006, rent and other service costs of £226,000 (2005: £272,000) were recharged to this company, all of which was invoiced (2005: £203,000). £170,000 (2005: £194,000) of the invoiced amount has been paid.

During 2006 Georgica PLC received dividends of £1.75m from Rileys Limited (2005: £9.5m) and intercompany funding payments of £4.0m from Rileys Limited and £9.4m from Tenpin Limited (2005: £6.8m from Rileys Limited and £1.2m from Tenpin Limited). It transferred capex funding of £10.0m to Rileys Limited and £5.2m to Tenpin Limited (2005: £1.9m to Rileys Limited and £1.4m to Tenpin Limited) and received £8.9m of disposal proceeds from Tenpin Limited (2005: £1.0m). The company accrued interest of £4.1m on its intercompany loans in the period (2005: £9.2m) and had outstanding intercompany balances at 31st December 2006 of £68.7m receivable from Rileys Limited, £14.2m payable to Tenpin Limited, £3.0m receivable from Georgica Bowling Limited and £51.3m receivable from Tenpin Finance Limited (2005: £62.5m receivable from Rileys Limited, £0.8m payable to Tenpin Limited, £2.7m receivable from Georgica Bowling Limited and £47. 4m receivable from Tenpin Finance Limited).

Fees paid to non-executive directors in respect of services provided to the company are disclosed in the remuneration report.

The company is listed on the Alternative Investment Market, and no indvidual investor holds more than 25% of the company's shares or has more than 25% voting control. Accordingly, the directors do not believe that there is an ultimate controlling party.

### 31 Subsequent events

The demerger proposed by Georgica was approved by HMRC on 4th January 2007. On 31st January 2007 the High Court approved an internal reorganisation of the group which was required to effect the demerger. This reorganisation comprised the insertion of a new holding company, Rileys Holdings Limited, as a direct subsidiary of Georgica PLC; the subsequent transfer of all Georgica's subsidiary undertakings to Rileys Holdings Limited for book value, and an upward revaluation of these investments followed by a capital reduction creating distributable reserves in Rileys Holdings Limited which will be used to effect the demerger of the Rileys subgroup as a dividend in specie.

**32 Transition to IFRS**

The group prepared its financial statements in accordance with UK GAAP for all reporting periods to 1st January 2006. The group's IFRS transition date is 27th December 2004, the first day of the comparative 53 week period.

In preparing these financial statements in accordance with IFRS 1, the group has applied the mandatory exceptions to the retrospective application of some aspects of other IFRSs that are relevant to it (financial assets and liabilities derecognised before 27th December 2004 are not re-recognised under IFRS and estimates made under UK GAAP at each relevant reporting date have not been revised as there is no objective evidence that the estimates were in error). It has retained the UK GAAP carrying value of property, plant and equipment and so has elected not to use the fair value as deemed cost option. It has not applied the optional exemption to IFRS 3, which would have allowed business combinations that occurred before 27th December 2004 not to be restated to IFRS. For the First Quarter Statement 2006 and the Interim Statement 2006 it had been assumed that this optional exemption would be applied.

A description of the significant differences between the group's performance and financial position under UK GAAP and IFRS is set out below, followed by reconciliations of net equity between IFRS and UK GAAP at the reporting date, the comparative balance sheet date and the transition date.

**Significant differences between IFRS and UK GAAP**

(i) Treatment of property leases

All of the group's property and other leases have been assessed as being either operating leases or finance leases in accordance with the guidance set out in IAS 17 "Leases". A substantial majority of the group's leasehold properties are on leases of 25 years or less, all of which continue to be treated as operating leases under IFRS. The buildings element of thirteen of the group's property leases, nine in Rileys and four in Tenpin, do qualify for finance lease treatment under IFRS, and adjustments to account for this change in treatment have been recorded.

(ii) Treatment of lease incentives

Under UK GAAP the benefits of lease incentives, including rent free periods, were spread over the period from commencement of the lease to the first rent review to market rent. Under IFRS (SIC-15 "Operating leases – incentives") the benefit from lease incentives is spread over the entire lease term. The group has approximately 20 leases which had rent free periods, for many of which the full benefit of the incentive had been recognised prior to the transition date. Accordingly, the adjustment is a credit to the balance sheet and a charge to reserves at the transition date, as the income is deferred over a longer period, and a credit to administrative costs in each subsequent accounting period as the deferred income is recognised.

(iii) Treatment of dilapidations

Dilapidations are lease obligations which require a leasehold property to be returned to its previous condition either at the end of a lease or at some point or points during the lease term. Under UK GAAP, dilapidation costs were provided for in advance as a charge to operating profits. Under IFRS dilapidation costs are provided for in full in advance as under UK GAAP, with the charge being not to operating profits but to tangible fixed assets. This additional capitalised cost is then depreciated over the remaining life of the asset.

(iv) Accounting for long term incentives

The Georgica Executive Participation Plan is a long-term cash settled incentive plan linked to growth in shareholder value. It consists of a number of tranches of options over performance shares granted to executive directors and senior employees. Under UK GAAP the plan was accounted for in accordance with UITF 17. From the start of the 2006 financial year the company would have been required to account for these incentives under FRS 20, which is substantially the same as IFRS 2, if it still reported under UK GAAP, including the requirement to restate all comparative information to the new accounting policy. Under IFRS 2 "Share-based payment" options granted under the plan are required to be accounted for at valuation. Accordingly, the UK GAAP balance sheets and income statements included in the reconciliations below have been restated from those previously reported to include the fair value of long term incentive plans, which no longer represents a UK GAAP to IFRS reconciling difference.

# Notes to the financial statements

Continued

**32 Transition to IFRS (continued)**

(v) Treatment of negative goodwill

In accordance with the requirements of IFRS 3 "Business combinations", negative goodwill is derecognised from the balance sheet and credited to the income statement. Any negative goodwill amortisation credited to the period's income statement under the group's former UK GAAP accounting policy is reversed under IFRS.

(vi) Property, plant and equipment and goodwill

Under UK GAAP and in common with other companies in the leisure industry, the cost of freehold and leasehold properties acquired by the group included the trading potential of the leisure businesses operated at those premises. On first adoption of IFRS, the transitional provisions set out in IFRS 1 allow the company to elect one of a number of different acceptable bases of valuation as the basis of its deemed cost on transition. The company has decided to restate the value of fixed assets such that the purchased goodwill element of the UK GAAP valuation is reclassified to intangible assets (goodwill), effectively stating the property values at depreciated historical cost. In addition, goodwill has been increased by an amount equal to deferred tax liabilities related to property assets (see note (viii) below), finance lease liabilities and deferred lease incentive income recognised on business combinations prior to the IFRS transition date. The goodwill balance is assessed for impairment at each reporting date, on a property by property basis, together with the carrying value of the related tangible fixed assets.

(vii) Accounting for financial instruments

The group holds a £15m interest rate swap which was accounted for on an accruals basis under UK GAAP, but is marked to market under IFRS. The swap is currently valued at a profit. The group also holds an £85m interest rate cap at 6% for 3 month LIBOR which first became effective in April 2006, and increases to £100m in January 2008. The cap cost £375,000 which was deferred on the group balance sheet under UK GAAP accounting. Under IFRS the balance sheet value is assessed on a mark to market basis, not an historical cost basis, and variations in the value are charged or credited directly to finance costs.

(viii) Deferred tax

Deferred tax under IFRS is calculated by comparing the book value of an asset or liability in the balance sheet with that asset or liability's tax base. UK GAAP applies a profit based approach by comparing the difference between accounting and taxable profit.

The current guidance on deferred tax under IFRS has generated a discussion regarding IAS 12 within the accounting profession. There is a possibility that IAS 12 may be revised in the future and that the effect of deferred tax on the group's balance sheet and income statement may be substantially revised. The group has adopted deferred income tax accounting as required under IAS 12, which advocates an income approach (ie based on corporation tax rates) for property asset deferred tax recognition.

Under the income approach, the basis of the deferred income tax provided on the group's property assets other than fixtures and fittings is that the properties will be held until the end of their useful lives, resulting in a deferred tax liability being recorded in the balance sheet at a rate of 30% of the net book value of property assets less any presumed residual value and any adjustment in respect of the initial recognition of an asset acquired in a transaction which is not a business combination. This liability will be released over the life of the asset at a rate of 30% of the related depreciation. This is significantly different from UK GAAP.

The deferred tax liability arising under the income approach has been partially offset by tax losses in Tenpin which were partially recognised under UK GAAP but are fully recognised under IFRS against the deferred tax liability.

