

Coffee Republic PLC
19 September 2006

For Immediate Release

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PRELIMINARY RESULTS

Coffee Republic PLC, the independent coffee and deli bar operator, announces its preliminary results for the year to 26 March 2006.

Key Points:

- The restructuring phase of the turnaround has now been completed.
- The rollout of the deli concept through franchising has been validated.
- The estate is now 44 bars, 14 of which are franchises.
- The business has signed up 2 Regional Development Franchises.
- Like-for-like sales have improved since the year end and for the last 8 weeks were 3.6% positive for the network as a whole benefiting from the positive effects of franchising.
- The future progress of franchising is being threatened by speculation on internet bulletin boards.

Preliminary Results - Financial

- Financial results are in line with expectations with a net loss of £1.45 million (2005: £1.40 million)
- Sales down 15% to £14.9 million (2005: £17.6m) following the planned closure of non-core bars and the take up of franchises.
- Like-for-like sales were 4.8% negative for the Company and franchise network as a whole.
- Despite occupancy cost pressures operating loss narrowed slightly to £1.05 million (2005: £1.12 million).

Commenting, Bobby Hashemi, Chairman, said:

'The core restructuring of Coffee Republic is now complete and we have a clear strategy to recommence the expansion of the business. We are committed to enhancing our valuable brand and building shareholder value. With the platform from which to deliver that strategy now in place, future success rests primarily on delivery rather than innovation.'

For further information:

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Chairman's statement

Introduction

Last year was an eventful one for Coffee Republic, and one in which we passed several important milestones. To summarise, your company:

- validated its franchising model and commenced rollout;
- secured its first regional development franchise;
- secured essential funding for the franchise strategy via a cost-effective share placing;
- delivered results in line with expectations made at the start of the year; and
- reduced group net indebtedness.

These successes have created a solid platform from which the company can begin to grow. Indeed, all the signs as we began the new financial year were positive. More recently however, speculation on internet bulletin boards has created substantial share price volatility and an air of uncertainty around the business that has slowed the signing of franchises. Your Board is confident that it will be able to capitalise on last year's good work once this uncertainty has been removed.

Final Results and Current Trading

The results for the year are in line with expectations. While losses remain broadly similar to last year, this disguises important changes in the shape of the business. We have restructured to focus on the franchising opportunity that offers the best prospects for profitable growth. Nevertheless, during the year the majority of the estate remained company owned and operated and we therefore suffered the same occupancy cost pressures as other retailers. In addition, like for like sales declined 4.8%, however, tight management of other costs enabled us to partly offset these.

Sales for the year fell as expected by 15.0% to £14.9 million (2005: £17.6 million) due to the planned closure of non-core bars, the like for like sales trend and the take up of franchises. Sales for the Coffee Republic network as a whole, including franchised bars, were £15.3 million. As the roll out of the franchise programme only commenced towards the end of the 2005 calendar year the effect on sales and results for the financial year were not significant.

The table below provides an analysis of like-for-like sales between Company operated and franchised bars. As indicated in our Pre Close Trading Update full year like for like sales were 4.8% negative for the network as a whole. Current trading is showing an improvement in like-for-like sales performance in both Company and franchise operated bars.

Like For Like Sales		Year Ended 26 March 2006	Last 24 Weeks	Last 8 Weeks
Company Bars	Operated	(5.1)%	(4.4)%	(0.2)%
Franchise Bars*	Operated	11.0%	10.1%	13.1%
Total Network		(4.8)%	(1.9)%	3.6%

*Excluding one franchised bar which has been affected by extended building works

Despite the cost pressures mentioned earlier, the operating loss narrowed slightly to £1.05 million (2005: £1.12 million). The net loss widened marginally to £1.45 million (2005: £1.40 million) due to higher interest costs.

Franchise Progress

We are pleased with the progress of our franchise roll out to date and currently have 14 bar franchises and two Regional Development Franchises ("RDF").

We were slightly ahead of our original intentions to complete one bar franchise per month. However, recently, for reasons I will discuss in more detail below,

the pipeline has weakened. Accordingly, over the next six months we anticipate no more than 3 franchises.

Regional Development Franchisees pay an upfront fee for the right to develop and recruit bar franchisees in a specific territory. An RDF for Scotland was completed during the year and one for Kent & Sussex was completed after the year end.

Since the year end we have reached an important milestone for the Company, with the opening of the first new bar in over 4 years. The bar has not only been opened by a franchisee but is also located within a WH Smith store in Thanet, Kent.

