

COFFEE REPUBLIC PLC

ANNUAL REPORT 2007

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Directors and Advisors

Chairman

Peter Breach

Chief Executive Officer

Steven Bartlett

Finance Director

Simon Drysdale

Non-executive Director

Nicholas Jeffrey

Company Secretary

Jeremy Gorman

Registered Office

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Auditors

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Solicitors

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London
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Stockbroker and Nominated Advisor

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Beaufort House
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London EC3A 7QR

Bankers

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Registrar

Capita Registrars
The Registry
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Company Number: SC125098

Chairman's statement

Introduction

The past year has been eventful for Coffee Republic. As stated in my Interim Report, on 19 October 2006 Steven Bartlett was appointed Chief Executive Officer and I was appointed Chairman of the Board, following which significant changes in policy and strategy were introduced. As expected the results show a widening of losses but only include five months of activity since the changes in strategy. It will take time for these changes in strategy to have a meaningful influence on financial performance. I have set out in my statement an overview of the advances we have made both during the financial year and subsequently. These include our first International Master Franchises and first overseas bar, nine new Regional Development Franchises, no fewer than 26 individual bar franchises and 27 co-branded locations.

I continue to be encouraged by the enthusiasm and ability of our head office team which is complementing the entrepreneurial drive of our franchisees. It has been disappointing to lose two experienced board members, Simon Drysdale, our outgoing Finance Director, and Brian Carroll, who left earlier in the year. Nevertheless, I would like to thank them both for their contribution in assisting with the management change and positioning the Company for the future.

Overview of Progress

I have stated previously that expanding the brand aggressively is central to our strategy and I am pleased to say that we are fulfilling that promise as shown by the recent expansion. The table below provides an overview of the level of activity undertaken.

	As at 27 March 2006	As at 25 March 2007	As at 27 July 2007
Company Operated Bars	40	16	13
Franchise Operated Bars	5	25	31
Co-branded CR locations/"CR Served Here"	–	2	27
Total CR locations in the UK	45	43	71
International Bars	–	–	1
Total CR Locations Worldwide	45	43	72
Regional Development Franchises	1	6	10
International Master Franchises	–	2	4

Franchise Progress

Individual Bars

Twenty bars were franchised in the year and six subsequent to the year end including both those bars previously owned and bars at new locations. It is our intention to franchise a further five company owned bars each of which has an interested franchisee. With regards to new sites the pipeline of prospective franchisees is growing strongly and is a testament to the strength of and confidence in the brand.

Regional Development Franchises ('RDF')

Five regions were completed in the year with a further four after the year end. We are in negotiations with regards to a number of other regions and our intention is to franchise all of the regions across the UK with the exception of London which will be retained by the Company as its own region in which franchisees will report directly to the Company's operational management team.

Chairman's statement *(continued)**International Master Franchises ('IMF')*

Two IMFs were completed in the year with a further two after the year end. Clearly this is an area of significant opportunity for the Company and considerable resource is now focussed on targeting and building our international framework. Our first international bar opened in Sunny Beach, Bulgaria in May with a further bar scheduled to open in Bulgaria shortly and our first bar in Turkey will open at the end of July.

We are in the advanced stages of negotiation for a number of strategic territories and will update shareholders as the negotiations progress.

Co-Branding/'Coffee Republic Served Here'

This previously untapped market for the Company has seen considerable activity over the last few months. The trial with Greene King PLC has led to a roll out across 26 locations and we have a number of other trials in place which include RoadChef Motorways Ltd at their Taunton Deane motorway services on the M5.

Final Results and Current Trading

Reported sales fell as expected by 34.8% to £9.7m largely caused by the conversion of company owned bars to franchises. However, the table below shows network sales, the gross sales less VAT of company operated and franchised bars. Network sales are a non UK GAAP measure but the directors consider that the combined sales give a better indication of the brand's sales performance. Accordingly, total network sales fell by 10.6% to £13.7 million as the network as a whole started the year with 45 bars and ended the year with 41, excluding co-branded locations; 6 unprofitable owned bars were closed and two franchised bars were opened at new locations. In addition to the two franchised bars opened at new locations, 18 owned bars were converted to franchises during the year which drove the eleven fold increase in franchise bar sales.

Network Sales

	Year Ended 25 March 2007 £'000	Year Ended 26 March 2006 £'000
Company Operated Bars	9,121	14,871
Franchise Operated Bars	4,547	410
Total Network	13,668	15,281

An improvement in like for like sales in the second half of the year, driven by franchised bars, resulted in a full year like for like performance of 0.8% positive. The performance of Company operated and franchise operated bars reaffirms our confidence in the franchising strategy. Like for like sales of 5.8% positive for the first quarter of the new financial year are encouraging and are, once again, driven by a strong like for like contribution from the franchised bars.

Like For Like Sales

	Half Year Ended 24 September 2006	Half Year Ended 25 March 2007	Full Year Ended 25 March 2007	Quarter Ended 24 June 2007
Company Operated Bars	(4.3)%	(5.4)%	(5.2)%	(5.7)%
Franchise Operated Bars	9.8%	17.0%	12.1%	15.2%
Total Network	(1.0)%	3.5%	0.8%	5.8%

Bars are excluded for the relevant period of an external event that makes the data incomparable. For example, for the period that a bar is closed for refurbishment or the duration of the Gate Gourmet strike for the Heathrow bars.

Whilst the number of Company operated bars is reducing we have been addressing their negative like for like performance. In addition to our focus on product innovation and development we are completing a programme of refurbishment across all Company operated bars updating them all to the new black and red logo and renewing the fabric which has been neglected for some time.

Chairman's statement *(continued)*

Operating losses widened to £1.63 million (2006: £1.05 million). The prior year included a VAT refund of £115,000 compared with exceptional costs this year in connection with the change in management of £201,000. Aside from the occupancy cost pressures and minimum wage increase identified at the half year we have invested in resources to support the growing franchise network and this will reap rewards in the future.

The net loss widened to £2.45 million (2006: £1.45 million) for the reasons identified above and include a £621,000 exceptional charge resulting from the write off of fixed assets on franchise or disposal. When an existing bar is franchised or disposed of a profit or loss arises depending on the carrying value of the assets and the purchase price paid. Accordingly, this exceptional item does not represent a cash outflow.

As we have stated previously, it is intended that Steven Bartlett and I will be rewarded by a share incentive scheme and will receive no salary. Structuring such a scheme is a complicated matter to ensure that it acts as an adequate incentive and is justified from the shareholder perspective. To date we have received no remuneration from the Group and I expect to update shareholders on this matter shortly.

Cash Flow and Financing

The cash outflow from operating activities has widened to £1.44 million (2006: £0.39 million). In addition to the cash impact of the operating loss, the company loses the benefit of the positive working capital generated by operating owned bars when they are franchised. Once all owned bars that are to be franchised are completed this negative cash flow effect will cease.

In March of this year the Company raised approximately £900,000 after expenses in a placing. Subsequent to the year end the Company has raised approximately £1.31 million after expenses in an open offer and a further placing. I would like to thank our existing and new shareholders for their demonstration of support for the Company and their faith in its future prospects. These new equity funds will allow the Company to put in place the infrastructure to support the growing franchise network.

The approximate gross and net proceeds from franchising activity, excluding on going revenue such as royalties, are shown in the table below.

	Proceeds during the year		Proceeds subsequent to the year end	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Individual Bars	1,196	719	75	50
RDFs	405	365	180	170
IMFs	195	180	100	90

The proceeds from RDFs and IMFs do not include the staged payments due from our regional and international partners over the next two and a half years which amount to £771,000 with additional payments conditional on performance of £115,000.