**32 Transition to IFRS (continued)**

**Reconciliations between IFRS and UK GAAP**

The income reconciliations on the following pages summarise the impact on net income of the transition from UK GAAP to IFRS. The balance sheet reconciliations below summarise the impact on equity of the transition from UK GAAP to IFRS at 31st December 2006 (the reporting period balance sheet date), 1st January 2006 (the comparative balance sheet date), and 27th December 2004 (the transition date).

| | Group | | Company | |
|---|---|---|---|---|
| Summary of equity: | 1st January 2006 £000 | 27th December 2004 £000 | 1st January 2006 £000 | 27th December 2004 £000 |
| **Total equity under UK GAAP (restated)*** | **67,354** | **64,075** | **88,970** | **86,131** |
| Reclassification of operating leases to finance leases | (163) | (108) | – | – |
| Lease incentives spread over the full life of the lease | 10 | (19) | – | – |
| Capitalisation and depreciation of dilapidation costs | 180 | 311 | – | – |
| Fair value accounting for derivative financial instruments | (302) | (119) | (302) | (119) |
| Revision of depreciation from the reclassification of the purchased goodwill element of property values to goodwill | 1,495 | – | – | – |
| Revision of profit on disposal of properties | (73) | – | – | – |
| Derecognition of negative goodwill | 9,124 | 9,784 | – | – |
| Deferred tax on premises element of property | 1,532 | – | – | – |
| Other deferred tax | 7,374 | 5,186 | – | – |
| Dividend | – | – | – | (4,500) |
| **Total equity under IFRS** | **86,531** | **79,110** | **88,668** | **81,512** |

*Total equity under UK GAAP has been restated for the effect of applying FRS 20 to the group's long term incentive plan.

# Notes to the financial statements

Continued

### 32 Transition to IFRS (continued)

| Group<br>Net Income: | Notes | Unaudited UK GAAP<br>£000 | Effect of transition to IFRS<br>£000 | IFRS<br>£000 | UK GAAP<br>£000 | Effect of transition to IFRS<br>£000 | IFRS<br>£000 |
|---|---|---|---|---|---|---|---|
| | | **52 weeks to 31st December 2006** | | | 53 weeks to 1st January 2006* | | |
| Revenue | | 125,604 | – | 125,604 | 129,041 | – | 129,041 |
| Cost of sales | | (56,215) | – | (56,215) | (56,961) | – | (56,961) |
| **Gross profit** | | 69,389 | – | 69,389 | 72,080 | – | 72,080 |
| Profit on disposal of properties | a | – | 9,097 | 9,097 | – | 244 | 244 |
| Administrative expenses | a | (56,297) | (7,538) | (63,835) | (59,581) | 766 | (58,815) |
| **Operating profit** | | 13,092 | 1,559 | 14,651 | 12,499 | 1,010 | 13,509 |
| Interest payable and similar charges | b | (10,941) | (10) | (10,951) | (10,727) | (588) | (11,315) |
| Interest receivable | | 235 | – | 235 | 207 | – | 207 |
| **Profit before taxation** | | 2,386 | 1,549 | 3,935 | 1,979 | 422 | 2,401 |
| Taxation | c | – | (2,239) | (2,239) | 2,050 | 3,720 | 5,770 |
| **Profit from continuing operations** | | 2,386 | (690) | 1,696 | 4,029 | 4,142 | 8,171 |
| **Profit from discontinued operations** | | 2,790 | (374) | 2,416 | – | – | – |
| **Profit for the period** | | 5,176 | (1,064) | 4,112 | 4,029 | 4,142 | 8,171 |
| **Earnings per share** | | | | | | | |
| Basic earnings per share - continuing | | 2.3p | (0.7)p | 1.6p | 3.9p | 4.0p | 7.9p |
| Basic earnings per share - discontinued | | 2.8p | (0.4)p | 2.4p | – | – | – |
| Basic earnings per share | | 5.1p | (1.1)p | 4.0p | 3.9p | 4.0p | 7.9p |

***Administrative expenses under UK GAAP have been restated by £23,000 for the effect of applying FRS 20 to the group's long term incentive plan.**

| **Explanation of the effect of transition to IFRS on net income:** | **52 weeks to 31st December 2006<br>£000** | 53 weeks to 1st January 2006<br>£000 |
|---|---|---|
| (a) Operating profit | | |
| Rent expense reduction from finance lease reclassification | 494 | 494 |
| Net credit to rent expense for the benefit of lease incentives | 39 | 29 |
| Reduction in depreciation from the reclassification of goodwill | 1,781 | 1,495 |
| Depreciation of finance leases | (145) | (144) |
| Depreciation of capitalised dilapidation costs | (125) | (131) |
| Reversal of property impairment | 1,010 | 140 |
| Goodwill impairment | (1,010) | (140) |
| Profit on disposal of properties | 175 | (73) |
| Derecognition of negative goodwill amortisation | (660) | (660) |
| | 1,559 | 1,010 |
| (b) Interest payable and similar charges | | |
| Finance lease interest | (395) | (405) |
| Fair value accounting for derivative financial instruments | 385 | (183) |
| | (10) | (588) |
| (c) Taxation | | |
| Movement in deferred tax on premises element of asset cost | 1,858 | 1,532 |
| Other deferred tax | (4,097) | 2,188 |
| Tax on continuing operations | (2,239) | 3,720 |
| Tax on discontinued operations | (374) | – |
| Total tax | (2,613) | 3,720 |

## 32 Transition to IFRS (continued)

| Group<br>Equity: | Notes | UK GAAP<br>as at 1st January 2006*<br>£000 | Effect of transition to IFRS<br>£000 | IFRS<br>£000 | UK GAAP<br>as at 27th December 2004*<br>£000 | Effect of transition to IFRS<br>£000 | IFRS<br>£000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Goodwill | a | (9,124) | 86,993 | 77,869 | (9,784) | 87,738 | 77,954 |
| Intangible assets | | 50 | – | 50 | 106 | – | 106 |
| Property, plant and equipment | b | 172,325 | (51,364) | 120,961 | 178,730 | (52,596) | 126,134 |
| | | 163,251 | 35,629 | 198,880 | 169,052 | 35,142 | 204,194 |
| **Current assets** | | | | | | | |
| Inventories | | 1,986 | – | 1,986 | 2,311 | – | 2,311 |
| Trade and other receivables | c | 13,331 | (4,918) | 8,413 | 10,054 | (2,868) | 7,186 |
| Financial assets | d | – | 238 | 238 | – | – | – |
| Cash and cash equivalents | | 3,590 | – | 3,590 | 4,262 | – | 4,262 |
| | | 18,907 | (4,680) | 14,227 | 16,627 | (2,868) | 13,759 |
| **Liabilities** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Financial liabilities | e | (9,856) | (167) | (10,023) | (50,355) | (89) | (50,444) |
| Trade and other payables | f | (19,869) | (65) | (19,934) | (24,784) | (62) | (24,846) |
| Provisions | g | – | (150) | (150) | – | (82) | (82) |
| | | (29,725) | (382) | (30,107) | (75,139) | (233) | (75,372) |
| **Net current liabilities** | | (10,818) | (5,062) | (15,880) | (58,512) | (3,101) | (61,613) |
| **Non-current liabilities** | | | | | | | |
| Financial liabilities | h | (84,552) | (4,432) | (88,984) | (46,076) | (4,178) | (50,254) |
| Other non-current liabilities | i | (148) | (944) | (1,092) | (200) | (976) | (1,176) |
| Provisions | j | (379) | 150 | (229) | (189) | 82 | (107) |
| Deferred tax | k | – | (6,164) | (6,164) | – | (11,934) | (11,934) |
| | | (85,079) | (11,390) | (96,469) | (46,465) | (17,006) | (63,471) |
| **Net assets** | | 67,354 | 19,177 | 86,531 | 64,075 | 15,035 | 79,110 |
| **Equity** | | | | | | | |
| Share capital | | 6,174 | – | 6,174 | 6,211 | – | 6,211 |
| Share premium | | 34,841 | – | 34,841 | 34,841 | – | 34,841 |
| Other reserves | | 57,690 | – | 57,690 | 57,653 | – | 57,653 |
| Retained earnings | | (31,351) | 19,177 | (12,174) | (34,630) | 15,035 | (19,595) |
| **Total equity** | | 67,354 | 19,177 | 86,531 | 64,075 | 15,035 | 79,110 |

***Other non-current liabilities under UK GAAP have been restated by £148,000 as at 1st January 2006 and £125,000 as at 27th December 2004 for the effect of applying FRS 20 to the group's long term incentive plan.**

