

**COFFEE
REPUBLIC**

COFFEE REPUBLIC PLC

ANNUAL REPORT

30 March 2008

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Directors and Advisors

Chairman

Peter Breach

Chief Executive Officer

Steven Bartlett

Finance Director

James Muirhead

Non-executive Director

Nicholas Jeffrey

Company Secretary

Jeremy Gorman

Registered Office

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Stockbroker and Nominated Advisor

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Bankers

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Registrar

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Beckenham
Kent BR3 4TU

Company Number: SC125098

Chairman's statement For the 53 week period ended 30 March 2008

Introduction

In this first full year since Steven Bartlett and I took control, Coffee Republic has experienced a period of substantial change. The identity of the brand has been strengthened and there are many more outlets bearing the Coffee Republic name. The visual appearance of the stores has been re-modelled making them vibrant, youthful and readily recognisable. Both the drinks offer and the food offer have been substantially enhanced with the introduction, inter alia, of Tea Republic, Chocolate Republic, shakes and smoothies.

This brand strength, evidenced by the number of approaches received for franchise agreements from both the United Kingdom and Internationally, provided the opportunity for growth and it was decided to take good advantage from this; as a consequence the number of outlets in Britain rose from 43 to 193 through franchises and licensing. The number of countries for which International Franchise Agreements have been signed by the year-end was twelve; there were none signed two years ago.

The performance of Company owned stores, as shown in tables below, has, however, been disappointingly weak and this is now being forcefully addressed. The original plan to reduce operating costs did not take place because of our decision to respond actively to the opportunities for growth and this required staff and expertise. The ratio of head office staff member to outlets open has fallen dramatically. To have evolved and grown slowly was not an option available to your Board.

It is disappointing, but hardly a surprise, that despite the major turnaround in the Company's business, operating results, excluding non-trading items as required to be published under current IFRS accounting standards, shows only a small improvement. In my view, the effect of these standards is that the financial implications of the much increased level of business transacted are not adequately expressed. I comment on this later in my report.

Additionally, the deficit for the year includes several substantial items relating to unpredicted additional expenditure which is not expected to recur. Having laid the groundwork for growth in the UK and overseas we have now turned to refining and improving our head office procedures, store operations and brand standards in readiness for expansion.

As you are aware Steven Bartlett is stepping down as Chief Executive at this year's AGM. Steven will remain on the Board in a non-executive capacity and I intend to propose his appointment as Vice-Chairman at that meeting. Coffee Republic will continue to benefit from his expertise and his enthusiasm for the brand, whilst allowing him to dedicate more of his time to his businesses and family in Plymouth. He will continue to hold his substantial shareholding. The Board wishes to recognise his achievements notably the business turnaround whereby he established Coffee Republic as a major coffeehouse brand in the UK whilst also establishing the foundations for strong international expansion.

Performance Overview

I have stated previously that a focus on expanding the brand 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.

NUMBER OF OUTLETS TRADING:

	At 25 March 2007	At 30 March 2008	At 28 August 2008
Company Operated Bars	16	7	16
Franchise Operated Bars	25	53	53
Co-branded CR locations/"CR Served Here"	2	109	114
Total CR locations in the UK	43	169	183
International Bars	-	5	10
Total CR Locations Worldwide	43	174	193
Regional Development Franchises	6	10	4
International Master Franchises	2	10	12

Chairman's Statement *(continued)*

For the 53 week period ended 30 March 2008

Franchise Progress

Individual Bars

Twenty-eight bars were franchised in the year and nine subsequent to the year-end including both those bars previously owned and bars at new locations. Post year-end we have repossessed a number of franchised bars including some where the franchisee has become incapacitated or otherwise asked us to take over the running of the bar. It is our intention to re-franchise most of these bars and one has already been resold. We anticipate exchanging contracts on a second bar shortly and there is considerable interest being shown in others.

Our pipeline of new franchise business remains strong notwithstanding that we have tightened both our franchisee and property selection processes.