Net Asset Position

Our net asset position at the year end stood at a deficit of £732,000. Clearly this is not satisfactory. However, as I have pointed out previously this does not take into account the value of the brand or the value of tax losses. Additionally, the non-returnable fees received at the commencement of franchises are taken to the balance sheet and released to the profit and loss account over the life of the franchise, usually 15 years. The amount of such deferred income at the year end stood at £785,000. In other words, we have received £785,000 of fees in cash which remain to be recognised as income in the profit and loss account. If any one of the brand, tax losses or deferred income were taken into account we would not be showing a net deficit.

Chairman's statement *(continued)*

Outlook

The strategy of aggressively promoting the brand is underway and I trust you will be pleased with the progress we have made. The Coffee Republic brand now trades from 71 domestic locations, a 58% increase on the position at the end of the previous financial year. With this renewed vigour we are on course for a doubling of the domestic portfolio in the current year, as predicted in my half year statement. Our international focus will deliver further strategic territories to our international network in the coming months and I anticipate our international partners will open as many as ten Coffee Republic outlets before the end of the year.

The seed corn of franchise agreements, be they individual, regional or international, has been planted and I look forward with confidence to the future growth of the business.

Peter Breach

Chairman

27 July 2007

Biography of Directors

Peter Breach

Peter (aged 65) joined the Group in October 2006. He qualified as a chartered accountant with Coopers and Lybrand and subsequently joined Hoare & Co Govett and then County Bank. After ten years in the City, Peter went to Toronto as President and CEO of Major Holdings, a listed real estate company. He returned to Britain as MD of a chemical processing company and subsequently as Chairman and MD of a quoted precious metal manufacturing and distribution group. For sixteen years he was a director of Bristol & West Building Society; six as Finance and Treasury Director. In addition to his Chairmanship of Coffee Republic PLC he also runs a group of property and investment companies including Hawksworth Securities Plc and Surthurst Limited.

Steven Bartlett

Steven (aged 42) joined the company as Chief Executive Officer in October 2006. He started his career with Marks & Spencer as a Food Manager. He then founded an Estate Agent, Just Flats, and since then has turned his attention to the leisure industry building a group of catering outlets and licensed premises which include franchised convenience stores and other food retail franchises.

Nicholas Jeffrey

Nicholas (aged 65) continued as the Non-executive Director having been appointed in February 1998. He is also Chairman of the Audit and Remuneration Committees. Nicholas was Chief Executive and then Chairman of the furniture retail chain Cantors plc before its merger with Harveys Furnishings plc. After Harveys was sold to Homestyle Furnishing plc, Nicholas retired as a Non-executive Director. He is also a Non-executive Director of FMG plc, Templeton Insurance Ltd and Equable Properties Plc. Nicholas contributes valuable knowledge of the retailing industry.

Simon Drysdale

Simon (aged 40) joined the Group as Finance Director in August 2003. He spent 12 years with Ernst & Young before joining NeuVoice Limited, a technology company, as Chief Financial Officer in May 2000. Simon has been responsible for finance, legal, and leasehold property matters across the group. As previously announced, Simon will be leaving the Group on 31 July 2007 to become involved in a new and innovative restaurant concept.

Report of the Directors for the period ended 25 March 2007

Report and financial statements

The directors of the Company present their report together with the audited financial statements for the period ended 25 March 2007.

Results and dividends

The profit and loss account is set out on page 18 and shows the loss for the period.

The Directors do not recommend the payment of a dividend.

Principal activity, trading review and future developments

The principal activity of the Group is the operation, both directly and through franchising, of speciality espresso and deli bars.

Business Review and Future Developments

This is the first business review prepared by the Company following the UK's adoption of the European Union's Accounts Modernisation Directive. The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business and expected future developments are also set out in the Chairman's statement on pages 3 to 6.

Principal Risks and Uncertainties

The Group operates in a competitive environment that may result in increased risk, cost pressures and schedule delays. The following are some of the key risks that face the Group:

Competition

Competition in the food and beverage retail industry is intense as it is across retailing generally. The Group and its franchisees compete with other food and beverage retailers for custom and with other retailers for prime sites, some of whom have greater financial resources than the Group.

To deliver the Group's franchise strategy the Group needs to compete with other franchisors for prospective franchisees.

Financing

The Group is currently loss making and the finance to support the business is dependent on the ability to deliver the franchise strategy which is affected by the competition risks referred to above.

Environmental and other regulatory requirements

Existing and possible future legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted.

Development and Performance of the Business

The Group has formulated a franchise strategy to grow both domestically and internationally. The rate of growth is important to, firstly, deliver financial returns and, secondly, remain competitive. To provide the Group with the resources to grow at the right pace regional and international partners are being selected. The performance in delivering the strategy is indicated by the number of franchised bars, regional partners and international partners. Further information can be found in the Chairman's Statement on pages 3 to 6.

Report of the Directors *(continued)*

Key Performance Indicators

The key performance indicators for the Group are as follows:

Financial KPIs	2007	2006
Network Sales	£13.7 million	£15.3 million
Network Like for Like Sales	0.8%	(4.8)%
Loss per share	(0.47p)	(0.33p)
Net Debt	£2.4 million	£2.3 million

Non Financial KPIs	Measure
Franchisee Success	Strength of prospective franchise pipeline for individual, regional and international franchises Number of franchise failures/franchisees in financial distress
Health and safety management	Scores from independent health and safety audits
Human resource management	Employee retention rate

Directors

The Directors of the Company at 27 July 2007, 25 March 2007 and 26 March 2006 and their beneficial interests in the issued ordinary share capital of the Company were as follows:

	<i>Number of ordinary shares of 0.1p each</i>		
	<i>27 July 2007</i>	<i>25 March 2007</i>	<i>26 March 2006**</i>
P Breach ⁽¹⁾ (appointed 19 October 2006)	79,275,000	75,700,000	60,700,000
S Bartlett ⁽²⁾ (appointed 19 October 2006)	77,000,000	77,000,000	71,000,000
N Jeffrey ⁽³⁾	808,498	769,999	769,999
S Drysdale	2,100,000	2,000,000	1,000,000
B Hashemi (resigned 19 October 2006)	–	–	9,012,117
B Carroll (appointed 9 November 2006; resigned 20 March 2007)	–	–	–

** Or date of appointment, if later

As previously announced, Simon Drysdale will be resigning as a director and leaving the Group on 31 July 2007.

- (1) The interest ascribed to Mr. Breach as at 27 July 2007 comprised of 75,075,000 shares held in the name of Surthurst Limited and 4,200,000 held as beneficiary of a personal pension plan. The interest ascribed to Mr. Breach as at 25 March 2007 comprised of 71,500,000 shares held in the name of Surthurst Limited, 4,000,000 held as beneficiary of a personal pension plan and 200,000 in the name of his son. The interest ascribed to Mr. Breach as at 19 October 2006 comprised of 56,500,000 shares held in the name of Surthurst Limited, 4,000,000 held as beneficiary of a personal pension plan and 200,000 in the name of his son.
- (2) The interest ascribed to Mr. Bartlett at 27 July 2007 and at 25 March 2007 comprised of 71,000,000 shares held in the name of Plymouth Land Limited and 6,000,000 in his own name. The interest ascribed to Mr. Bartlett at 19 October 2006 comprised of 71,000,000 shares held in the name of Plymouth Land Limited.
- (3) The interest ascribed to Mr Jeffrey at 27 July 2007 comprised of 744,213 shares beneficially held and 64,285 shares held in the name of his wife. The interest ascribed to Mr. Jeffrey at 25 March 2007 comprised of 705,714 shares beneficially held and 64,285 shares held in the name of his wife.