# Notes to the financial statements

Continued

### 32 Transition to IFRS (continued)

| Explanation of the effect of transition to IFRS on equity: | As at 1st January 2006 £000 | As at 27th December 2004 £000 |
|---|---|---|
| (a) Non-current assets - Goodwill | | |
| Reclassification of goodwill from property, plant and equipment | 55,828 | 55,773 |
| Deferred tax on property assets arising from acquisitions | 19,988 | 19,988 |
| Goodwill from recognising finance leases and lease incentives in acquisitions | 2,193 | 2,193 |
| Impairment of goodwill | (140) | – |
| Derecognition of negative goodwill | 9,124 | 9,784 |
| | 86,993 | 87,738 |
| (b) Non-current assets - Property, plant and equipment | | |
| Reclassification of goodwill | (55,828) | (55,773) |
| Reversal of impairment of property, plant and equipment | 140 | – |
| Revision of depreciation from the reclassification of goodwill | 1,495 | – |
| Revision of gain on disposal | (73) | – |
| Recognition of finance leases | 2,722 | 2,866 |
| Capitalisation of dilapidation costs | 180 | 311 |
| | (51,364) | (52,596) |
| (c) Current assets - Trade and other receivables | | |
| Reversal of deferred income tax assets | (4,918) | (2,868) |
| (d) Current assets - Financial assets | | |
| Recognition of an interest rate cap at fair value in current assets | 238 | – |
| (e) Current liabilities - Financial liabilities | | |
| Reversal of deferred financing cost associated with the interest rate cap | (70) | – |
| Recognition of the current portion of finance lease liabilities | (97) | (89) |
| | (167) | (89) |
| (f) Current liabilities - Trade and other payables | | |
| Recognition of the current portion of deferred income from lease incentives | (65) | (62) |
| (g) Current liabilities - Provisions | | |
| Reclassification of the current element of the onerous lease provision | (150) | (82) |
| (h) Non-current liabilities - Financial liabilities | | |
| Recognition of the non-current portion of finance lease liabilities | (3,962) | (4,059) |
| Reversal of deferred financing cost associated with the interest rate cap | (305) | – |
| Fair value accounting for derivative financial instruments | (165) | (119) |
| | (4,432) | (4,178) |
| (i) Non-current liabilities - Other non-current liabilities | | |
| Recognition of the non-current portion of deferred income from lease incentives | (944) | (976) |
| (j) Non-current liabilities - Provisions | | |
| Reclassification of the current element of the onerous lease provision | 150 | 82 |
| (k) Non-current liabilities - Deferred tax | | |
| Reversal of deferred income tax assets | 4,918 | 2,868 |
| Deferred tax liability from premises costs | (18,456) | (19,988) |
| Other deferred tax | 7,374 | 5,186 |
| | (6,164) | (11,934) |

# Notes to the financial statements

Continued

**32 Transition to IFRS (continued)**

| Company Equity: | Notes | UK GAAP as at 1st January 2006* £000 | Effect of transition to IFRS as at 1st January 2006* £000 | IFRS as at 1st January 2006* £000 | UK GAAP as at 27th December 2004* £000 | Effect of transition to IFRS as at 27th December 2004* £000 | IFRS as at 27th December 2004* £000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Investments | | 67,353 | – | 67,353 | 65,120 | – | 65,120 |
| Property, plant and equipment | | 678 | – | 678 | 557 | – | 557 |
| | | 68,031 | | 68,031 | 65,677 | | 65,677 |
| **Current assets** | | | | | | | |
| Trade and other receivables | a | 112,445 | – | 112,445 | 69,559 | (4,500) | 65,059 |
| Financial assets | b | – | 238 | 238 | – | – | – |
| Cash and cash equivalents | | 2,489 | – | 2,489 | 3,127 | – | 3,127 |
| | | 114,934 | 238 | 115,172 | 72,686 | (4,500) | 68,186 |
| **Liabilities** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Financial liabilities | c | (10,544) | (70) | (10,614) | (50,820) | – | (50,820) |
| Trade and other payables | | (1,607) | – | (1,607) | (1,287) | – | (1,287) |
| Provisions | d | – | (43) | (43) | – | – | – |
| | | (12,151) | (113) | (12,264) | (52,107) | – | (52,107) |
| **Net current liabilities** | | 102,783 | 125 | 102,908 | 20,579 | (4,500) | 16,079 |
| **Non-current liabilities** | | | | | | | |
| Financial liabilities | e | (81,610) | (470) | (82,080) | – | (119) | (119) |
| Other non-current liabilities | | (148) | – | (148) | (125) | – | (125) |
| Provisions | f | (86) | 43 | (43) | – | – | – |
| | | (81,844) | (427) | (82,271) | (125) | (119) | (244) |
| **Net assets** | | 88,970 | (302) | 88,668 | 86,131 | (4,619) | 81,512 |
| **Equity** | | | | | | | |
| Share capital | | 6,174 | – | 6,174 | 6,211 | – | 6,211 |
| Share premium | | 34,841 | – | 34,841 | 34,841 | – | 34,841 |
| Other reserves | | 132 | – | 132 | 95 | – | 95 |
| Retained earnings | | 47,823 | (302) | 47,521 | 44,984 | (4,619) | 40,365 |
| **Total equity** | | 88,970 | (302) | 88,668 | 86,131 | (4,619) | 81,512 |

***Other non-current liabilities under UK GAAP have been restated by £148,000 as at 1st January 2006 and £125,000 as at 27th December 2004 for the effect of applying FRS 20 to the group's long term incentive plan.**

# Notes to the financial statements

Continued

### 32 Transition to IFRS (continued)

| Explanation of the effect of transition to IFRS on equity: | As at 1st January 2006 £000 | As at 27th December 2004 £000 |
|---|---|---|
| (a) Current assets - Trade and other receivables | | |
| Dividend declared in 2004 but not paid until 2005 | – | (4,500) |
| (b) Current assets – financial assets | | |
| Recognition of an interest rate cap at fair value in current assets | 238 | – |
| (c) Current liabilities - Financial liabilities | | |
| Reversal of deferred financing cost associated with the interest rate cap | (70) | – |
| (d) Current liabilities - Provisions | | |
| Reclassification of the current element of the onerous lease provision | (43) | – |
| (e) Non-current liabilities - Financial liabilities | | |
| Reversal of deferred financing cost associated with the interest rate cap | (305) | – |
| Fair value accounting for derivative financial instruments | (165) | (119) |
| | (470) | (119) |
| (f) Non-current liabilities - Provisions | | |
| Reclassification of the current element of the onerous lease provision | 43 | – |

**Cash flows:**

**The effect of transition to IFRS on cash flows:**

Other than the adjustments to income for the company and group detailed above, the only adjustments to cash flow for IFRS are the reclassification of finance lease interest and capital payments from operating lease rentals (shown in cash generated from operations under UK GAAP) to interest paid for the finance lease interest payments (£395,000 in the period to 31st December 2006; 2005: £405,000) and to cash flows from financing activities for the finance lease principal payments (£99,000 in the period to 31st December 2006; 2005: £89,000).

The company has no finance leases so has no further adjustments from UK GAAP to IFRS in the cash flow statement.

**Company profit and loss account:**

The company loss for 2006 under IFRS was £4,890,000. This differed from the UK GAAP loss of £5,275,000 by £385,000 being the benefit derived from fair value accounting for derivative financial instruments, classified within interest payable and similar charges.

The company profit for 2005 under IFRS was £7,906,000. This differed from the restated UK GAAP profit of £3,589,000 (which differed from the reported profit of £3,612,000 for the restatement of administrative expenses by £23,000 for the effect of applying FRS 20 to the company's long term incentive plan) by £4,317,000, being a charge of £183,000 derived from fair value accounting for derivative financial instruments offset by £4,500,000 of dividends received from Rileys Limited which were recognised in 2004 under UK GAAP.

# Supplementary information

for the 13 and 52 week periods ended 31st December 2006

**Supplementary quarterly information (unaudited)**

The financial information for the 14 week and 53 week periods to 1st January 2006 has been extracted from the Annual Report 2005 prepared under UK GAAP. The financial information has been adjusted as appropriate to present the information in accordance with the group's IFRS accounting policies.

