

**COFFEE
REPUBLIC**

COFFEE REPUBLIC PLC
Interim Report 2006

COFFEE REPUBLIC PLC

Directors and Advisors

Board of Directors

Steven Bartlett
Peter Breach
Simon Drysdale
Nicholas Jeffrey
Brian Carroll

Company Secretary

Jeremy Gorman

Registered Office

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Edinburgh EH3 9WJ

Auditors

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

Solicitors

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Joint Stockbrokers

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Bankers

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Registrar

Capita Registrars
The Registry
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Kent BR3 4TU

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Chairman's Statement

Introduction

I am pleased to be presenting Coffee Republic's interim financial statements as your Chairman. You will be aware that your previous Chairman, Bobby Hashemi, resigned in October and we now have a new management team. I believe the right team is now in place to take Coffee Republic forward. Steven Bartlett, Chief Executive, is an outstanding retail operator and Brian Carroll has a wealth of franchise experience. We also benefit from the continuing services of Nicholas Jeffrey, non-executivem, and Simon Drysdale, Finance Director.

Whilst the period ended shortly before the management changes this report gives me an opportunity to set out our plans for the future. We have achieved much in the last nine weeks and are confident that the Company is moving in the right direction and at the right pace. I am pleased that staff at Head Office have responded so positively to a significant change in management culture. Expanding the brand aggressively is central to our strategy through Regional Development Franchises, International Master Franchises and co-branding with national chains. I have significant developments to report in all these areas including the completion of our first International Master Franchise.

Interim Results and Current Trading

Sales for the first half fell as expected by 30.2% to £5.4 million (2005: £7.7 million) largely caused by the change to franchising. Indeed, at the end of the first half year there were fourteen franchises compared with none at the end of the first half year in the previous year. The reduction in operating losses seen over the last few years stalled in the first half with operating losses widening to £0.9 million (2005: £0.7 million) caused by occupancy cost pressures, the minimum wage increase and the inclusion of a £115,000 VAT refund in the prior year. The additional costs were partly offset by administration cost savings.

The table below provides an analysis of like-for-like sales between Company operated and franchised bars. Like-for-like sales for the network as a whole were 1% negative for the first half. However, as indicated in our full year results there has been an improvement in like-for-like performance since the year end driven by the franchised bars.

Like-for-Like Sales	Half Year Ended 24 September 2006	Last 11 Weeks
Company Operated Bars	(4.3)%	(2.7)%
Franchise Operated Bars*	9.8%	15.7%
Total Network	(1.0)%	3.4%

*Excluding one franchised bar which has been affected by extended building works and the two Heathrow bars for the period comparing to the Gate Gourmet strike.

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The net loss widened to £1.3 million (2005: £0.7 million) for the reasons referred to above and an exceptional charge of £0.3 million resulting from the write off of fixed assets on franchise. When an existing bar is franchised the fixtures and fittings are sold to the incoming franchisee. A profit or loss on disposal arises depending on the carrying value of the assets and the purchase price paid. Accordingly, the exceptional item is purely an accounting entry and does not represent a cash outflow.

Franchise Progress

Individual Bars

During the half year nine existing bars were franchised and subsequent to the half year end we have franchised a further four existing bars bringing the total to eighteen. I am pleased to report that subsequent to the change in management there has been a significant strengthening in the pipeline of prospective franchisees including a strong demand for new sites both direct to the Company and through our Regional Development Franchisees. Following the disposal of two sites after the half year end we own and operate twenty-four bars bringing the network total to forty-two.

Regional Development Franchises ('RDF')

During the half year we completed one RDF for Kent & Sussex, as reported with our full year results. Since the end of the half year there has been much activity in this area with three further RDFs being signed covering Nottinghamshire, Yorkshire, North Lincolnshire, Devon and Cornwall and the Family Entertainment Centre Development ('FEC') deal. FECs are places of family entertainment often found in theme parks, holiday centres, bowling alleys and seaside resorts as referred to in Section 238 of the Gaming Act 2005. There are more than 3,000 FECs in mainland Britain. The FEC deal opens up this, previously untapped, market to Coffee Republic. In addition to the completed deals we have a flow of interested parties for other areas.

International Master Franchises

I am pleased to inform shareholders that we have signed our first International Master Franchise, Bulgaria. This marks a new phase in the revitalisation of the Coffee Republic brand. I am particularly pleased to be franchising in Eastern Europe where there is substantial potential. The Master Franchisee is Property Links International Ltd B.G. a related company of our Devon and Cornwall RDF.

In only a short time the Company's pace of growth has improved dramatically. A dedicated support team is being built in readiness for the needs of all franchisees to ensure the efficient and controlled expansion of the brand.