Report of the Directors *(continued)*

Annual General Meeting

In accordance with the Articles of Association, Mr. Jeffrey retires as a Director and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

The Company's Annual General Meeting will be held on 26 September 2007. Notice of this meeting is set out on pages 35 and 36 a Form of Proxy is set out on page 37. The following resolutions constitute Special Business:

Resolution number 4 is proposed as an Ordinary Resolution to provide the Directors with authority to issue relevant securities up to an aggregate nominal value of £180,000, representing 29.04% of the Company's present issued share capital, such authority to expire on the conclusion of the Annual General Meeting of the Company to be held in 2012. The Directors have no present intention of exercising this authority.

Resolution number 5 is to seek authority for the Directors to allot equity securities for cash up to a nominal value of £100,000 representing 16.13% of the Company's present issued share capital otherwise than on a pre-emptive basis. The Companies Act 1985 (the "Act") requires that, unless shareholders resolve otherwise, any shares to be allotted for cash must be offered to existing shareholders pro-rata to their existing shareholdings. The Act permits this requirement to be modified and the purpose of the Resolution is to provide the Directors with the authority to issue Ordinary shares for cash, as if such provisions did not apply in certain circumstances, when the Board considers it to be in the best interests of shareholders, such authority to terminate on the date of the Annual General Meeting to be held in 2012. The Board has no present intention of issuing shares under this authority.

Significant shareholdings

As at 23 July 2007, in addition to the interests of the Directors set out above, the Company had been notified of, or was otherwise aware of, the following interests of 3% or more in the issued ordinary share capital:

	<i>Number of ordinary shares of 0.1p each</i>	<i>Percentage of issued share capital</i>
TD Waterhouse Nominees (Europe) Limited	34,573,623	6.11%
L R Nominees Limited	28,468,060	5.03%
Barclayshare Nominees Ltd	22,495,352	3.98%
Credit Agricole Cheuvreux International Limited	22,050,000	3.90%
Credit Suisse Securities (Europe) Limited	20,438,493	3.61%

Corporate governance

Introduction

Although companies on AIM are not required to make an annual report to shareholders regarding compliance with the Combined Code, the Board supports the principles of good governance and makes the following statement in respect of corporate governance.

The Board and its Directors

The Board currently comprises four Directors: Steven Bartlett, Peter Breach, Nicholas Jeffrey and Simon Drysdale. Their profiles and roles are detailed on page 7.

Nicholas Jeffrey is the sole Non-Executive Director. It is the opinion of the Board that he is independent of management and free from business or other relationships which could materially interfere with the exercise of his independent judgement.

Report of the Directors (*continued*)

The Board is responsible to the shareholders of the Company and meets regularly to discuss and decide on issues of strategy, performance and control. There is a schedule of matters specifically reserved to the Board for decision, including funding, acquisitions and disposals of entities and properties. Management supplies information required by the Board on issues regarding the Company on a regular basis.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has established a procedure whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

In accordance with the Company's Articles of Association, all Directors are required to retire by rotation but can offer themselves for re-election.

Board Committees

The Board has delegated authority to a number of Committees to deal with matters in accordance with written terms of reference. Each committee Chairman provides a report of any meeting of the committee to the next Board Meeting, and the Chairman of the Committees are present at the Annual General Meeting to answer questions from shareholders.

There is one Non-executive Director, Nicholas Jeffrey, who acts as the Chairman of all the committees and reports on any meeting of the Committees.

Audit Committee

The Audit Committee comprises of Nicholas Jeffrey (Chairman) and Peter Breach. The Executive Directors and representatives from the Company's auditors are present at Committee meetings. The Committee meets as required to examine and consider matters relating to the affairs of the Group, including the examination of the Company's Annual and Interim Accounts, and the review of internal financial controls procedures, as well as compliance with generally accepted accounting principles. In addition, the Committee considers the fees and objectivity of the Company's auditors.

Remuneration Committee

The Remuneration Committee comprises of Nicholas Jeffrey (Chairman) and Peter Breach. It examines and considers matters relating to the remuneration of Executive Directors and their terms and conditions of service at least once a year. The Committee's recommendations, as adopted by the Board, are set out in the Remuneration Report on pages 14 and 15.

Nominations Committee

Due to the small size of the Board it is not considered necessary to have a separate Nominations Committee. The tasks that are normally carried out by a Nominations Committee are handled by the full Board.

The Company and its Shareholders

The Board values dialogue with its institutional and private shareholders. Presentations are made to institutional investors and brokers' analysts on request. The principal methods of communication with private investors are the Annual Report, the Interim Statement, the Annual General Meeting and the Company's website.

Internal Control and Risk Management

Following the publication of "Internal Control: Guidance for Directors on the Combined Code" the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Significant risks that face the Group are evaluated by both third parties and during the day-to-day reviews performed by operations management. The senior management team review and discuss key risk areas during their regular business meetings.

The Board of Directors has overall responsibility for the system of internal control, including financial, operational and compliance controls and risk management, to safeguard shareholders investments and the Company's assets. Any such system of control can however only provide reasonable and not absolute assurance against material misstatement or loss.

Report of the Directors (*continued*)

Throughout the year and up to the date of this report the Board has applied various processes for identifying, evaluating, and managing risks faced by the Group. The Board regularly reviews the processes.

The significant internal control processes used by the Group include a clearly defined framework for approving all new site acquisitions, capital and other expenditure of the Group. In addition, there is an operational framework both at bar and company level to ensure all controls and procedures are being complied with.

Going concern

The Directors consider that it is appropriate for the accounts to be prepared on a going concern basis. At 25 March 2007 the Group had net liabilities of £732,000 and net current liabilities of £1,200,000 although since the year end the Group has raised £1,310,000 through the issue of equity. The Group is dependent on the continued support of the Group's bank and on the rollout of the franchising programme. 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 in accordance with the Group's plan. However, although the Group has a significant number of potential franchisees in its pipeline, the pace of rollout of the franchise programme is uncertain. To date, the franchising rollout programme has been in line with the plan and in the opinion of the Directors will continue on plan.

Creditor payment policy and practice

The Group's policy for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of these terms and abide by the agreed terms of payment. The average number of days of credit purchases included within trade creditors (excluding capital creditors) at the year-end was 79 days (26 March 2006 – 74 days).

Financial Instruments

Information regarding the Group's borrowings and financial instruments is contained in note 22 of the financial statements.

Employment of disabled persons

The Company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management pursues the employment of disabled persons whenever a suitable vacancy arises.

Employee involvement

Members of the management team regularly visit bars and discuss matters of current interest and concern relating to the business with members of staff.

International Financial Reporting Standards

The financial statements have been prepared in accordance with applicable UK accounting standards. As an AIM company, IFRS are required to be adopted in the preparation of the interim accounts for the six months ending 23 September 2007. The Group is in the process of identifying all disclosure, presentation and classification differences that will affect the manner in which transactions or events are presented.

Post Balance Sheet Events

In April 2007 the Company issued 28,275,265 0.1p ordinary shares in an open offer to shareholders for gross proceeds of £707,000. In June 2007 the Company issued 26,000,000 0.1p ordinary shares through a placing for gross proceeds of £650,000.

Report of the Directors (*continued*)

Disclosure of information to auditors

So far as each director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities

United Kingdom Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the Company and of the results of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Approved by the Board and signed on its behalf:

Peter Breach

Director

27 July 2007

Directors' Report on Remuneration

for the period ended 25 March 2007

This report does not constitute a Remuneration Report in accordance with the Directors' Remuneration Report Regulations 2002, which do not apply to the Company as it is not fully listed.