**Consolidated income statements**

| | **Unaudited 13 weeks to 31st December 2006 £000** | Unaudited 14 weeks to 1st January 2006 £000 | **52 weeks to 31st December 2006 £000** | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|---|
| Continuing operations: | | | | |
| Revenue | 33,309 | 34,915 | 125,604 | 129,041 |
| Cost of sales | (14,613) | (15,143) | (56,215) | (56,961) |
| Gross profit | 18,696 | 19,772 | 69,389 | 72,080 |
| Profit on disposal of properties | 4,490 | 244 | 9,097 | 244 |
| Administrative expenses | (16,185) | (15,249) | (63,835) | (58,815) |
| Operating profit | 7,001 | 4,767 | 14,651 | 13,509 |
| Interest payable and similar charges | (2,789) | (3,224) | (10,951) | (11,315) |
| Interest receivable | 79 | 39 | 235 | 207 |
| Profit before taxation | 4,291 | 1,582 | 3,935 | 2,401 |
| Taxation | (2,364) | 6,057 | (2,239) | 5,770 |
| Profit from continuing operations | 1,927 | 7,639 | 1,696 | 8,171 |
| Discontinued operations: | | | | |
| Net profit from discontinued operations | 445 | – | 2,416 | – |
| Profit for the period | 2,372 | 7,639 | 4,112 | 8,171 |
| Earnings per share – continuing operations | | | | |
| Basic earnings per share | 1.9p | 7.4p | 1.6p | 7.9p |
| Diluted earnings per share | 1.9p | 7.4p | 1.6p | 7.9p |
| Earnings per share | | | | |
| Basic earnings per share | 2.3p | 7.4p | 4.0p | 7.9p |
| Diluted earnings per share | 2.3p | 7.4p | 4.0p | 7.9p |

# Supplementary information

Continued

## Consolidated cash flow statements

| | Unaudited 13 weeks to 31st December 2006 £000 | Unaudited 14 weeks to 1st January 2006 £000 | 52 weeks to 31st December 2006 £000 | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|---|
| **Profit for the period** | 2,372 | 7,639 | 4,112 | 8,171 |
| Adjustments for: | | | | |
| Tax | 2,364 | (6,057) | 2,239 | (5,770) |
| Interest income | (79) | (39) | (235) | (207) |
| Interest expense and finance charges | 2,789 | 3,224 | 10,951 | 11,315 |
| Impairment of property, plant and equipment | 356 | 111 | 868 | 89 |
| Impairment of goodwill | 193 | (11) | 1,010 | 140 |
| Depreciation and amortisation of intangible assets | 10 | – | 46 | 80 |
| Depreciation | 2,293 | 2,357 | 9,073 | 9,719 |
| Profit on disposal of properties | (4,490) | (244) | (9,097) | (244) |
| Changes in working capital: | | | | |
| Decrease/(increase) in inventories | (102) | 24 | (144) | 325 |
| Decrease/(increase) in trade and other receivables | 553 | (2,384) | 272 | 1,795 |
| Increase/(decrease) in payables | 1,306 | (332) | 406 | (3,922) |
| Increase/(decrease) in provisions | (57) | 325 | 338 | 174 |
| **Cash generated from continuing operations** | 7,508 | 4,613 | 19,839 | 21,665 |
| Discontinued operations | (445) | – | (2,416) | – |
| **Cash generated from operations** | 7,063 | 4,613 | 17,423 | 21,665 |
| | | | | |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 7,063 | 4,613 | 17,423 | 21,665 |
| Interest received | 79 | 46 | 235 | 207 |
| Interest paid | (3,611) | (4,864) | (10,694) | (11,281) |
| Net cash from operating activities | 3,531 | (205) | 6,964 | 10,591 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Proceeds from sale of property, plant and equipment | 154 | 1,080 | 9,410 | 639 |
| Purchase of property, plant and equipment | (7,163) | (3,924) | (18,912) | (7,959) |
| Discontinued businesses | 1,271 | – | 221 | – |
| Net cash used in investing activities | (5,738) | (2,844) | (9,281) | (7,320) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Finance lease principal payments | (26) | (22) | (99) | (89) |
| Receipts from borrowings | 4,691 | 1,206 | 21,210 | 88,468 |
| Net proceeds from issue of floating rate note | – | – | – | 56,511 |
| Repayment of borrowings | (6,357) | (2,667) | (12,036) | (148,957) |
| Purchase of treasury shares | (95) | (395) | (895) | (718) |
| Net cash (used in)/from financing activities | (1,787) | (1,878) | 8,180 | (4,785) |
| **Net increase/(decrease) in cash, cash equivalents and bank overdrafts** | (3,994) | (4,927) | 5,863 | (1,514) |
| Cash, cash equivalents and bank overdrafts – beginning of period | 8,676 | 3,746 | (1,181) | 333 |
| **Cash, cash equivalents and bank overdrafts – end of period** | 4,682 | (1,181) | 4,682 | (1,181) |

# Supplementary information

Continued

**Consolidated statements of changes in shareholders' equity**

| | **Unaudited 13 weeks to 31st December 2006 £000** | Unaudited 14 weeks to 1st January 2006 £000 | **52 weeks to 31st December 2006 £000** | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|---|
| Profit for the period | **2,372** | 7,639 | **4,112** | 8,171 |
| Buyback and cancellation of own shares | **(62)** | (343) | **(852)** | (717) |
| Share incentive plan | **–** | (11) | **(20)** | (33) |
| **Net movements in shareholders' funds** | **2,310** | 7,285 | **3,240** | 7,421 |
| Opening shareholders' funds | **87,461** | 79,246 | **86,531** | 79,110 |
| **Closing shareholders' funds** | **89,771** | 86,531 | **89,771** | 86,531 |

**Earnings per share**

Basic earnings per share for each period is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, including convertible ordinary shares which are converted at the conversion rate applicable at each period end.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to reflect the impact of all dilutive potential ordinary shares. The potential dilutive effects of the shares held by the Georgica Share Incentive Plan Limited are set out below. The group's incentive schemes, although based on share price movements, will all be cash settled and so are not dilutive.

Details of the earnings and weighted average number of ordinary shares used in each calculation are set out below.

| | **Unaudited 13 weeks to 31st December 2006 £000** | Unaudited 14 weeks to 1st January 2006 £000 | **52 weeks to 31st December 2006 £000** | 53 weeks to 1st January 2006 £000 |
|---|---|---|---|---|
| Earnings attributable to ordinary shareholders – continuing operations | **1,927** | 7,639 | **1,696** | 8,171 |
| Earnings attributable to ordinary shareholders – discontinued operations | **445** | – | **2,416** | – |
| Earnings attributable to ordinary shareholders | **2,372** | 7,639 | **4,112** | 8,171 |
| | | Number of shares | | |
| Weighted average number of ordinary shares: | | | | |
| For basic earnings per share | **102,836,146** | 103,378,767 | **103,036,264** | 103,713,054 |
| Effect of shares held by the Georgica Share Incentive Plan | **153,842** | 140,353 | **149,177** | 133,854 |
| For diluted earnings per share | **102,989,988** | 103,519,120 | **103,185,441** | 103,846,908 |
| Effective number of ordinary shares in issue at the period end, assuming maximum conversion of convertible shares | **107,575,000** | 108,250,000 | **107,575,000** | 108,250,000 |
| | | Pence per share | | |
| Basic earnings per share – continuing | **1.9p** | 7.4p | **1.6p** | 7.9p |
| Diluted earnings per share – continuing | **1.9p** | 7.4p | **1.6p** | 7.9p |
| Basic earnings per share – discontinued | **0.4p** | – | **2.4p** | – |
| Diluted earnings per share – discontinued | **0.4p** | – | **2.4p** | – |
| Basic earnings per share | **2.3p** | 7.4p | **4.0p** | 7.9p |
| Diluted earnings per share | **2.3p** | 7.4p | **4.0p** | 7.9p |

