

**COFFEE
REPUBLIC**

**COFFEE REPUBLIC PLC
Interim Report 2005**

COFFEE REPUBLIC PLC

Directors and Advisors

Executive Chairman

Bobby Hashemi

Finance Director

Simon Drysdale

Non-executive Director

Nicholas Jeffrey

Company Secretary

Jeremy Gorman

Registered Office

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Auditors

BDO Stoy Hayward LLP
8 Baker Street
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Solicitors

Lawrence Graham LLP
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Joint Stockbrokers

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Registrar

Capita Registrars
The Registry
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Company Number: SC125098

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Chairman's Statement

Introduction

In our full year statement, announced in September, we set out our plans to restore profitability and grow the business through franchising the deli concept. I am pleased to report that we have successfully launched our franchising programme, extended and evolved the deli concept, improved cash flow and cost control, and reported a further narrowing of interim losses in line with our expectations.

Interim Results

Sales for the first half fell as expected by 13.7% to £7.7 million (2004: £8.9 million) following the planned closure of non-core bars. Reported sales will continue to fall as a result of accounting for franchising existing bars. When an existing bar is franchised the reportable sales will be a royalty on sales rather than the underlying sales of the bar. However, gross margins will increase as most direct bar costs become the responsibility of the franchisee.

The operating loss narrowed to £0.66 million (2004: £0.80 million) as the effect of the closure of non-core bars and tight control of bar and central costs continued to deliver benefits. The net loss narrowed to £0.74 million (2004: £0.89 million).

As reported previously, the bright start in like for like sales in the first quarter came to an end in early July and negative like for like sales in the second quarter drove the first half performance to a small negative result. In common with many retailers, we suffered from the adverse impact of unseasonably warm early Autumn weather and like-for-like sales continued to be negative. However, in recent weeks we have experienced a gradual improvement in performance. Regional bars continue to perform more strongly than central London bars.

Cashflow and Financing

The cashflow from operating activities before capital expenditure and financing has improved to £0.47 million inflow (2004: £0.06 million outflow) due to the improvements in overall Company performance and cashflow management. The Company's bankers continue to support the company and facilities have recently been renewed for another 12 months.

Strategy and Outlook

As reported in our 2005 full year results the strategy continues to be the roll out of the deli concept mainly through franchising. We have so far experienced strong market interest for franchising the Coffee Republic brand, and are encouraged by the volume and quality of our pipeline of prospective franchisees.

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We began the process of building the franchising support infrastructure in March. The initial focus has been on franchising existing bars and in November we completed our first franchise. Since then we have completed another 3 franchises, bringing the total to 4 at the end of the calendar year.

Starting in the New Year we will look to open new franchised bars. Clearly with new sites there will be a longer lead time as both franchisees and new sites are selected. Nevertheless we anticipate taking the significant step of opening our first new site for 4 years in 2006.

The estate has not changed since the year end and remains at 46 bars, split between those bars most suited to franchising and those to be retained as owned and operated bars. It is important to retain a central core of bars as owner operated bars to remain close to the operation of the business and to test new ideas. We will continue to closely monitor the portfolio and may re-allocate bars between the two categories but at present we anticipate retaining 10 to 15 bars and franchising a majority of the others. In the same vein, if a bar does not fit with our strategy we will look to dispose of it and currently have a few such bars on the market.

The deli model is performing strongly and will continue to evolve. The number of bars converted into delis now stands at nine, four of which are franchises. Despite developing the infrastructure and resource for franchising, overhead costs have remained under tight control and expenditure continues to fall.

The results demonstrate the continuing improvement in the underlying performance of the business. The encouraging progress of our franchising efforts to date, together with the strong pipeline and interest in franchising the Coffee Republic brand demonstrates that the next phase of our turnaround strategy is starting to gain momentum and deliver results.

Bobby Hashemi
Chairman

22 December 2005

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Unaudited consolidated profit and loss account

For the period ended 25 September 2005

	Six months to 25 Sept 2005	Six months to 26 Sept 2004	Year to 27 March 2005
	£'000	£'000	£'000
Turnover	7,706	8,929	17,553
Cost of sales	<u>(8,015)</u>	<u>(9,354)</u>	<u>(18,134)</u>
Gross Loss	(309)	(425)	(581)
Administrative expenses	(352)	(374)	(542)
Operating loss	<u>(661)</u>	<u>(799)</u>	<u>(1,123)</u>
Exceptional items			
Loss on disposal of fixed assets	<u>-</u>	<u>-</u>	<u>(103)</u>
Loss on ordinary activities	(661)	(799)	(1,226)
Interest payable and similar charges	(96)	(94)	(182)
Interest receivable	15	7	12
Loss on ordinary activities before and after taxation	<u>(742)</u>	<u>(886)</u>	<u>(1,396)</u>
Loss per ordinary share			
Basic and diluted	<u>(0.17)p</u>	<u>(0.21)p</u>	<u>(0.33)p</u>