During the year under review the Remuneration Committee comprised Nicholas Jeffrey (Chairman) and Peter Breach. The Committee examines and considers matters relating to the remuneration of Executive Directors and their terms and conditions of service at least once a year.

In determining remuneration policy, the objective is to ensure that the Company is able to attract, motivate and retain high calibre management. The main elements of remuneration policy are:

1. competitive salaries determined by the market place with regard to the Director's own individual experience and responsibility;
2. bonuses linked to performance criteria of the Company;
3. employment related benefits being principally medical expense insurance; and
4. share options creating a link between the Directors' interests and the longer term prosperity of the Company.

Details of Directors' remuneration are set out in the table below. Non-executive Directors do not have a formal service agreement and their fees are set by the Board as a whole. All Directors' contracts are capable of termination within 12 months or less.

Directors' Remuneration

	<i>Salary & fees £000</i>	<i>Benefits in kind £000</i>	<i>Total before bonuses⁽⁵⁾ £000</i>	<i>Prior year Total before bonuses £000</i>
P Breach (appointed 19 October 2006) ⁽¹⁾	–	–	–	–
S Bartlett (appointed 19 October 2006) ⁽¹⁾	–	–	–	–
B Hashemi (resigned 19 October 2006) ⁽²⁾	87	1	88	162
N Jeffrey ⁽³⁾	19	–	19	18
S Drysdale	97	1	98	93
Brian Carroll (appointed 9 November 2006; resigned 20 March 2007) ⁽⁴⁾	33	–	33	–
	<u>236</u>	<u>2</u>	<u>238</u>	<u>273</u>

1. Mr Breach and Mr Bartlett received no emoluments in respect of the year. As stated at the time they joined the Company, in particular at the AGM of 26 October 2006, they agreed to be rewarded by a share incentive scheme and will receive no salary. On the 26 October the closing mid market price of the Company's shares was 3.25p and the price range for the month following the AGM was 2.37p to 3.0p. Accordingly, the Remuneration Committee resolved that the share based incentive for Mr Breach and Mr Bartlett should be based on a share price of 2.5p. This was also the share price for the open offer and the two placings in 2007. The incentive scheme has not yet been put in place.
2. The emoluments shown in the table above for Mr. Hashemi represent payments made for services as Executive Chairman until 19 October 2006. Subsequent to these payments, he has been paid in accordance with the compromise agreement made between Mr. Hashemi and the Company. As part of this compromise agreement, Mr. Hashemi agreed to waive his rights in connection with options to subscribe for 15,000,000 shares and retained his right for options to subscribe for 15,000,000 shares. Mr. Hashemi exercised these options during the year and made a gain of £231,000. The balance of the compromise agreement was a cash settlement for his notice period of £140,000 to be paid over one year from his resignation date.
3. Included in the emoluments above are payments of £19,000 (26 March 2006: £18,000) to Riley Croft Partnership for the services of Mr. Jeffrey.
4. Mr. Carroll was paid £6,000 during the year, in addition the Company has agreed to pay him an ex-gratia payment of £27,500 during the financial year ending March 2008. Mr. Carroll has been made an informal offer to enable him to purchase 1,000,000 ordinary shares of 0.1p for £27,500, via a share placing from the Company, as soon as the ex-gratia payment has been made.
5. No bonuses were paid during the year (2006: Mr. Hashemi £28,000, Mr. Drysdale £13,000).

Directors' Report on Remuneration *(continued)*

The Group does not operate a pension scheme.

No share options were exercised in either year by Directors of the Company except for those mentioned above.

Directors' interests in share options

Options to subscribe for ordinary shares of 0.1p each in the Company were held by the following Directors during the year:

	<i>27 March 2006</i>	<i>Granted</i>	<i>Exercised</i>	<i>Cancelled</i>	<i>25 March 2007</i>	<i>Exercise price</i>	<i>Date of grant</i>	<i>Earliest exercise date</i>	<i>Latest exercise date</i>
B Hashemi	15,000,000	–	12,000,000	3,000,000	–	1.25p	7.05.04	7.05.07	6.05.14
B Hashemi	7,500,000	–	–	7,500,000	–	1.00p	7.03.05	7.03.08	6.03.15
B Hashemi	7,500,000	–	3,000,000	4,500,000	–	1.20p	16.02.06	16.02.09	15.02.16
S Drysdale	4,250,000	–	–	–	4,250,000	1.25p	7.05.04	7.05.07	6.05.14
S Drysdale	3,000,000	–	–	–	3,000,000	1.00p	7.03.05	7.03.08	6.03.15
S Drysdale	3,000,000	–	–	–	3,000,000	1.20p	16.02.06	16.02.09	15.02.16

The market price of the Company's ordinary shares on 25 March 2007 was 3.7p and the range during the year then ended was 1.38p to 4.45p.

Independent Auditor's Report To The Shareholders Of Coffee Republic plc

We have audited the Group and parent Company financial statements (the "financial statements") of Coffee Republic plc for the year ended 25 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those 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 Directors' Report and the Directors' Report on Remuneration. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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. It also includes an assessment of the significant estimates and judgments 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 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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 25 March 2007 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 25 March 2007;

Independent Auditor's Report To The Shareholders Of Coffee Republic plc
(continued)

- the financial statements 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.

Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of £2,447,000 during the period ended 25 March 2007 and, at that date, the Group's current liabilities exceeded its current assets by £1,200,000 and the Group's net liabilities were £732,000 although since the year end the Group has raised £1,310,000 through the issue of equity. These conditions, along with the matters explained in note 1 to the financial statements, indicate the existence of uncertainties which may cast doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
London

27 July 2007

Consolidated Profit and Loss Account

for the period ended 25 March 2007

	<i>Note</i>	<i>2007</i> £000	<i>2006</i> £000
Turnover	2	9,719	14,914
Cost of sales		<u>(10,751)</u>	<u>(15,454)</u>
Gross loss		(1,032)	(540)
Administrative expenses		<u>(596)</u>	<u>(510)</u>
Operating loss before exceptional items		(1,427)	(1,165)
Exceptional items	3	<u>(201)</u>	<u>115</u>
Operating loss		(1,628)	(1,050)
Exceptional items – loss on disposal of fixed assets	4	<u>(621)</u>	<u>(157)</u>
Loss on ordinary activities		(2,249)	(1,207)
Interest receivable		14	30
Interest payable and similar charges	6	<u>(212)</u>	<u>(269)</u>
Loss on ordinary activities before and after taxation		<u>(2,447)</u>	<u>(1,446)</u>
Loss per ordinary share:			
Basic and Diluted	8	<u>(0.47p)</u>	<u>(0.33p)</u>

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

All amounts relate to continuing operations.

The notes on pages 23 to 34 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds
for the period ended 25 March 2007

	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Loss on ordinary activities before and after taxation	(2,447)	(1,446)
New share capital subscribed (net of expenses)	1,133	813
Movement in share option reserve	43	–
Net reduction in shareholders' funds	(1,271)	(633)
Opening shareholders' funds	539	1,172
Closing shareholders' funds	<u>(732)</u>	<u>539</u>

The notes on pages 23 to 34 form part of these financial statements.