The bars that were franchised in the financial year are shown below:

Bar Location	Date of Franchise
Coleman Street, London	14 Nov 2005
Tottenham Court Road, London	14 Dec 2005
Weybridge, Surrey	15 Dec 2005
Braintree, Essex	22 Dec 2005
Kings Road, London	15 Feb 2006

Subsequent to the year end three central London, one suburban London and five home counties bars, including the new bar in Thanet, have been franchised bringing the total to 14.

At the end of the financial year the estate consisted of 45 bars; the 5 franchised bars shown above and 40 Company operated bars. Since the year end two bars have been disposed of and the one new bar opened, bringing the current estate to 44 bars, including the 14 franchised bars.

Cashflow and Financing

The cash outflow from operating activities improved to £0.4 million (2005: £0.7 million) with the operating loss broadly in line with the previous year. This was due to far fewer property disposals, each of which results in a working capital outflow, than in the previous financial year. Net debt at the year end has reduced to £2.3 million (2005: £2.8 million).

In addition to the cashflow from operating activities the Group received upfront fees from the franchise of existing bars. On franchise of an existing bar the franchisee pays not only the normal franchise fees but an additional amount for the purchase of the bar's business including the fixtures and fittings. The purchase price varies depending on the profitability of the bar but can range between nil and £200,000. The Group receives net proceeds after deductions for the costs of refurbishment to a deli, legal costs, sales commissions, training costs and the outflow in working capital associated with selling a bar.

During the year we franchised 5 bars all of which were Company operated prior to franchise. The gross and net proceeds from franchising these bars were £0.9 million and £0.5 million respectively.

Since the year end a further 8 bars have been franchised. The gross and net proceeds were £0.8 million and £0.3 million respectively.

In addition to the proceeds from the franchise of individual bars the Company generated fees for the two RDF's of approximately £180,000 each net of direct costs.

Accordingly, the net proceeds received during the financial year were approximately £0.7 million with a further £0.5 million received since the year end. These proceeds will be utilised to fund the business whilst the last stretch of the turnaround is completed.

We were successful in raising £850,000 through a share placing in January 2006 to provide the working capital to enable the Group to pursue the franchising strategy. By raising the funds through a share placing the Group saved substantially on fees and expenses when compared with the costs of raising an equivalent amount through an open offer. Depending on the future rate of franchising growth we may need to return to the equity markets for additional funding before the Group is cashflow positive.

Share Price Movement

It would have been a pleasure to focus only on the company's achievements this year. In a tough market, I am proud of the Coffee Republic team's response to the challenges of developing the franchise model whilst maintaining trading performance.

However, this progress is in danger of being undermined by misleading speculation on internet bulletin boards. Despite trading statements from the company that trading was in line with expectations, speculation on internet bulletin boards has insisted that this is not true and that management is suppressing good news. The audited results show that the company's trading statements were true and accurate and that the speculation was unfounded. In addition, despite repeated denials by the Company, speculation has continued that management plans a management buyout of the company. Let me make this as clear as I can: there was no management buyout plan and there is no management buyout plan. I regret that any shareholder who bought shares on the basis of this speculation has been misled.

Unfortunately, this speculation has led to substantial share price volatility and is damaging our company's progress. The uncertainty created has weakened our franchise pipeline and the longer the unfounded speculation and rumours persist the greater the damage inflicted upon the Company's ability to deliver its strategy.

Strategy and Outlook

We are confident that our strategy of rolling out the deli concept through franchising is the right one for Coffee Republic.

Those existing bars earmarked for franchise are expected to be transferred to franchisees during the next 18 months, leaving a small core of Coffee Republic 'owned and operated' bars. Retaining a small core of 'owned and operated' estate allows the Company as franchisor to remain close to the operation of the business and test new ideas.

In addition, our intention is to attract a further 3 to 4 additional RDFs per year over the next 3 years and new franchised bars will be developed both through RDFs and directly. The growth in the number of new bars will be relatively slow initially due to the lead time in building a new site pipeline from a standing start and the problems caused by the speculation on internet bulletin boards.

Also, we are looking at a number of initiatives to capitalise on the strength of the Coffee Republic brand, including for example CR Express, a self service bean to cup coffee machine, and other opportunities with third parties. However, these initiatives are very early stage.

The core restructuring of Coffee Republic is now complete and we have a clear strategy to recommence the expansion of the business. We are committed to enhancing our valuable brand and building shareholder value. With the platform from which to deliver that strategy now in place, future success rests primarily on delivery rather than innovation.