# Supplementary information

Continued

## Transition to IFRS

### Net income

| | Notes | Unaudited UK GAAP | Effect of transition to IFRS | Unaudited IFRS | Unaudited UK GAAP | Effect of transition to IFRS | Unaudited IFRS |
|---|---|---|---|---|---|---|---|
| | | for the 13 weeks to 31st December 2006 | | | for the 14 weeks to 1st January 2006 | | |
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| **Revenue** | | 33,309 | – | 33,309 | 34,915 | – | 34,915 |
| Cost of sales | | (14,613) | – | (14,613) | (15,143) | – | (15,143) |
| **Gross profit** | | 18,696 | – | 18,696 | 19,772 | – | 19,772 |
| Profit on disposal of properties | a | – | 4,490 | 4,490 | – | 244 | 244 |
| Administrative expenses | a | (12,177) | (4,008) | (16,185) | (15,198) | (51) | (15,249) |
| **Operating profit** | | 6,519 | 482 | 7,001 | 4,574 | 193 | 4,767 |
| Interest payable and similar charges | b | (2,861) | 72 | (2,789) | (3,162) | (62) | (3,224) |
| Interest receivable | | 79 | – | 79 | 39 | – | 39 |
| **Profit before taxation** | | 3,737 | 554 | 4,291 | 1,451 | 131 | 1,582 |
| Taxation | c | – | (2,364) | (2,364) | 2,050 | 4,007 | 6,057 |
| **Profit from continuing operations** | | 3,737 | (1,810) | 1,927 | 3,501 | 4,138 | 7,639 |
| **Profit from discontinued operations** | | 528 | (83) | 445 | – | – | – |
| **Profit for the period** | | 4,265 | (1,893) | 2,372 | 3,501 | 4,138 | 7,639 |
| **Earnings per share** | | | | | | | |
| Basic earnings per share - continuing | | 3.7p | (1.8)p | 1.9p | 3.4p | 4.0p | 7.4p |
| Basic earnings per share - discontinued | | 0.5p | (0.1)p | 0.4p | – | – | – |
| Basic earnings per share | | 4.2p | (1.9)p | 2.3p | 3.4p | 4.0p | 7.4p |

*** Administrative expenses under UK GAAP have been restated by a credit of £237,000 for the effect of applying FRS 20 to the group's long term incentive plan.**

| Explanation of the effect of transition to IFRS on net income: | 13 weeks to 31st December 2006 £000 | 14 weeks to 1st January 2006 £000 |
|---|---|---|
| **(a) Operating profit** | | |
| Rent expense reduction from finance lease reclassification | 124 | 124 |
| Net credit to rent expense for the benefit of lease incentives | 7 | (10) |
| Reduction in depreciation from the reclassification of goodwill | 469 | 389 |
| Reversal of property impairment | 197 | (11) |
| Goodwill impairment | (197) | 11 |
| Depreciation of finance leases | (37) | (36) |
| Depreciation of capitalised dilapidation costs | (31) | (34) |
| Profit on disposal of properties | 115 | (73) |
| Derecognition of negative goodwill amortisation | (165) | (167) |
| | 482 | 193 |
| **(b) Interest payable and similar charges** | | |
| Finance lease interest | (98) | (102) |
| Fair value accounting for derivative financial instruments | 170 | 40 |
| | 72 | (62) |
| **(c) Taxation** | | |
| Movement in deferred tax on premises element of asset cost | 826 | 1,033 |
| Other deferred tax | (3,190) | 2,974 |
| Tax on continuing operations | (2,364) | 4,007 |
| Tax on discontinued operations | (83) | – |
| Total tax | (2,447) | 4,007 |

**Operating review**

**Overview**

We operate two divisions, Rileys and Tenpin. Rileys is the largest and only national cue sports operator in the UK, accounting for approximately 15% of the total number of dedicated cue sports venues. Tenpin is the largest tenpin bowling operator in the UK with an approximate 20% share of the UK market.

**Results of operations**

**Rileys:**

The table below demonstrates Rileys' performance for the 13 and 52 week periods to 31st December 2006, compared with the 14 and 53 week periods to 1st January 2006.

| | Rileys (Cue sports division) | | | |
|---|---|---|---|---|
| | **Unaudited 13 weeks to 31st December 2006 £m** | Unaudited 14 weeks to 1st January 2006 £m | **Unaudited 52 weeks to 31st December 2006 £m** | Unaudited 53 weeks to 1st January 2006 £m |
| Turnover | **15.6** | 16.1 | **58.2** | 60.2 |
| Cost of sales | **(7.5)** | (7.4) | **(28.2)** | (27.4) |
| Operating costs | **(3.2)** | (2.9) | **(12.1)** | (11.4) |
| Rent | **(1.0)** | (1.0) | **(3.8)** | (3.5) |
| **Contribution** | **3.9** | 4.8 | **14.1** | 17.9 |
| Overheads | **(1.2)** | (1.2) | **(4.6)** | (4.8) |
| **EBITDA** | **2.7** | 3.6 | **9.5** | 13.1 |
| Non recurring items and provisions | **-** | – | **(0.3)** | - |
| Depreciation and impairment | **(1.4)** | (1.2) | **(5.8)** | (4.8) |
| **Operating profit** | **1.3** | 2.4 | **3.4** | 8.3 |
| Gross margin % | **81.2%** | 81.0% | **81.4%** | 81.9% |
| Contribution margin % | **25.6%** | 30.5% | **24.4%** | 29.8% |
| EBITDA margin % | **17.8%** | 23.3% | **16.4%** | 21.9% |

**Turnover:** Turnover decreased by £0.5m (3.1%) from £16.1m in Q4 2005 to £15.6m in Q4 2006. The inclusion of a 53rd week in 2005 was responsible for sales of £1.5m; excluding the 53rd week, turnover increased by £1.0m (6.8%) from £14.6m in Q4 2005 to £15.6m in Q4 2006. New build sites opened during 2006 at Inverness, Scarborough, Liverpool Wavertree, Chesterfield, Norwich, Lincoln, Folkestone and Barnsley, together with two acquisitions in Peterborough and one in Burton, generated revenue of £0.9m in Q4 2006, whilst refurbishments delivered additional revenue of £0.1m. Closed sites accounted for a revenue reduction of £0.1m. Underlying sales improved by £0.1m in the quarter, in spite of the effect of the smoking ban in Scotland, due to a £0.3m benefit realised from pricing initiatives.

Turnover decreased by £2.0m (3.3%) from £60.2m in the 53 weeks to 1st January 2006 to £58.2m in the 52 weeks to 31st December 2006. Excluding the 53rd week in 2005, turnover decreased by £0.5m (0.08%) from £58.7m in 2005 to £58.2m. The eleven units opened in 2006 increased turnover by £1.7m and refurbishments added a further £0.5m, which was partially offset by lost revenue from closed sites of £0.3m. Underlying sales were down £2.4m after the benefit of £1.1m from pricing initiatives, due principally to the very hot weather and world cup over the summer months.

**Contribution:** Contribution decreased by £0.9m (18.8%) from £4.8m in Q4 2005 to £3.9m in Q4 2006 and contribution margin fell by 4.9% points to 25.6%. A reduction in contribution of £0.9m was attributable to the 53rd week in 2005; excluding this, contribution was flat at £3.9m. The units opened in 2006 contributed £0.2m in Q4 2006, whilst refurbishments contributed an additional £0.1m. Underlying business contribution fell by £0.3m due to continued cost pressures. A contribution uplift of £0.1m from the underlying sales growth was more than offset by underlying cost increases of £0.4m which comprise staff cost increases of £0.1m, marketing costs up £0.1m, repairs £0.1m higher and other property cost increases of £0.1m.

# Supplementary information

Continued

**Operating review (continued)**

Contribution decreased by £3.8m (21.2%) from £17.9m in the 53 week period to 1st January 2006 to £14.1m in the 52 week period to 31st December 2006. Contribution margin fell by 5.4% points to 24.4%. Excluding the £0.9m reduction arising from the inclusion of the 53rd week in 2005, contribution for the period decreased by £2.9m (17.0%) from £17.0m to £14.1m. Refurbishments generated a £0.2m uplift, whilst new builds and acquisitions, together with the closed sites, had no net impact on contribution in 2006 as the trading benefit of new sites and savings from disposing of loss making sites was offset by pre-launch and marketing costs associated with new openings. The remaining business contribution fell £3.1m, reflecting the impact on contribution of lower sales (impact £1.9m from the £2.4m sales decline) and net cost increases of £1.2m. Benefits from cost saving initiatives of £0.4m were more than offset by direct cost of sales increases of £0.3m, staff cost increases of £0.5m, marketing costs up £0.2m, utility costs up £0.4m, and property cost increases of £0.2m.

**EBITDA:** EBITDA decreased by £0.9m (25.0%) from £3.6m in Q4 2005 to £2.7m in Q4 2006, with an EBITDA margin reduction of 5.5% points from 23.3% to 17.8%. The inclusion of the 53rd week in Q4 2005 contributed £0.9m to EBITDA; EBITDA remained in line with Q4 2005 at £2.7m when the effect of this extra week is excluded. Overheads were held constant with Q4 2005 at £1.2m.

EBITDA decreased by £3.6m (27.5%) from £13.1m in the 53 weeks to 1st January 2006 to £9.5m in the 52 weeks to 31st December 2006, with EBITDA margin declining by 5.5% points to 16.4%. Excluding the impact of including the 53rd week in 2005, EBITDA decreased by £2.7m (22.1%) from £12.2m to £9.5m. The £2.7m decrease reflects the decrease in contribution of £2.9m, partially offset by a reduction in overheads of £0.2m from cost saving initiatives.