Consolidated Balance Sheet

at 25 March 2007

	<i>Note</i>	<i>2007</i>		<i>2006</i>	
		<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fixed assets					
Intangible assets	10		109		133
Tangible assets	11		2,691		4,367
Current assets					
Stocks		47		77	
Debtors	13	1,547		1,225	
Cash at bank and in hand		25		128	
		<u>1,619</u>		<u>1,430</u>	
Creditors: amounts falling due within one year	14	<u>(2,819)</u>		<u>(2,943)</u>	
Net current liabilities			<u>(1,200)</u>		<u>(1,513)</u>
Total assets less current liabilities			1,600		2,987
Creditors: amounts falling due after more than one year	15		(2,226)		(2,140)
Provision for liabilities and charges	16		<u>(106)</u>		<u>(308)</u>
Net (liabilities)/assets			<u>(732)</u>		<u>539</u>
Capital and reserves					
Called up share capital	17		566		513
Share premium account	18		5,696		4,616
Share option reserve	18		43		–
Profit and loss account	18		<u>(7,037)</u>		<u>(4,590)</u>
Shareholders' (deficit)/funds			<u>(732)</u>		<u>539</u>

The financial statements were approved by the board and authorised for issue on 27 July 2007 and were signed on its behalf by:

Peter Breach

Chairman

The notes on pages 23 to 34 form part of these financial statements.

Company Balance Sheet

at 25 March 2007

	<i>Note</i>	<i>2007</i> <i>£000</i>	<i>2006</i> <i>£000</i>
Fixed assets			
Investments	12	–	377
Current assets			
Debtors	13	–	162
Net assets		<u>–</u>	<u>539</u>
Capital and reserves			
Called up share capital	17	566	513
Share premium account	18	5,696	4,616
Profit and loss account	18	<u>(6,262)</u>	<u>(4,590)</u>
Shareholders' funds		<u>–</u>	<u>539</u>

The financial statements were approved by the board and authorised for issue on 27 July 2007 and were signed on its behalf by:

Peter Breach
Chairman

The notes on pages 23 to 34 form part of these financial statements.

Consolidated Cash flow Statement

for the period ended 25 March 2007

	<i>Note</i>	<i>2007</i> <i>£000</i>	<i>2006</i> <i>£000</i>
Net cash outflow from operating activities	19	(1,443)	(392)
Returns on investments and servicing of finance	20	(198)	(239)
Capital expenditure	20	377	397
Cash outflow before liquid resources and financing		<u>(1,264)</u>	<u>(234)</u>
Financing	20	923	649
(Decrease)/increase in cash in the period		<u>(341)</u>	<u>415</u>
	<i>Note</i>	<i>2007</i> <i>£000</i>	<i>2006</i> <i>£000</i>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period		(341)	415
Cash outflow from decrease in debt and lease financing		210	164
New finance leases		(51)	–
Movement in net funds in the year		<u>(182)</u>	<u>579</u>
Opening net debt		<u>(2,258)</u>	<u>(2,837)</u>
Closing net debt	21	<u>(2,440)</u>	<u>(2,258)</u>

The notes on pages 23 to 34 form part of these financial statements.

Notes forming part of the Financial Statements for the period ended 25 March 2007

1. Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The year to 25 March 2007 represents 52 trading weeks. The following principal accounting policies have been applied:

Basis of preparation – Going Concern

The Directors consider that it is appropriate for the accounts to be prepared on a going concern basis. At 25 March 2007 the Group had net liabilities of £732,000 and net current liabilities of £1,200,000 although since the year end the Group has raised £1,310,000 through the issue of equity. The Group is dependent on the continued support of the Group's bank and on the rollout of the franchising programme. 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 in accordance with the Group's plan. However, although the Group has a significant number of potential franchisees in its pipeline, the pace of rollout of the franchise programme is uncertain. To date, the franchising rollout programme has been in line with the plan and in the opinion of the Directors will continue on plan.

Basis of consolidation

The consolidated accounts incorporate the financial statements of Coffee Republic PLC and its subsidiary undertakings. The Group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life of 10 years. Impairment tests on the carrying value of goodwill are undertaken:

- At the end of the first full financial year following acquisition;
- In other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions prior to 1 April 1998 remains eliminated against reserves and has not been re-instated. For the period ended 25 March 2007 this amounted to £1,454,000 (26 March 2006: £1,454,000).

Turnover

Turnover from wholly owned continuing operations represents sales to outside customers, less value added tax.

Turnover from franchised operations represents recurring royalties receivable from franchises of the Group, commission receivable from third parties on supplies to franchises, together with franchise fees and regional development fees.

Franchise fees and regional development fees are recognised over the life of the agreement.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Short term leasehold improvements	– over the period of the lease, on a straight line basis
Fixtures, fittings and equipment	– over five years, on a straight line basis
Motor vehicles	– over five years, on a straight line basis

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account. Profit and losses on disposal of fixed assets reflect the difference between net selling price and net book value at the date of disposal.

Notes forming part of the Financial Statements *(continued)* for the period ended 25 March 2007

Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present obligations under the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the costs of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less costs of disposal.

Leased assets

Assets held under finance leases are treated as if they had been purchased. The present value of the minimum lease payments during the lease term is capitalised as a tangible asset and the corresponding leasing commitment is included as a liability. Rentals payable are apportioned between interest, which is charged to the profit and loss account and capital, which reduces the outstanding commitment. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account over the period to which they relate.

Treasury policy

All supplier contracts are in sterling and as a result the Group has no exposure to foreign currency fluctuations. The Group's suppliers absorb any risk of currency movements. All treasury risks are reported to the Board by the Finance Director for consideration.

The Group holds financial instruments to finance its operations and to manage the related financial risks. In addition, various financial instruments such as trade debtors and creditors arise directly from the Group's operations.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the next financial year to absorb the reversal of the underlying timing differences. Deferred Tax balances are not discounted.

Changes in accounting policy

The Group has adopted FRS 20 in the current year and as a result equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will satisfy the vesting conditions. Further details regarding share based payments can be found in note 23.

2. Turnover

Analysis by class of business

	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Turnover from Coffee Republic PLC owned estate	9,121	14,871
Turnover from franchised operations	598	43
	<u>9,719</u>	<u>14,914</u>

The directors are of the opinion that further segmental analysis would be seriously prejudicial to the interests of the Group.

The turnover and loss before taxation are attributable to the principal activities of the Group and arise wholly within the United Kingdom.

Notes forming part of the Financial Statements *(continued)*

for the period ended 25 March 2007

3. Operating result

	2007	2006
	£000	£000
The operating result is stated after charging/(crediting):		
Amortisation of goodwill	24	24
Depreciation		
Owned Assets	638	1,015
Leased Assets	5	2
Operating leases		
Plant and machinery	10	17
Other	2,296	3,388
Auditors' remuneration		
Audit	45	45
Non audit – other taxation services	10	10
Exceptional item ⁽¹⁾	–	(115)
Exceptional item ⁽²⁾	165	–
Exceptional item ⁽³⁾	36	–
	<u>36</u>	<u>–</u>

- (1) The prior year's VAT refund relates to a successful application for a change in VAT rates applied to certain products since January 2002.
- (2) The compromise agreement charges included within exceptional items relate to the agreement reached between the Company and Mr. Hashemi, including employers' national insurance contribution, as explained in the remuneration report on page 14.
- (3) The professional fees included in the exceptional items relate to costs incurred in reaching the Compromise Agreement and costs associated with the Extraordinary General Meeting held by the company in the year.

4. Exceptional items – loss on disposal of fixed assets

	2007	2006
	£000	£000
Loss on disposal of fixed assets	(621)	(58)
Provision for onerous leases	–	(182)
Release of provision for onerous leases	–	83
	<u>(621)</u>	<u>(157)</u>

5. Employee costs

	2007	2006
	£000	£000
Employee costs, including Directors, consist of:		
Wages and salaries	3,426	4,536
Social security	205	352
	<u>3,631</u>	<u>4,888</u>

The average number of employees, including Directors, during the year was:

Selling	246	393
Administration	19	20
	<u>265</u>	<u>413</u>

There are no employees of the parent company.