Bobby Hashemi

Chairman
19 September 2006

Consolidated Profit and Loss Account
for the year ended 26 March 2006

	Note	2006 £000	2005 £000
Turnover		14,914	17,553
Cost of sales		(15,454)	(18,134)
		-----	-----
Gross loss		(540)	(581)
Administrative expenses		(510)	(542)
		-----	-----
Operating loss	2	(1,050)	(1,123)
Exceptional items- profit/(loss) on disposal of fixed assets		(157)	(103)
		-----	-----
Loss on ordinary activities		(1,207)	(1,226)
Interest receivable		30	12
Interest payable and similar charges		(269)	(182)
		-----	-----
Loss on ordinary activities before and after taxation		(1,446)	(1,396)
		-----	-----
Loss per ordinary share:			
Basic and Diluted	3	(0.33p)	(0.33p)
		-----	-----

All recognised gains and losses are included in the profit and loss account.

Consolidated Balance Sheet
at 26 March 2006

	2006		2005	
	£000	£000	£000	£000
Fixed assets				
Intangible assets		133		157
Tangible assets		4,367		5,839
Current assets				
Stocks	77		98	
Debtors	1,225		1,327	
Cash at bank and in hand	128		58	
	-----		-----	
	1,430		1,483	
Creditors: amounts falling due within one year	(2,943)		(3,535)	
	-----		-----	
Net current liabilities		(1,513)		(2,052)
		-----		-----
Total assets less current liabilities		2,987		3,944
Creditors: amounts falling due after more than one year		(2,140)		(2,217)
Provision for liabilities and charges		(308)		(555)
		-----		-----
Net assets		539		1,172
		-----		-----
Capital and reserves				
Called up share capital		513		428
Share premium account		4,616		3,888
Profit and loss account		(4,590)		(3,144)
		-----		-----
Shareholders' funds		539		1,172
		-----		-----

Consolidated Cash flow Statement
for the year ended 26 March 2006

	<i>Note</i>	<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>
Net cash outflow from operating activities	4	(392)	(740)
Returns on investments and servicing of finance		(239)	(170)
Capital expenditure		397	559
		-----	-----
Cash outflow before liquid resources and financing		(234)	(351)
Financing		649	(641)
		-----	-----
Increase/(Decrease) in cash in the period		415	(992)
		-----	-----
		<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>
Reconciliation of net cash flow to movement in net funds			
Increase/(Decrease) in cash in the period		415	(992)
Cash outflow from decrease in debt and lease financing		164	641
		-----	-----
Movement in net funds in the year		579	(351)
Opening net debt		(2,837)	(2,486)
		-----	-----
Closing net debt		(2,258)	(2,837)
		-----	-----

1. Basis of preparation

The results, cashflows and balance sheets incorporate the audited results of Coffee Republic PLC and all of its subsidiary undertakings made up to 26 March 2006.

The financial information has been prepared on the going concern basis. The continued support of the Group's bank has been provided on the basis of the Group's forecasts. These forecasts assume that the rollout of the franchising programme continues and that additional equity funding is raised within the next 12 months. To date the franchising programme rollout has been in line with plan and in the opinion of the Directors, assuming that the uncertainty caused by recent speculation is lifted, will continue on plan; thereby facilitating additional equity funding.

2. Exceptional items- Profit/(loss) on disposal of fixed assets

	2006	2005
	£000	£000
(Loss)/profit on disposal of fixed assets	(58)	1
Movement on provision	-	1
Provision for onerous leases	(182)	(286)
Release of provision for onerous leases	83	181
	-----	-----
	(157)	(103)
	-----	-----

3. Loss per ordinary share

The basic loss per ordinary share is based on losses after taxation of £1,446,000 (2005: loss £1,396,000) and a weighted average number of shares in issue of 440,375,194 (2005: 427,765,304). There was no difference between basic and diluted earnings per share in 2006 and 2005. Details of share options which could potentially dilute basic earnings per share in the future, but which were not included in the calculation of diluted earnings per share because they are antidilutive for the period presented are included in the Groups' financial statements.

4. Reconciliation of operating loss to operating cashflows

	2006	2005
	£000	£000
Operating loss	(1,050)	(1,123)
Depreciation	1,017	1,235
Amortisation	24	24
Movement on onerous lease provision	(346)	(422)
Net movement on impairment of fixed assets	-	(1)
Decrease in stocks	21	7
Decrease in debtors	102	141
Decrease in creditors	(160)	(601)
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Net cash outflow from operating activities	(392)	(740)
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5. Financial Information

The preliminary results do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 26 March 2006 is extracted from the Group's financial statements to that date which received an unqualified auditors' report and will be sent to shareholders and filed with the Registrar of Companies in due course.

Copies of the Annual Report and Accounts will be available at the Group's head office at Ground Floor 109-123 Clifton Street , London EC2A 4LD and the registered office at 50 Lothian , Festival Square, Edinburgh, EH3 9WJ as soon as copies are posted to the shareholders. In addition, copies of the Annual Report and Accounts will be available for download from our website address:

www.coffeerepublic.com