**Operating profit:** Operating profit decreased by £1.1m (45.8%) from £2.4m in Q4 2005 to £1.3m in Q4 2006. If the 53rd week in 2005 is excluded, operating profit decreased by £0.2m from £1.5m in Q4 2005 to £1.3m in Q4 2006. This 0.2m operating profit reduction is due to £0.1m additional depreciation related to the eleven new businesses opened in 2006 and £0.1m incremental impairment charges in Q4 2006.

In the 52 weeks to 31st December 2006 operating profit decreased by £4.9m (59.0%) from £8.3m in the 53 weeks to 1st January 2006 to £3.4m. Excluding week 53 in 2005, operating profit decreased by £4.0m (54.1%) from £7.4m to £3.4m. Of this decrease, £2.7m was due to the decline in EBITDA, £0.9m was due to higher impairment charges, £0.3m was due to increased onerous lease provisions and £0.1m was due to depreciation on the 2006 new build and acquisition businesses.

**Tenpin:**

The table below demonstrates Tenpin's performance for the 13 and 52 week periods to 31st December 2006, compared with the 14 and 53 week periods to 1st January 2006.

| | Tenpin (Tenpin bowling division) | | | |
|---|---|---|---|---|
| | **Unaudited 13 weeks to 31st December 2006 £m** | Unaudited 14 weeks to 1st January 2006 £m | **Unaudited 52 weeks to 31st December 2006 £m** | Unaudited 53 weeks to 1st January 2006 £m |
| Turnover | 17.8 | 18.8 | 67.4 | 68.8 |
| Cost of sales | (7.3) | (7.8) | (28.1) | (29.6) |
| Operating costs | (4.3) | (4.6) | (17.6) | (16.8) |
| Rent | (1.8) | (1.8) | (7.4) | (6.8) |
| Contribution | 4.4 | 4.6 | 14.3 | 15.6 |
| Overheads | (0.7) | (0.8) | (3.3) | (3.4) |
| EBITDA | 3.7 | 3.8 | 11.0 | 12.2 |
| Non recurring items and provisions | 4.4 | 0.1 | 9.0 | 0.7 |
| Depreciation and impairment | (1.3) | (1.1) | (5.0) | (5.0) |
| Operating profit | 6.8 | 2.8 | 15.0 | 7.9 |
| Gross margin % | 84.8% | 84.3% | 84.7% | 83.8% |
| Contribution margin % | 24.6% | 24.4% | 21.2% | 22.7% |
| EBITDA margin % | 20.4% | 20.4% | 16.3% | 17.8% |

**Operating review (continued)**

**Turnover:** Turnover decreased by £1.0m (5.3%) from £18.8m in Q4 2005 to £17.8m in Q4 2006. Q4 2005 included an additional week (as 2005 was a 53 week year). Excluding the extra week, which generated revenue of £1.7m, turnover increased by £0.7m (4.1%) from £17.1m in Q4 2005 to £17.8m in Q4 2006. Sales of £0.8m arising from the acquisitions of Southend, Edinburgh and Telford offset the £0.8m decrease in sales from the closures of Leicester, Aberdeen and Streatham (which was closed at the end of August 2006). Refurbishments were responsible for an increase of £0.3m in the quarter. Sales for the remaining businesses were up £0.4m, driven by a benefit of £0.6m from pricing initiatives implemented in Q3 2005 and Q3 2006 partially offset by a £0.2m reduction in other underlying sales.

Turnover decreased by £1.4m (2.0%) from £68.8m in the 53 weeks to 1st January 2006 to £67.4m in the 52 weeks to 31st December 2006. The 53rd week in 2005 contributed £1.7m to the full year 2005 turnover. Excluding this additional week, turnover increased by £0.3m (0.4%) from £67.1m in 2005 to £67.4m in 2006. The three acquired sites generated incremental sales of £2.8m, refurbishment sites generated an additional £0.8m, whilst the closures of Leicester, Aberdeen and Streatham were responsible for a £2.5m decrease. There was a £0.8m reduction in the turnover of the underlying estate, despite £2.6m of benefit from the 2005 and 2006 pricing initiatives, due to the effect of the hot weather and world cup in Q2 and Q3.

**Contribution:** Contribution for Q4 2006 decreased by £0.2m (4.3%) from £4.6m in Q4 2005 to £4.4m in Q4 2006 with the contribution margin increasing by 0.2% points to 24.6%. Excluding the 53rd week in 2005, which added £1.0m to the Q4 2005 contribution, contribution for Q4 2006 increased by £0.8m (22.2%) from £3.6m in Q4 2005. A contribution of £0.1m from the acquired sites at Southend, Edinburgh and Telford was offset by a £0.1m reduction in contribution from closed sites at Leicester, Aberdeen and Streatham. Refurbishments were responsible for an uplift of £0.4m. The remaining business contribution increased by £0.4m, attributable to the increase in sales. Costs were held steady as benefits from cost saving initiatives of £0.3m offset increases in direct cost of sales of £0.1m, in staff costs of £0.1m and in utility costs of £0.1m.

Contribution decreased by £1.3m (8.3%) from £15.6m in the 53 weeks to 1st January 2006 to £14.3m in the 52 weeks to 31st December 2006, and contribution margin declined by 1.5% points from 22.7% to 21.2%. Excluding the effect of the 53rd week in 2005, contribution decreased by £0.3m (2.1%) from £14.6m in 2005 to £14.3m in 2006. The three acquired sites contributed £0.3m, whilst refurbished sites contributed a further £0.8m. The three sites that were closed were responsible for a reduction in contribution of £0.5m. The remaining business contribution fell by £0.9m due to lower contribution from sales (£0.6m) and cost pressures (£0.3m). Benefits from cost saving initiatives of £1.3m partially offset increases in direct cost of sales of £0.1m, increases in marketing costs of £0.2m, increases in staff costs of £0.1m, increases in utility costs of £0.6m, rent and rate review increases of £0.4m and the non recurrence of a provision release in Q1 2005 of £0.2m.

**EBITDA:** EBITDA decreased by £0.1m (2.6%) from £3.8m in Q4 2005 to £3.7m in Q4 2006 with EBITDA margin holding steady at 20.4%. Excluding the £1.0m effect from the 53rd week in 2005, EBITDA increased by £0.9m (32.1%) in Q4 2006. This is explained by the £0.8m improvement in contribution and by a £0.1m reduction in overheads in the quarter.

EBITDA decreased by £1.2m (9.8%) from £12.2m in the 53 weeks to 1st January 2006 to £11.0m in the 52 weeks to 31st December 2006, with EBITDA margin declining by 1.5% points to 16.3%. EBITDA decreased by £0.2m (1.6%) if the effect of the 53rd week in 2005 is excluded. This £0.2m decrease is due to the contribution decrease of £0.3m, partially offset by a £0.1m reduction in overheads in the period.

**Operating profit:** Operating profit increased by £4.0m (142.9%) from £2.8m in Q4 2005 to £6.8m in Q4 2006. Excluding the £1.0m effect from the 53rd week in 2005, operating profit increased by £5.0m. This increase was due to the £0.9m increase in EBITDA and an uplift of £4.4m from disposed sites in Q4 2006 compared with Q4 2005, partially offset by a charge of £0.1m to onerous lease provisions and an increase to depreciation and impairment of £0.2m. The sale of Bristol in December 2006 (settlement March 2007) generated a profit on disposal of £4.5m in Q4 2006 compared to a profit of £0.1m in Q4 2005 in relation to the disposals of Leicester and Aberdeen. The increase in depreciation and impairment of £0.2m comprised additional depreciation on acquired and refurbished sites of £0.1m, an impairment charge of £0.2m partially offset by benefits of £0.1m from assets reaching the end of their depreciable lives and from the cessation of depreciation on disposals.

# Supplementary information

Continued

**Operating review (continued)**

Operating profit increased by £7.1m (89.9%) from £7.9m in the 53 weeks to 1st January 2006 to £15.0m in the 52 weeks to 31st December 2006. Operating profit increased by £8.1m if the effect of the 53rd week in 2005 is excluded. This increase is attributable to the disposal of businesses (£8.4m) partially offset by onerous lease provisions (£0.1m) and the decline in EBITDA (£0.2m). The disposal of Streatham generated a profit of £4.6m in Q3 2006, whilst the sale of Bristol generated a further profit of £4.5m in Q4 2006. These compared to a profit of £0.7m booked in 2005 (including £0.5m accounted for as the gain on signing an option) in relation to the disposals of Leicester and Aberdeen, giving a 2006 uplift to operating profit of £8.4m. There was no change to depreciation and impairment as the increase in depreciation from refurbishments and acquisitions of £0.2m and impairment charges of £0.5m in 2006 were offset by a reduction in depreciation from assets reaching the end of their useful lives of £0.5m and savings from the cessation of depreciation on disposals of £0.2m.