Regional Development Franchises ('RDFs')

The Company appointed a number of RDFs with the intention of accelerating the opening of new outlets and this has been successful in some, but not all, areas. Post year-end the Board decided, by agreement with the RDFs concerned, to set aside a number of these agreements and the settlements were funded by the issue of loan notes.

All the re-negotiated RDFs continue to, or plan to, operate Coffee Republic franchises. The RDF agreements with CR Direct Ltd have also been terminated.

International Master Franchises ('IMFs')

Eight IMFs were completed in the year with a further two after the year end. IMF agreements signed to date contain commitments to open over 200 stores within the next five years and we expect this figure to be exceeded. Our experience has confirmed that the careful selection of partners for these international agreements is important for long-term success and we are ensuring that our due diligence reflects the opportunity and risk posed by these agreements.

There are ten international stores now operating and on current plans we expect this number to double over the next year.

Co-Branding/“Coffee Republic Served Here”

The Company has opened 74 Cineworld concessions and 32 Greene King concessions and a number of other trials are taking place. Negotiations are under way with a number of large organisations and we anticipate that some of these will convert into contracts in the coming months.

Final Results and Current Trading

Reported turnover has decreased to £5.8m (2007: £9.7m) caused in large part by the policy of converting company owned bars to franchises; thus gross sales are replaced by royalty income. The two tables below show the total network sales, the gross sales less VAT, and the performance throughout the year of company operated and franchised bars. Total network sales are also shown as the directors consider that the combined sales give a better indication of the brand's overall sales performance. By this measure, the Group has recorded an increase in total network sales of 9.0% to £14.9m because of the growth of franchised bars, including international and co-branded locations. A significant portion of the increase was the result of twenty-two new franchised bars opening in new locations, bringing the Group's total network of bars to sixty at the year-end. Three Company bars came to the end of their lease terms since my last report; one prior to year end and two immediately post year end. These leases will not be renewed.

VALUE OF TOTAL NETWORK SALES:

	Year Ended 30 March 2008	Year Ended 25 March 2007
	£'000	£'000
Company Operated Bars	4,378	9,121
Franchise Operated Bars	10,518	4,547
Total Network	14,897	13,668

Chairman's Statement *(continued)*

For the 53 week period ended 30 March 2008

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 relative performance of Company operated and franchise operated bars reaffirms our confidence in the franchising strategy. A like for like sales growth of 2.5% for the first quarter of the new financial year is encouraging and is, once again, driven by a strong contribution from the franchised bars.

Like for Like Network Sales

	Full Year Ended 25 March 2007	Half Year Ended 23 September 2007	Half Year Ended 30 March 2008	Full Year Ended 30 March 2008	Quarter Ended 29 June 2008
Company Operated Bars	(5.2) %	(7.8)%	(11.7)%	(10.3)%	(11.0)%
Franchise Operated Bars	12.1%	10.9%	6.6%	8.6%	8.0%
Total Network	0.8%	4.2%	0.0%	1.7%	2.5%

NOTE: 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, such as Richmond and Reading or where a bar has been repossessed as there is necessarily a period of disturbance.

Now that the estate of company owned bars has grown, staff have been recruited with the skills necessary to drive sales at these outlets. New marketing initiatives and sales related incentive schemes have been installed for our operational staff.

Operating losses, excluding non-trading items are unchanged at £1.6 million (2007: £1.6 million). Within the £1.6 million the Company has borne a number of unexpected property costs; £100,000 relating to a lease assigned some years ago where the tenant failed and over £100,000 relating to late billings of property and utility costs which were therefore higher than anticipated at the last year end. In addition, a charge of £191,000 has been made for doubtful debts.

The published net loss for this year has remained substantially unaltered at £2.50 million (2007: £2.42 million). This includes an impairment charge of £439,000 which arose from a review of the carrying value of company owned bars. Also included is a loss on disposal of £272,000 caused mainly by the transfer of company owned bars to franchise. These adjustments to value do not, of course, have cash-flow implications.

The Company's debt management procedures have been significantly improved and legal procedures are in place, and being exercised, where franchisees have been in serious default on payments to us. Nonetheless, every effort is made to assist any franchisee who is experiencing difficulty before legal action is considered.