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Cash Flow and Financing

The cash outflow from operating activities was £0.29 million (2005: £0.47 million inflow). This change has been caused by the movement in the operating loss and a reduction in the working capital largely as a result of the reduction in Company creditors that occurs in the months following the start of a new franchise for an existing bar.

The gross and net proceeds received from franchising the nine bars during the half year were £835,000 and £300,000 respectively. The gross and net proceeds received from franchising the four bars after the half year end were £170,000 and £20,000 respectively. During the period, the process of franchising an existing bar was changed to bring it in line with that for a new bar by moving the responsibility for the shop fit to the franchisee. Accordingly, for an existing bar the costs of franchise are reduced but the gross proceeds are reduced by an equivalent amount.

The net proceeds generated from the RDF completed during the half year were £180,000. Since the half year end the 3 RDFs, the FEC deal and the Bulgarian Master Franchise have been signed giving rise to net proceeds receivable of £600,000.

Strategy and Outlook

I hope that you will be pleased with the new dynamism that has been injected into the brand demonstrated by recent stock exchange announcements and my comments above. It is your board's intention to maintain this aggressive approach to revitalising the brand. The key components of this strategy are:

- Individual bars
 - As a franchised brand we will do what we preach and franchise the entire estate save for a test bar and those sites where franchising is prevented.
 - Where prime sites become available we may open them as Company owned sites initially and franchise them later. This will help get the brand back into areas where it has been sadly missing for a number of years.
- Regional Development Franchises ('RDFs')
 - I anticipate we will grant RDFs covering substantially the whole of the British Isles before the end of the next financial year. I believe such local partners are the key to expanding the brand rapidly and on a sound basis. The RDFs we select have the experience and ability to attract franchisees of the standard we require and to identify suitable sites without the Company incurring unnecessary overhead costs.

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International Master Franchises ('IMFs')

- Considerable focus is being directed to the recruitment of IMFs who will, in my belief, transform the company into a global brand. Negotiations are in hand for a number of territories.
- Co-Branding/Coffee Republic Served Here
 - We are in discussions with a number of national retailers with regards to co-branding opportunities. Indeed three co-branding trials will be taking place with a national pub operator in the near future.
- Brand
 - While Steven Bartlett our new CEO and I knew Coffee Republic was a strong brand despite its disappointing recent past I am compelled to say how delighted we have been to find quite how strong it is through our experience with those enquiring about, and contracting for, franchises both in the United Kingdom and from many countries around the world.

Shareholders are aware of the poor financial performance of the Company in the past and I should draw your attention to the Balance Sheet which shows a deficit of Net Assets. Shareholders discussed these matters at some length at the recent AGM and have taken action by the appointment of new management leadership.

Notwithstanding the discussion at the AGM, Section 142 of the Companies Act 1985 requires the directors to convene an EGM to discuss this deficit position and accordingly a meeting is being held on 8 February 2007 at 11.00 am at the offices of Lawrence Graham LLP, 190 Strand, London, WC2R 1JN. Business plans are in hand to rectify the deficit position.

The deficit of net assets is far from satisfactory but I should draw your attention to the fact that, in preparing the Balance Sheet, no amount is provided for the value of the brand name or for the value of the tax losses which amount to around eight million pounds and which we intend to make good use of before very long. Had a relatively modest value been placed on either of these assets then the deficit would not have arisen.

The business generation processes being established lead me to expect that, over the next year, the domestic portfolio will almost double in size and overseas Coffee Republic outlets will be starting to trade.

With our strategy in place and the dynamic approach to its roll-out I am confident that Coffee Republic has a bright future.

Peter Breach

Chairman

20 December 2006

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Unaudited consolidated profit and loss account

For the period ended 24 September 2006

	Six months to 24 Sept 2006	Six months to 25 Sept 2005	Year to 26 March 2006
	£'000	£'000	£'000
Turnover	5,378	7,706	14,914
Cost of sales	<u>(6,026)</u>	<u>(8,015)</u>	<u>(15,454)</u>
Gross Loss	(648)	(309)	(540)
Administrative expenses	(250)	(352)	(510)
Operating loss	<u>(898)</u>	<u>(661)</u>	<u>(1,050)</u>
Exceptional items			
Loss on disposal of fixed assets	<u>(281)</u>	<u>-</u>	<u>(157)</u>
Loss on ordinary activities	(1,179)	(661)	(1,207)
Interest payable and similar charges	(104)	(96)	(269)
Interest receivable	14	15	30
Loss on ordinary activities before and after taxation	<u>(1,269)</u>	<u>(742)</u>	<u>(1,446)</u>
Loss per ordinary share			
Basic and diluted	<u>(0.25)p</u>	<u>(0.17)p</u>	<u>(0.33)p</u>