Tables giving details of Directors' emoluments and share options are given in the Directors' Report on Remuneration on pages 14 and 15.

Notes forming part of the Financial Statements *(continued)*

for the period ended 25 March 2007

6. Interest payable and similar charges

	2007 £000	2006 £000
Bank loans	205	263
Lease financing	7	6
	<u>212</u>	<u>269</u>

7. Tax on loss on ordinary activities

The tax assessed for the period reflects the loss made by the Group in the year, together with the utilisation of capital allowances. The differences between the tax assessed for the year and a notional tax credit at the standard rate of corporation tax are explained below:

	2007 £000	2006 £000
Loss on ordinary activities before tax	(2,447)	(1,446)
Corporation tax at the standard rate in the UK of 30% (2006 – 30%)	(734)	(434)
Effects of:		
Expenses not deductible for tax purposes	241	21
Depreciation for period in excess of capital allowances	191	155
Tax losses utilised and to be carried forward	166	118
Movement in provision	(29)	(73)
Capital gain on disposal	165	213
Current tax charge for the period	<u>–</u>	<u>–</u>

The Group had tax losses of approximately £9.0 million as at 25 March 2007 (26 March 2006: £8.3 million), which are available to carry forward against future taxable profits. In line with the Group's accounting policy a deferred tax asset of £7.2 million at 25 March 2007 (26 March 2006: £6.5 million) has not been recognised in the financial statements. The deferred tax asset arises from trading losses (£ 2.7 million; 2006: £2.5 million) and deferral of capital allowances (£ 4.5 million; 2006: £4.0 million).

8. Loss per ordinary share

The basic loss per ordinary share is based on losses after taxation of £2,447,000 (2006 – loss £1,446,000) and a weighted average number of shares in issue of 517,628,866 (2006 – 440,375,194). There was no difference between basic and diluted earnings per share in 2007 and 2006. 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 note 17 and the Directors' Report on Remuneration.

9. Result for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The holding company results are disclosed in note 18.

Notes forming part of the Financial Statements *(continued)*
for the period ended 25 March 2007

10. Intangible fixed assets

	<i>Goodwill</i> £000
Cost	
At 27 March 2006 and 25 March 2007	<u>237</u>
Amortisation	
At 27 March 2006	(104)
Provision for year	(24)
At 25 March 2007	<u>(128)</u>
Net Book Value	
At 25 March 2007	<u>109</u>
At 26 March 2006	<u>133</u>

The intangible asset represents goodwill arising on the acquisition of Goodbean Limited on 2 December 2001.

11. Tangible fixed assets – Group

	<i>Short term leasehold costs and improvements</i> £000	<i>Fixtures, fittings, equipment and motor vehicles</i> £000	<i>Total</i> £000
Cost			
At 27 March 2006	2,803	9,139	11,942
Additions	25	305	330
Disposals	(246)	(3,149)	(3,395)
At 25 March 2007	<u>2,582</u>	<u>6,295</u>	<u>8,877</u>
Depreciation			
At 27 March 2006	1,205	6,370	7,575
Provided for year	155	488	643
Disposals	(105)	(1,998)	(2,103)
Impairment	–	71	71
At 25 March 2007	<u>1,255</u>	<u>4,931</u>	<u>6,186</u>
Net book value			
At 25 March 2007	<u>1,327</u>	<u>1,364</u>	<u>2,691</u>
At 26 March 2006	<u>1,598</u>	<u>2,769</u>	<u>4,367</u>

The net book value of fixtures, fittings and equipment includes an amount of £59,000 (26 March 2006: £18,000) in respect of assets held under finance leases.

Notes forming part of the Financial Statements *(continued)*
for the period ended 25 March 2007

12. Fixed asset investments – Company

	<i>Subsidiary undertakings</i>	<i>Subsidiary undertakings</i>
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Shares at cost	2,748	2,748
Long term loan to subsidiary undertakings		
Brought forward	28,363	27,550
Additional long term loan to subsidiary	1,133	813
Carried forward	<u>29,496</u>	<u>28,363</u>
Total Investment and loans to subsidiary undertakings		
Total Investment	32,244	31,111
Less: Provision	<u>(32,244)</u>	<u>(30,734)</u>
	<u>–</u>	<u>377</u>

The Company owns all of the Ordinary and Preference share capital of its four subsidiaries, Coffee Republic (UK) Limited, Goodbean Limited, Republic Deli Limited and Coffee Republic Franchising Limited, all of which are incorporated in England.

Coffee Republic (UK) Limited and Goodbean Limited operate espresso and deli bars, Republic Deli Limited is dormant and Coffee Republic Franchising Limited administers the franchised operations. A provision has been made against the investment in subsidiaries in order to record the investments at the net asset value included in the consolidated accounts.

13. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	619	151	–	–
Other debtors	387	298	–	–
Prepayments and accrued income	541	776	–	–
Amounts due from subsidiary undertakings	–	–	–	162
	<u>1,547</u>	<u>1,225</u>	<u>–</u>	<u>162</u>

Other debtors include £236,000 (26 March 2006: £298,000), which falls due after more than one year. All other amounts are due within one year.

14. Creditors: amounts falling due within one year

	<i>Group</i>	
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Bank overdraft	420	182
Bank loan (secured – see note 15)	500	200
Trade creditors	726	1,028
Other creditors	266	620
Accruals and deferred income	718	438
Taxation and social security	171	471
Obligations under finance leases	18	4
	<u>2,819</u>	<u>2,943</u>

Notes forming part of the Financial Statements *(continued)*
for the period ended 25 March 2007

15. Creditors: amounts falling due after more than one year

	<i>Group</i>	
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Bank loan (secured)	1,500	2,000
Deferred Income (Regional Development Franchise agreement)	699	140
Obligations under finance leases	27	–
	<u>2,226</u>	<u>2,140</u>

Bank Loan:

The bank loan is secured by a fixed and floating charge on the assets of Coffee Republic (UK) Limited and Goodbean Limited (see note 22).

	<i>Bank loan</i>		<i>Finance leases</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Creditors falling due after more than one year are due for repayment as follows:				
Within one to two years	–	100	–	–
Within two to five years	1,500	1,900	27	–
	<u>1,500</u>	<u>2,000</u>	<u>27</u>	<u>–</u>

16. Provisions for liabilities and charges

	<i>Onerous lease</i>
	<i>£000</i>
Balance at 27 March 2006	308
Provision utilised in the year	(202)
Balance at 25 March 2007	<u>106</u>

The provision is expected to be utilised over the life of the relevant leases, or until the disposal of bars.

17. Called up share capital

	<i>Authorised</i>			
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
	<i>Number</i>	<i>£000</i>	<i>Number</i>	<i>£000</i>
Ordinary shares of 0.1p	<u>800,000,000</u>	<u>800</u>	<u>800,000,000</u>	<u>800</u>
	<i>Allotted called up and fully paid</i>			
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
	<i>Number</i>	<i>£000</i>	<i>Number</i>	<i>£000</i>
Ordinary shares of 0.1p	<u>565,565,304</u>	<u>566</u>	<u>512,765,304</u>	<u>513</u>

On 20 December 2006 options over 15,000,000 ordinary shares of 0.1p each were exercised at 1.42p per ordinary share in accordance with the compromise agreement with the Mr. Hashemi. The number of shares in issue following the exercise of these options was 527,765,304.