**Central (Georgica overheads):**

**EBITDA:** Overheads increased by £0.3m (100.0%) from £0.3m in Q4 2005 to £0.6m in Q4 2006, principally due to increased charges from the valuation of the Georgica Executive Participation Plan related to movements in the company's share price (2006: charge of £81,000; 2005: credit of £237,000). Overheads increased by £0.4m (17.4%) to £2.7m in the 52 weeks to 31st December 2006 compared with £2.3m in the 53 weeks to 1st January 2006. Increases of £0.7m related to the Georgica Executive Participation Plan and £0.1m in legal and professional costs associated with the capex programme were partially offset by benefits from cost saving initiatives (£0.4m).

**Operating loss:** Operating loss increased by £0.6m (150.0%) from £0.4m in Q4 2005 to £1.0m in Q4 2006. The increase in overheads of £0.3m, together with costs of £0.3m incurred in Q4 2006 associated with the design and initial implementation steps of the proposed demerger and increased asset realisation programme costs of £0.2m, were partially offset by the recharge of £0.2m of asset realisation programme costs to Tenpin Limited relating to the disposal of Bristol. The operating loss increased by £1.0m (37.0%) from £2.7m in the 53 weeks to 1st January 2006 to £3.7m in the 52 weeks to 31st December 2006. This is attributable to the increase in overheads of £0.4m, together with further cost increases of £0.7m from vendor due diligence and demerger activities, partially offset by a benefit of £0.1m from onerous lease provisions. Of the total asset realisation programme costs incurred in 2006 of £0.6m, £0.4m was recharged to Tenpin Limited on the disposals of Streatham and Bristol bowls. The remaining charge in the period of £0.2m was unchanged from 2005.

**Risk factors:**

Detailed below are the principal risks and uncertainties which have been identified by management as facing the Georgica group. Additional risks and uncertainties which are not currently known or are deemed immaterial may also have a material impact on the group.

**Risks relating to operations:**

- Both Rileys' cuesports and Tenpin's bowling businesses are based exclusively in the UK and so are exposed to UK economic conditions and consumer confidence. As leisure activities, both cue sports and bowling may be affected by the general level of consumer spending on leisure activities and may also be affected by changing consumer preferences.
- The businesses are subject to seasonal demand variations. Warm weather adversely impacts revenues as do unusual weather conditions such as heavy snow, icy conditions or high winds that discourage people from venturing out. Major sporting events also affect the results of both businesses; major televised snooker tournaments generally encourage more players to the cuesports clubs whilst events such as the football world cup can adversely affect revenues as supporters visit venues with large screens dedicated to the sport. School holidays are beneficial for the bowling business, and both businesses are affected by the timing of bank holidays.
- The cuesports business is exposed to UK regulatory changes, in particular that relating to gaming, the sale of alcoholic drinks and smoking in public places. The members' club exemption in the gambling legislation, allowing Rileys to offer poker games for cash prizes in its clubs, is an opportunity for Rileys. However, there is a risk that further modifications of the legislation could limit this opportunity. The ban on smoking in public places which is being implemented in England and Wales in 2007 may result in a reduction of the number of customers at business venues or the amount of time they spend there, which could impact revenues. Club modification works are being completed to mitigate the impact of the ban, as far as possible. Other possible regulatory threats to the profitability of the businesses include UK or EU employment legislation, such as minimum wage increases and the working time regulations; competition, consumer protection and environmental laws; and further implementation of the Disability Discrimination Act.

**Operating review (continued)**
- The majority of Rileys' and Tenpin's properties are subject to periodic rent reviews and renegotiation of rents when leases are renewed; this may have an adverse effect on profits and rents may increase to the extent that individual businesses become unprofitable.
- A number of UK fiscal factors affect the businesses such as duty on alcoholic drinks, VAT and other business and corporation taxes. Changes in legislation which affect any of these factors could adversely impact the results of the businesses.
- The group depends on the continued contribution of key management, and the loss of a significant member of the management team could adversely affect either or both businesses.

**Risks relating to financing:**
- The continued availability of the group's senior debt finance and the floating rate note is dependent on continued covenant compliance.
- The continued availability of the capex facilities used by the group to fund acquisitions, new build sites and refurbishments in both businesses is dependent on continuing to achieve the required returns on investment in respect of all past bank funded investments in aggregate.
- The ability to continue to roll out the group's capital expenditure programme is further dependent on the availability of opportunities at the right price, and the success of the group in converting them to completed acquisitions or agreements to lease on acceptable terms.
- Any rise in base lending rates has an adverse impact on financing costs.

**Property matters:**
**Rileys**
Since the Third Quarter Statement 2006 was issued, Rileys has opened three new leasehold cue sports businesses in Folkestone, Lincoln and Norwich, and has commenced the fit out of an additional new site in Gillingham which is due to open in Q2 2007.

An agreement to lease was signed for one new leasehold unit in Altringham, and Rileys completed the acquisition of a group of four (three existing and one new) leasehold units based in Scotland.

Since July 2005 Rileys has opened or acquired 12 outlets and has signed leases or agreements to lease a further 8 sites.

Rileys has seven cue sports clubs with a combined annual turnover of £1.4 m and annual EBITDA loss of £0.1m which have reached or are expected to reach the end of their leases within two years and on which Rileys is not intending to renew the leases. One of these clubs, Clydebank, closed on 8th October 2006.

**Tenpin**
Since the Third Quarter Statement 2006 was issued, Tenpin has signed an agreement to lease a new site in Halifax.

Since July 2005 Tenpin has acquired 3 bowls and has signed agreements to lease a further 6 sites.

Three Tenpin bowls are on leases of less than 5 years, with regular break clauses on 4 or 6 months notice. These bowls currently contribute annual turnover of £3.9m and annual EBITDA of £0.6m.

**Asset realisation and disposals**
The group is considering the sale of a number of its freehold and long leasehold sites where the redevelopment value exceeds the trading value of the units.

Since the Third Quarter Statement 2006 was issued. Tenpin exchanged on the sale of its site in Bristol for redevelopment for consideration of £9.3m (annual EBITDA of the bowl was £0.2m and the profit on disposal was £4.4m). Completion is expected to occur in early March 2007.

In January 2007 Rileys completed the sale of a property in Oldham for £0.7m (annual EBITDA of the unit was £0.03m and the profit on disposal was approximately £0.5m). In addition to Oldham, Rileys has exchanged on the sale of two additional sites for a combined consideration of £3.2m (the annual EBITDA of these sites was £0.1m).

# Supplementary information

Continued

### Five year record

| | **52 weeks to 31st December 2006 IFRS £m** | 53 weeks to 1st January 2006 IFRS £m | 53 weeks to 1st January 2006 UK GAAP £m | 52 weeks to 26th December 2004 UK GAAP £m | 52 weeks to 28th December 2003 UK GAAP £m | 52 weeks to 29th December 2002 UK GAAP £m |
|---|---|---|---|---|---|---|
| Sales | **125.6** | 129.0 | 129.0 | 156.0 | 97.4 | 84.4 |
| Cost of sales | **(56.2)** | (56.9) | (56.9) | (72.6) | (50.5) | (37.5) |
| **Gross profit** | **69.4** | **72.1** | **72.1** | **83.4** | **46.9** | **46.9** |
| Administrative expenses | **(63.8)** | (58.8) | (59.9) | (76.9) | (45.4) | (47.9) |
| Profit on disposal | **11.8** | 0.2 | 0.3 | 5.8 | – | 0.3 |
| Share of operating loss of joint venture | **-** | – | – | – | (0.1) | (1.2) |
| **Profit/(loss) before finance charges** | **17.4** | **13.5** | **12.5** | **12.3** | **1.4** | **(1.9)** |
| Finance charges | **(10.7)** | (11.1) | (10.5) | (8.8) | (8.9) | (9.3) |
| **Profit/(loss) before taxation** | **6.7** | **2.4** | **2.0** | **3.5** | **(7.5)** | **(11.2)** |
| Taxation | **(2.6)** | 5.8 | 2.1 | 0.2 | – | 2.0 |
| **Profit/(loss) after taxation** | **4.1** | **8.2** | **4.1** | **3.7** | **(7.5)** | **(9.2)** |

Note: The figures for 2004, 2003 and 2002 have been reclassified in order to conform to the presentation adopted in the 2005 UK GAAP consolidated income statement.