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Unaudited consolidated balance sheet as at 24 September 2006

	24 Sept 2006	25 Sept 2005	26 March 2006
	£'000	£'000	£'000
Fixed assets			
Intangible assets	121	145	133
Tangible assets	<u>3,384</u>	<u>5,337</u>	<u>4,367</u>
	<u>3,505</u>	<u>5,482</u>	<u>4,500</u>
Current assets			
Stocks	70	85	77
Debtors	732	740	1,225
Cash at bank and in hand	<u>52</u>	<u>53</u>	<u>128</u>
	<u>854</u>	<u>878</u>	<u>1,430</u>
Creditors: amounts falling due within one year	<u>(2,513)</u>	<u>(3,377)</u>	<u>(2,943)</u>
Net current liabilities	<u>(1,659)</u>	<u>(2,499)</u>	<u>(1,513)</u>
Total assets less current liabilities	<u>1,846</u>	<u>2,983</u>	<u>2,987</u>
Creditors: amounts falling due after more than one year	(2,408)	(2,200)	(2,140)
Provision for liabilities and charges	(157)	(353)	(308)
Net (Liabilities)/assets	<u>(719)</u>	<u>430</u>	<u>539</u>
Capital and Reserves			
Called up share capital	513	428	513
Share premium	3 4,616	3,888	4,616
Share Option Reserve	3 25	-	-
Profit and loss account	3 <u>(5,873)</u>	<u>(3,886)</u>	<u>(4,590)</u>
Shareholders' (Deficit)/funds -	<u>(719)</u>	<u>430</u>	<u>539</u>

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Unaudited consolidated cash flow statement for the period ended 24 September 2006

		Six months to 24 Sept 2006	Six months to 25 Sept 2005	Year to 26 March 2006
	Note	£'000	£'000	£'000
Cash flow from operating activities				
Operating loss		(898)	(661)	(1,050)
Movement on onerous lease provision		(119)	(202)	(346)
		<u>(1,017)</u>	<u>(863)</u>	<u>(1,396)</u>
Depreciation		371	533	1,017
Amortisation		12	12	24
Non-cash share option charge		11	-	-
Movement in working capital	4	336	785	(37)
		<u>(287)</u>	<u>467</u>	<u>(392)</u>
Returns on investments and servicing of finance		(90)	(81)	(239)
Capital expenditure and financial investment		349	(39)	397
		<u>349</u>	<u>(39)</u>	<u>397</u>
Cash inflow/(outflow) before the use of liquid resources and financing		(28)	347	(234)
Repayment of debt		-	(125)	(164)
Issue of ordinary share capital (gross proceeds)		-	-	850
Share capital issue costs		-	-	(37)
		<u>-</u>	<u>-</u>	<u>(37)</u>
Increase/(decrease) in cash in the period		<u>(28)</u>	<u>222</u>	<u>415</u>
Reconciliation of net cash flow to movement in net debts				
(Decrease)/ increase in cash in the period		(28)	222	415
Cash outflow from decrease in debt and lease financing		-	125	164
		<u>-</u>	<u>125</u>	<u>164</u>
Changes in net funds resulting from cash flows		<u>(28)</u>	<u>347</u>	<u>579</u>
Movement in net funds		(28)	347	579
Net debt at the beginning of the period		(2,258)	(2,837)	(2,837)
Net debt at the end of the period		<u>(2,286)</u>	<u>(2,490)</u>	<u>(2,258)</u>

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1. Basis of preparation

The results for the six months ended 24 September 2006 have been prepared on the basis of the accounting policies set out in the consolidated financial statements at 26 March 2006, except for the adoption of FRS 20 Share based payments as described in Note 3. The comparatives for the year ended 26 March 2006 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 24 September 2006 is based upon a loss of £1,269,000 (2005: loss of £742,000) and the weighted average number of shares of 512,765,304 (2005: 427,765,304).

3. Reserves

The company has adopted FRS 20 for the first time this year, the cumulative prior year effect is £14,000 which has been charged to prior year reserves.

	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000
As at 27 March 2006	4,616	-	(4,590)
Loss for six months to 24 Sept 2006	-	11	(1,269)
Prior year share option charge	-	14	(14)
As at 24 September 2006	4,616	25	(5,873)

4. Movement in working capital

	Six months to 24 Sept 2006 £'000	Six months to 25 Sept 2005 £'000	Year to 26 March 2006 £'000
Decrease in stocks	7	13	21
Decrease in debtors	493	587	102
Increase/(decrease) in creditors	(164)	185	(160)
	336	785	(37)

5. 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 26 March 2006 has been extracted from the audited financial statements for that period, which have been filed with the Registrar of Companies and contain an unqualified auditors' 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