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Unaudited consolidated balance sheet as at 25 September 2005

	25 Sept 2005 £'000	26 Sept 2004 £'000	27 March 2005 £'000
Fixed assets			
Intangible assets	145	169	157
Tangible assets	<u>5,337</u>	<u>6,331</u>	<u>5,839</u>
	<u>5,482</u>	<u>6,500</u>	<u>5,996</u>
Current assets			
Stocks	85	89	98
Debtors	740	635	1,327
Cash at bank and in hand	<u>53</u>	<u>643</u>	<u>58</u>
	<u>878</u>	<u>1,367</u>	<u>1,483</u>
Creditors: amounts falling due within one year	<u>(3,377)</u>	<u>(3,652)</u>	<u>(3,535)</u>
Net current liabilities	<u>(2,499)</u>	<u>(2,285)</u>	<u>(2,052)</u>
Total assets less current liabilities	<u>2,983</u>	<u>4,215</u>	<u>3,944</u>
Creditors: amounts falling due after more than one year	(2,200)	(1,922)	(2,217)
Provision for liabilities and charges	<u>(353)</u>	<u>(609)</u>	<u>(555)</u>
Net Assets	<u>430</u>	<u>1,684</u>	<u>1,172</u>
Capital and Reserves			
Called up share capital	428	428	428
Share premium	3,888	3,888	3,888
Profit and loss account	<u>(3,886)</u>	<u>(2,632)</u>	<u>(3,144)</u>
Shareholders' funds - equity	<u>430</u>	<u>1,684</u>	<u>1,172</u>

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Unaudited consolidated cash flow statement for the period ended 25 September 2005

	Note	Six months to 25 Sept 2005 £'000	Six months to 26 Sept 2004 £'000	Year to 28 March 2005 £'000
Cash flow from operating activities				
Operating loss		(661)	(799)	(1,123)
Movement on onerous lease provision		(202)	(264)	(422)
Net movement on impairment of fixed assets		-	-	(1)
		<u>(863)</u>	<u>(1,063)</u>	<u>(1,546)</u>
Depreciation		533	599	1,235
Amortisation		12	12	24
Movement in working capital	3	785	391	(453)
		<u>467</u>	<u>(61)</u>	<u>(740)</u>
Returns on investments and servicing of finance		(81)	(87)	(170)
Capital expenditure and financial investment		(39)	702	559
		<u>(81)</u>	<u>(87)</u>	<u>(170)</u>
		<u>(39)</u>	<u>702</u>	<u>559</u>
Cash inflow/(outflow) before the use of liquid resources and financing		347	554	(351)
Repayment of debt		(125)	(434)	(641)
		<u>(125)</u>	<u>(434)</u>	<u>(641)</u>
Increase/(decrease) in cash in the period		<u>222</u>	<u>120</u>	<u>(992)</u>
Reconciliation of net cash flow to movement in net debts				
Increase in cash in the period		222	120	(992)
Cash outflow from decrease in debt and lease financing		125	434	641
		<u>125</u>	<u>434</u>	<u>641</u>
Changes in net funds resulting from cash flows		<u>347</u>	<u>554</u>	<u>(351)</u>
Movement in net funds		347	554	(351)
Net debt at the beginning of the period		(2,837)	(2,486)	(2,486)
Net debt at the end of the period		<u>(2,490)</u>	<u>(1,932)</u>	<u>(2,837)</u>

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1. Basis of preparation

The results for the six months ended 25 September 2005 have been prepared on the basis of the accounting policies set out in the consolidated financial statements at 27 March 2005. The comparatives for the year ended 27 March 2005 have been extracted from the audited consolidated financial statements for that period.

2. Loss per ordinary share

The calculation of the loss per share for the six months ended 25 September 2005 is based upon a loss of £742,000 (2004: loss of £886,000) and the weighted average number of shares of 427,765,304 (2004: 427,765,304).

3. Movement in working capital

	Six months to 25 Sept 2005 £'000	Six months to 26 Sept 2004 £'000	Year to 27 March 2005 £'000
Decrease in stocks	13	16	7
Decrease in debtors	587	833	141
Increase/(decrease) in creditors	185	(458)	(601)
	<u>785</u>	<u>391</u>	<u>(453)</u>

4. Financial Information

The financial information set out above does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 27 March 2005 has been extracted from the audited financial statements for that period, which have been filed with the Registrar of Companies and contain an unqualified auditor's report.

Copies of the Annual Report and Accounts and Interim Report are available at the group's head office at Ground Floor, 109-123 Clifton Street, London, EC2A 4LD and the registered office at 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ. In addition, copies of the Interim Report can be downloaded from our website address: www.coffeerepublic.com