Notes forming part of the Financial Statements *(continued)* for the period ended 25 March 2007

17. Called up share capital *(continued)*

On 13 March 2007 options over 400,000 ordinary shares of 0.1p each were exercised at 1.00p per ordinary share. The number of shares in issue following the exercise of these options was 528,165,304.

On 20 March 2007 37,400,000 ordinary shares of 0.1p each were issued at 2.5p per ordinary share to provide additional working capital. The number of shares in issue following the placing was 565,565,304.

Outstanding Options

At 26 March 2006 options over 5,575,000 shares of 0.1p each remained outstanding. During the year 1,375,000 were cancelled and 400,000 were exercised. At 25 March 2007, options over 3,800,000 shares remain outstanding in respect of ordinary shares of 0.1p each in the Company. The outstanding options were granted as follows; 800,000 on 7 May 2004 at an exercise price of 1.25p; 1,750,000 on 7 March 2005 at an exercise price of 1.0p; and 1,250,000 on 16 February 2007 at an exercise price of 1.2p. All options can be exercised between three and ten years after the date of grant.

Options held by directors are not included in the above. Details of the directors' interests in share options are included in the Directors' Report on Remuneration on page 15.

18. Reserves

	<i>Share premium account £000</i>	<i>Share Option Reserve £000</i>	<i>Profit and loss account £000</i>
Group			
At 26 March 2006	4,616	–	(4,590)
Loss for the year	–	–	(2,447)
Premium on issue of shares (net of costs)	1,080	–	–
Share option charge	–	43	–
At 25 March 2007	<u>5,696</u>	<u>43</u>	<u>(7,037)</u>
		<i>Share premium account £000</i>	<i>Profit and Loss account £000</i>
Company			
At 26 March 2006		4,616	(4,590)
Loss for the year		–	(1,672)
Premium on issue of shares (net of costs)		1,080	–
At 25 March 2007		<u>5,696</u>	<u>(6,262)</u>

The Company's loss for the period ended 25 March 2007 was £1,672,000 (26 March 2006: £1,446,000).

Notes forming part of the Financial Statements *(continued)*
for the period ended 25 March 2007

19. Reconciliation of operating loss to operating cashflows

	2007 £000	2006 £000
Operating loss	(1,628)	(1,050)
Depreciation	643	1,017
Amortisation	24	24
Movement on onerous lease provision	(147)	(346)
Decrease in stocks	30	21
(Increase)/decrease in debtors	(322)	102
Decrease in creditors	(43)	(160)
Net cash outflow from operating activities	<u>(1,443)</u>	<u>(392)</u>

20. Analysis of cashflows for headings netted in the cashflow statement

	2007 £000	2006 £000
(a) Returns on investments and servicing of finance		
Interest received	14	30
Interest paid	(205)	(263)
Finance lease interest	(7)	(6)
Net cash outflow	<u>(198)</u>	<u>(239)</u>
(b) Capital expenditure		
Purchase of tangible fixed assets	(330)	(142)
Sale of tangible fixed assets	707	539
Net cash inflow	<u>377</u>	<u>397</u>
(c) Financing		
Repayment of Secured Loan	(200)	(125)
Issue of ordinary share capital (gross proceeds)	1,167	850
Share capital issue costs	(34)	(37)
Capital element of finance lease payments	(10)	(39)
Net cash inflow	<u>923</u>	<u>649</u>

21. Analysis of net funds

	<i>At 27 March</i> 2006 £000	<i>Cash</i> <i>movement</i> £000	<i>Non Cash</i> <i>Movement</i> £000	<i>At 25 March</i> 2007 £000
Cash at bank and in hand	128	(103)	–	25
Bank overdraft	(182)	(238)	–	(420)
Debt due within one year	(200)	200	(500)	(500)
Debt due after one year	(2,000)	–	500	(1,500)
Finance leases	(4)	10	(51)	(45)
	<u>(2,258)</u>	<u>(131)</u>	<u>(51)</u>	<u>(2,440)</u>

Notes forming part of the Financial Statements *(continued)* for the period ended 25 March 2007

22. Financial instruments

The Directors have not treated short-term debtors and creditors as financial assets and liabilities respectively for the purpose of the disclosures required by FRS 13 “Derivatives and other Financial Instruments: Disclosure”.

The perceived risk to the Group from credit is low.

In the current and prior periods the Group’s financial instruments were as follows:

Financial assets: Cash at bank and in hand as follows:

- Floating rate, overnight deposit: £Nil (26 March 2006 – £49,000).
- Non-interest bearing current account and in cash hand £25,000 (26 March 2006 – £79,000)

Financial liabilities: Principally bank loans and finance lease obligations as follows:

- Bank loans are at a 1.75% margin above LIBOR.
- Finance lease obligations are at fixed rates of interest, the rate being 14 % (26 March 2006 – 14%).

All the Group’s financial assets and liabilities are denominated in sterling.

The maturity of finance lease obligations is shown in Note 15.

In the current and prior period, the fair values of the Group’s financial assets and liabilities are not materially different from their book values.

At the year-end the Group had no undrawn committed borrowing facilities expiring in less than one year (26 March 2006: Nil).

The Group’s policy as regards liquidity is to ensure sufficient cash and overdraft facilities are maintained to meet short-term liabilities.

The Group’s treasury policy is discussed in Note 1.

23. Share option scheme

The charge for share based remuneration recorded in the financial statements comprises £43,000 (2006: Nil)

The company operates both an approved and an unapproved share option scheme for the benefit of Directors and certain employees under which options are granted to incentivise, retain and recruit key staff. FRS 20 – “Share-based payments” requires that the fair value of such transactions is calculated and systematically charged to the profit and loss account over the vesting period. Details of outstanding share options and the calculation are set out below. For each tranche of share options, when it is granted, the Remuneration Committee set certain criteria to be met for execution to be allowed to take place.

As at 25 March 2007 outstanding share options for Directors and employees to subscribe to ordinary shares of 0.1p were:

	Exercise Price (p)	Date of Grant	Number of shares	Exercisable between
Approved				
	1.25	07/05/2004	3,800,000	07/05/2007-06/05/2014
	1.00	07/03/2005	1,750,000	07/03/2008-06/03/2015
	1.20	16/02/2006	1,250,000	16/02/2009-15/02/2016
Unapproved				
	1.25	07/05/2004	1,250,000	07/05/2007-06/05/2014
	1.00	07/03/2005	3,000,000	07/03/2008-06/03/2015
	1.20	16/02/2006	3,000,000	16/02/2009-15/02/2016

Notes forming part of the Financial Statements *(continued)* for the period ended 25 March 2007

23. Share option scheme *(continued)*

	2007 Number	2007 Weighted average exercise price	2006 Number	2006 Weighted average exercise price
Outstanding at the beginning of the year	45,825,000	1.15	38,750,000	1.15
Granted during year	–	–	13,050,000	1.20
Exercised during year	15,400,000	1.25	–	–
Cancelled during year	15,000,000	1.10	5,975,000	1.16
Lapsed during year	1,375,000	1.10	–	1.15
Outstanding at end of year	14,050,000	1.12	45,825,000	1.17

The exercise price of options at the end of the year ranged between 1.00p and 1.25p (2006: 1.00p and 5.00p) and their weighted average contractual life was 8.1 years (2006: 8.9 years).

In neither year were options exercisable at the end of the period.

The weighted average share price (at the date of exercise) of options exercised during the year was 2.95p. (2006: none exercised).

The company did not enter into any share based payment transactions with other parties other than employees during the current or previous period.