The deficit this year is unquestionably a disappointment but, as mentioned, it has been a year of change and turnaround when unusual costs and write-offs are to be expected. Perhaps I could observe that had the Company been a newly formed start-up business, these results would not be unusual or come as a surprise. Also the earnings benefits from the significant quantity of new business written have not come into full flow.

I should also point out that the royalty earnings from the significant quantity of new business written only commence when franchisees stores are fitted-out and trading; hence the full-year effect of this business will only be received in subsequent years.

The board of directors have considered carefully the matter of the incentive scheme for Steven Bartlett and myself. You will remember that I said in previous reports that we will receive no salary from the company and that we be rewarded by a share incentive Scheme. It has been decided that the most practical way forward is for Steven Bartlett and myself to be included in the standard executive share option schemes at a level to be decided by the remuneration committee. I can confirm that we have not received any salary from the company, nor is it intended that we should do. Further we have decided that is it appropriate for us to waive remuneration for the financial year 2008.

Cash Flow and Financing

There was a cash inflow from operating activities of £363,000 (2007: £1.44 million outflow). This arises from upfront fees received from selling franchises (see below) and a professional approach to controlling working capital.

Chairman's Statement *(continued)*

For the 53 week period ended 30 March 2008

In March 2007 the Company raised approximately £900,000 after expenses in a placing. During this year the Company raised approximately £1.38 million after expenses in an open offer and a further placing. Post year-end a further £510,000 of cash was raised by the issue of a convertible loan note. In addition to this £270,000 of loan notes were issued and used as consideration to cancel the RDF agreements mentioned above. In addition, the Company invested over £71,000, of a once-only cost, to acquire rights over the Coffee Republic brand name and associated symbols and designs in all major countries of the world.

During the year the Group repaid £620,000 to their bankers.

Net Asset Position

Our net asset position at the year-end stood at a deficit of £1,819,000 (2007 deficit: £722,000). Clearly this is not satisfactory. However, as I have pointed out previously this does not take into account the value of the brand which may be considered to have a very substantial value, or the value of tax losses (Circa £9.8 million at the end of 2007).

A resolution will be put at the forthcoming Annual General Meeting for shareholders to address the issue of the deficit.

International Accounting Standards

I do not seek to criticise these standards but I should point out material factors affecting the accounts.

Under these standards, where term contracts are written such as, in the case of Coffee Republic with franchise agreements, then any sums received at the start of the agreements are only allowed to be credited as earnings equally over the life of the agreement which may be fifteen years although the funds received are contracted as non-returnable under any circumstances.

Correspondingly, the effect of the cash received appears on the balance sheet but a counterbalancing item shown as 'Deferred Revenue' also appears on the balance sheet with the effect that the value of this receipt is only recognised as an asset over the life of the franchise contract concerned.

At the balance sheet date the Company had received a total of £1,475,000 of fees in cash which remain to be recognised as income in subsequent revenue accounts (2007:£785,000). Had this non-returnable income been allowed as a contribution to published revenue the loss on core business would have been reported in broad terms, as £890,000 and the net asset position reported as a shortfall of £344,000.

Outlook

I sympathise with shareholders who may struggle to interpret the complexity of these accounts. After a phase of substantial change the Company is now entering a period of consolidation and refinement of processes and procedures to provide the platform for the business to benefit from the foundations laid over the past two years.

The business of the Company, being the provision through franchisees or directly, of coffee and related consumables in a friendly and enjoyable environment does not appear from evidence to date to have suffered noticeably from the effects of the serious economic downturn in the UK.

I have no doubt the Company has a brand with world-wide potential and that a sound base, with able staff, has been established from which to grow the Company.

The task of turn-around has been more onerous than first anticipated but I believe the Company is now in a position to grow successfully and I trust this will justify shareholder confidence in the future.

Peter Breach

Chairman

28 August 2008

Biography of Directors

Peter Breach

Peter (aged 66) 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 43) 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 66) continues 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.