The main adjustments from UK GAAP to IFRS are described in note 32 of the accounts.

### Capitalisation table

| | **As at 31st December 2006 £m** | As at 1st January 2006 £m |
|---|---|---|
| Debt (excluding cash and overdraft): | | |
| Senior term loan facilities | **40.2** | 31.5 |
| Senior revolving credit facility | **4.0** | 3.0 |
| Secured floating rate notes | **60.0** | 60.0 |
| **Gross debt (excluding cash and overdraft)** | **104.2** | 94.5 |
| Debt issue costs | **(3.7)** | (4.5) |
| **Net debt (excluding cash and overdraft)** | **100.5** | 90.0 |
| **Shareholders' funds** | **89.8** | 86.5 |
| **Total capitalisation** | **190.3** | 176.5 |
| Reconciliation to statutory net debt: | | |
| Net debt (excluding cash and overdrafts) | **100.5** | 90.0 |
| Net (cash)/overdraft | **(4.7)** | 1.2 |
| **Statutory net debt** | **95.8** | 91.2 |

# Notice of Annual General Meeting

Notice is hereby given that the Seventh Annual General Meeting of Georgica PLC will be held at The Royal Automobile Club, 89, Pall Mall, London, SW1Y 5HS on 3rd April 2007 at 12.00 noon for transaction of the following business:

**ORDINARY BUSINESS**

| | |
|---|---|
| **Resolution 1** | To receive and adopt the directors' report and the statement of accounts for the 52 week period ended 31st December 2006 and the Auditors' report thereon. |
| **Resolution 2** | To approve the directors' remuneration report. |
| **Resolution 3** | To elect Simon Prew as a director of the company. |
| **Resolution 4** | To re-elect Vineet Arora as a director of the company. |
| **Resolution 5** | To re-elect David Barrett as a director of the company. |
| **Resolution 6** | To re-elect Kaye Collins as a director of the company. |
| **Resolution 7** | To re-elect Peter Collins as a director of the company. |
| **Resolution 8** | To re-elect Don Hanson as a director of the company. |
| **Resolution 9** | To re-elect Peter Haspel as a director of the company. |
| **Resolution 10** | To re-elect Margaret Mountford as a director of the company. |
| **Resolution 11** | To re-elect Nicholas Oppenheim as a director of the company. |
| **Resolution 12** | To re-elect Clive Preston as a director of the company |
| **Resolution 13** | That PricewaterhouseCoopers LLP be and are hereby re-appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be fixed by the directors. |

**SPECIAL BUSINESS**

To consider and, if thought fit, pass the following resolutions of which resolutions 14 and 16 shall be proposed as special resolutions and resolution 15 as an ordinary resolution.

**Resolution 14**

**SPECIAL RESOLUTION**

That pursuant to Article 45 of the company's Articles of Association and in accordance with Section 166 of the Companies Act 1985, the company be generally and unconditionally authorised during the period expiring on the date of the next Annual General Meeting of the company after passing this resolution or 18 months from the passing of this resolution, whichever is the earlier, to make purchases (as defined in Section 163 of the said Act) of the company's Ordinary Shares on such terms and in such manner as the directors determine, provided that this authority shall:

(i) be limited to a maximum of 14,613,405 Ordinary Shares of 5p having a nominal value of £730,670;

(ii) not permit the payment by the company of less per share than the par value thereof or more per share than 105 percent of the average of the middle market quotations of the company's Ordinary Shares as derived from the London Exchange Daily Official List for the 5 business days immediately preceding the date of any proposed purchase (in each case exclusive of expenses);

(iii) only be exercised if so to do would result in an increase in earnings per share and is in the best interests of the shareholders of the company generally; and

(iv) permit the company to complete a purchase of Ordinary Shares after the expiry of this authority if the contract for such purchase was concluded before such expiry.

# Notice of Annual General Meeting

Continued

**Resolution 15**

**ORDINARY RESOLUTION**

That for the purposes of Section 80 of the Companies Act 1985, 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 the said Section 80) up to a maximum of 32,475,000 Ordinary Shares of 5p each of the company provided that:

(i) this authority shall expire at the conclusion of the next Annual General Meeting of the company or 15 months from the passing of this resolution, whichever is the earlier, except 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 presence of any such offer or agreement as if the authority conferred hereby not expired; and this authority shall be in addition and without prejudice to

(ii) the authority given by a resolution passed on 4th May 2005 and expiring on 20th September 2010, being the 10th anniversary and the final date for conversion of the Convertible Ordinary Shares, in respect of the remaining 10,152,300 Ordinary Shares arising on conversion of the Convertible Ordinary Shares.

**Resolution 16**

**SPECIAL RESOLUTION**

That the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 15 above as if Section 89(1) of that Act did not apply to any such allotment provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of Ordinary Shares on the register of members at such dates as the directors may determine and other persons entitled to participate therein where the securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held or, in the case of holders of Convertible Ordinary Shares, deemed to be held by them on any such record date, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities up to an aggregate nominal amount of £243,556;

and shall expire on the expiry of the general authority conferred by resolution 15 above except that the company shall be entitled to make offers or agreements before expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board
P Smith
Company Secretary
23rd February 2007

**Explanatory notes**

**General**

(1) Any member entitled to attend and vote at the above Annual General Meeting ("AGM") is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed for your use.

(2) To be valid, forms of proxy together with, if appropriate, the powers of attorney or other authority, if any, under which they are signed, or a notarially certified copy thereof should be sent to the offices of the company's registrars, Capita Registrars, Proxy Processing centre, Telford Road, Bicester OX26 4LD, so as to arrive not later than 48 hours before the time appointed for the meeting. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting should he/she wish to do so.

(3) Copies of the following documentation will be available for inspection at the company's registered office during usual business hours on any weekday (Saturdays excepted) and will be produced and be available for inspection for 15 minutes prior to and during the AGM.

  (i) copies of all contracts of service whereunder directors of the company are employed by the company or any subsidiary;

  (ii) the Memorandum and Articles of Association of the company;

  (iii) copies of the audited accounts of the company and its subsidiaries for the last two financial years (if applicable).

(4) To have the right to attend and vote at the AGM (and also for the purposes of calculating how many votes a person may cast) a person must have his/her name entered on the register of ordinary shareholders of the company 48 hours before the time of the meeting. Changes to the entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

**Resolutions 3 – 12; Election and re-election of directors**

Simon Prew was appointed a director during the year and, being eligible, offers himself for election. Vineet Arora, David Barrett, Kaye Collins, Peter Collins, Don Hanson (72), Peter Haspel, Margaret Mountford, Nicholas Oppenheim and Clive Preston shall retire by rotation at the AGM and shall be offered for re-election in accordance with the Articles of Association.

**Resolution 14; Purchase of own shares by the company**

The resolution authorises the directors to make market purchases of up to 14,613,405 of the company's shares representing approximately 15% of its current issued ordinary share capital. The directors would only exercise this authority if they considered that the effect of such purchases would be to increase earnings per share and that such purchases would be in the best interests of the shareholders generally.

**Resolution 15; Authority to allot relevant securities**

This resolution authorises the directors to allot up to 32,475,000 Ordinary Shares representing approximately 33% of its current issued ordinary share capital. This is in addition to the authority given on 4th May 2005 to allot up to 10,152,300 Ordinary Shares reserved for the conversion of the Convertible Ordinary Shares that expires on 20th September 2010 being the 10th anniversary and the final date for conversion of these shares. The authority relating to the 32,750,000 ordinary shares expires at the conclusion of the company's next Annual General Meeting or 15 months after the resolution is passed, whichever is the earlier.

# Notice of Annual General Meeting

Continued

**Resolution 16; Disapplication of statutory pre-emption rights**

If equity securities are to be allotted for cash using the authority given by resolution 15 above, Section 89(1) of the Companies Act 1985 requires that those securities are offered first to existing shareholders in proportion to the number of ordinary shares they each hold at that time.

There may be circumstances, however, when it is in the interest of the company for the directors to be able to allot new equity securities for cash other than by way of a strict rights issue. The authority given by resolution 15 will empower the directors to modify the situation with regard to rights issues, open offers and other offers of securities such that they may effect such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising in respect of under the laws or requirements of any recognised regulatory body or any stock exchange or otherwise in any overseas territory. Resolution 15 also authorises the directors to allot equity securities for cash in other circumstances but limited to equity securities having a maximum aggregate nominal value of £243,556 which is equivalent to 5% of the issued ordinary share capital of the company at the date of this notice.