The following information is relevant in the determination of the fair value of options granted during the year under the schemes operated by Coffee Republic PLC

<i>Option pricing model used</i>	2007 <i>Black Scholes</i>	2006 <i>Black Scholes</i>
Weighted average share price at grant date (p)	0.9	0.9
Weighted average exercise price	1.15	1.17
Weighted average contractual life (years)	8.1	8.9
Expected volatility (%)	70	70
Expected dividend growth rate (%)	0	0
Risk-free interest rate (%)	4.8	4.8

No options were granted during the year. During the year, as part of the agreement between Mr. Hashemi and the company, 15,000,000 share options had their vesting date modified, as a result of this the fair value of the options increased by £17,000 based on the assumptions in the table shown above.

24. Commitments

Annual rental commitments under non-cancellable operating leases were as follows:

	<i>Leasehold property</i>		<i>Other</i>	
	2007 £000	2006 £000	2007 £000	2006 £000
Group				
Operating leases which expire:				
Within one year	69	36	1	–
Within two to five years	1,023	801	–	4
After five years	1,526	2,374	–	–
	<u>2,618</u>	<u>3,211</u>	<u>1</u>	<u>4</u>

At 25 March 2007, neither the Group nor the Company had any contracted capital commitments not provided for in the accounts (26 March 2006: £Nil for the Group and the Company).

Notes forming part of the Financial Statements *(continued)*
for the period ended 25 March 2007

25. Related Party Transactions

There have been no related party transactions other than the payment of Directors' Emoluments to related companies as set out in the Directors' Report on Remuneration on pages 14 and 15.

26. Post Balance Sheet Events

In April 2007 the Company issued 28,275,265 0.1p ordinary shares in an open offer to shareholders for gross proceeds of £707,000. In June 2007 the Company issued 26,000,000 0.1p ordinary shares through a placing for gross proceeds of £650,000.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of COFFEE REPUBLIC PLC will be held at the offices of Lawrence Graham LLP, 4 More London Riverside, London SE1 2AU on 26 September 2007 at 11 a.m. to consider and, if thought fit, to pass the following resolutions, of which Resolutions 1 to 4 will be proposed as Ordinary Resolutions, and Resolution 5 will be proposed as a Special Resolution:

Ordinary business

1. To receive and, if approved, adopt the Accounts of the Company together with the Directors' and auditors' reports for the period ended 25 March 2007.
2. To re-elect N Jeffrey (Non Executive Director and Chairman of the Audit and Remuneration Committees) who retires under the Articles of Association.
3. To re-appoint BDO Stoy Hayward LLP as auditors to the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

Special business

4. That the Directors of the Company be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act"), such authority to replace all existing authorities granted to the Directors pursuant to section 80 of the Act, to allot relevant securities (as defined by section 80(2) of the Act) up to an aggregate nominal amount of £180,000, such authority to expire upon the conclusion of the Annual General Meeting of the Company to be held in 2012 but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if this authority had not expired. References in this resolution to the Act, or to sections of the Act, shall, where the context requires and where appropriate, include references to the Companies Act 2006 and any corresponding or similar sections of that Act, it being the intention that, to the extent permitted by law, the authority contained in this resolution shall continue in full force and effect notwithstanding any repeal of the Act or any relevant part or section thereof.
5. That, subject to the passing of Resolution 4 above, the Directors be and they are hereby empowered pursuant to section 95 of the Act (in substitution for all existing powers granted to the Directors pursuant to section 95 of the Act) to allot equity securities (as defined in section 94(2) of the Act) or to transfer equity securities which are held by the Company in treasury, wholly for cash pursuant to the authority conferred by Resolution 4:
 - (a) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever); and
 - (b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £100,000, in each case as if section 89(1) of the Act did not apply to any such allotments or transfers, such authority to expire upon the conclusion of the annual general meeting of the Company to be held in 2012 save that the

Notice of Annual General Meeting (*continued*)

Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or transferred after such expiry and the Directors may allot or transfer equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired. References in this resolution to the Act, or to sections of the Act, shall, where the context requires and where appropriate, include references to the Companies Act 2006 and any corresponding or similar sections of that Act, it being the intention that, to the extent permitted by law, the authority contained in this resolution shall continue in full force and effect notwithstanding any repeal of the Act or any relevant part or section thereof.

Registered Office:

50 Lothian Road
Festival Square
Edinburgh
EH3 9WJ

By order of the Board
J P Gorman FCA
Company Secretary

27 July 2007

Notes:

- (i) A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her place. A proxy need not be a member of the Company. A Form of Proxy accompanies this document for your use. To be valid Forms of Proxy together with the Power of Attorney or other Authority (if any) under which it is signed, or a notarially certified copy of such Power of Attorney, must be deposited at the offices of Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD, not later than 48 hours before the time of the meeting or any adjournment thereof. Deposit of a Form of Proxy will not prevent a member from attending and voting in person should he/she so wish.
- (ii) Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 p.m. on 24 September 2007 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after 6.00 p.m. on 24 September 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (iii) Copies of the Directors' Service Contracts will be available for inspection at the registered office of the Company during normal business hours and at the offices Lawrence Graham LLP, 4 More London Riverside, London SE1 2AU 9AE from 10 a.m. on 26 September 2007 until the close of the Annual General Meeting.
- (iv) If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.

**Annual General Meeting
FORM OF PROXY**

I/We (block capitals please).....
of

being (a) holder(s) of ordinary shares of the above named Company hereby appoint the Chairman of the Meeting or (see Note 2)

.....
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Lawrence Graham LLP, 4 More London Riverside, London SE1 2AU on 26 September 2007 at 11 a.m. or at any adjournment thereof and thereat to vote on the resolutions set out in the notice convening the meeting as indicated below

Signature(s)

Dated thisday of.....2007

Please indicate with an X in the spaces below how you wish your vote to be cast.

Ordinary resolutions	For	Against
1. To receive and if approved, adopt the Accounts, together with the Directors' and Auditors' reports for the period ended 25 March 2007.		
2. To re-elect N Jeffrey (Non Executive Director and Chairman of the Audit and Remuneration Committees) who retires under the Articles of Association.		
3. To re-appoint BDO Stoy Hayward LLP as Auditors to the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.		
4. To authorise the Directors to allot shares generally		
Special resolutions		
5. To approve a limited disapplication of pre-emption rights		

Notes:

- All members are entitled to attend and vote at the meeting, whether or not they have returned a form of proxy.
- If you wish to appoint as proxy any person other than the Chairman of this meeting, delete the words "the Chairman of the Meeting or (see Note 2)" and insert the name of the proxy you wish to appoint and initial the alteration. A proxy need not be a member of the Company.
- In the case of a corporation, this form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing.
- In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register.
- In the absence of instructions as to voting on the resolutions set out in the notice convening the meeting, and on any other business that may properly be considered by the meeting, the person appointed as your proxy may exercise his discretion as to how he votes and whether or not he abstains from voting.
- To be effective, this form of proxy, duly executed together with the power of attorney or other authority (if any) under which it is signed (or a notorially certified copy thereof) must be deposited at or posted to the Company's Registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD so as to arrive not less than forty- eight hours before the time appointed for the holding of the meeting. No envelope is required.
- Any alterations made in this form of proxy should be initialled.
- Appointment of a proxy will not preclude a member from attending and voting in person.
- If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make a separate notification to the Company and the Financial Services Authority.



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Business Reply
Licence Number
RRHB-RSXJ-GKCY



Capita Registrars
Proxy Processing Centre
Telford Road
Bicester OX26 4LD

First fold

Third fold and tuck in

COFFEE REPUBLIC PLC

GROUND FLOOR
109-123 CLIFTON STREET
LONDON EC2A 4LD