James Muirhead

James (aged 37) joined the company as Finance Director in October 2007. James qualified as a Chartered Accountant with PricewaterhouseCoopers in 1998 and has worked with a number of high growth multi-site, leisure businesses including Novus Leisure Ltd (the operator of the Tiger Tiger nightclub brand) and Esporta Plc (Health Club operator).

Report of the directors

For the 53 week period ended 30 March 2008

Report and financial statements

The directors of the Group present their report together with the audited financial statements for the period ended 30 March 2008.

Results and dividends

The income statement is set out on page 18 and shows the loss for the period.

The directors do not recommend the payment of a dividend (25 March 2007: £nil).

Principal activity

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

The purpose of the review is to show how the Group 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. In addition to those discussed in note 22 the following are the 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)

For the 53 week period ended 30 March 2008

Key performance indicators

The key performance indicators for the Group are as follows:

Financial KPIs	2008	2007
Network sales*	£14.9 million	£13.7 million
Network like for like sales	1.7%	0.8%
Loss per share	(0.40)p	(0.47)p
Net debt	£1.6 million	£2.4 million

* Network sales consist of total sales from owned and franchised sites

Non financial KPIs	Measure
Franchise 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 Group at 28 August 2008, 30 March 2008, 27 July 2007 and 25 March 2007 and their beneficial interests in the issued ordinary share capital of the Group were as follows:

	<i>Number of ordinary shares of 0.1p each</i>			
	<i>27 August 2008</i>	<i>30 March 2008</i>	<i>27 July 2007</i>	<i>25 March 2007</i>
P Breach ⁽¹⁾	79,485,000	79,485,000	79,485,000	75,700,000
S Bartlett ⁽²⁾	77,000,000	77,000,000	77,000,000	77,000,000
N Jeffrey ⁽³⁾	808,498	808,498	808,498	769,999
S Drysdale (resigned 31 July 2007)	-	-	2,100,000	2,000,000
J Muirhead (appointed 21 September 2007)	-	-	-	-

- (1) The interest ascribed to Mr. Breach as at 29 August 2008, 30 March 2008 and 27 July 2007 comprised of 75,085,000 shares held in the name of Surthurst Limited and 4,400,000 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. Another of his sons holds 7,360,508 in his own right.
- (2) The interest ascribed to Mr. Bartlett at 29 August 2008, 30 March 2008, 27 July 2007 and 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. Members of his family and related persons hold a further 3,500,000 shares.
- (3) The interest ascribed to Mr Jeffrey at 29 August 2008, 30 March 2008 and 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.

Annual General Meeting

In accordance with the Articles of Association, Steven Bartlett will retire as a director and, being eligible, offers himself for election as Vice-Chairman at the forthcoming Annual General Meeting the date of which is notified under separate cover.

Report of the directors *(continued)*

For the 53 week period ended 30 March 2008

Significant shareholdings.

As at 27 August 2008, in addition to the interests of the directors set out above, the Group 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>
Fitel Nominees Limited	47,500,981	7.59%
L R Nominees Limited	30,766,206	4.92%
Hargreaves Lansdown (Nominees)	25,567,856	4.09%
TD Waterhouse Nominees (Europe)	22,257,620	3.56%

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 James Muirhead. 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.

The Board is responsible to the shareholders of the Group 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 Group 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 Group's expense.

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

Report of the directors (*continued*)

For the 53 week period ended 30 March 2008

Board committee

The Board has delegated authority to a number of Committees to deal with matters in accordance with written terms of reference. For each committee, the Chairman provides a report of any meetings 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 Nicholas Jeffrey (Chairman) and Peter Breach. The executive directors and representatives from the Group'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 Group's annual 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 Group's auditors.

Remuneration committee

The remuneration committee comprises 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 Group'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 Group's assets. Any such system of control can however only provide reasonable and not absolute assurance against material misstatement or loss.

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 30 March 2008, the Group had net liabilities of £1.8m and net current liabilities of £1.6m although since the year end the Group has raised £510,000 cash through the issue of convertible loan Notes. The Group is dependent on the continued support of the Group's bank. Overdraft facilities were reviewed in May 2008 and continue to be repayable on demand. The directors have prepared forecasts for the business which indicate the Group can continue to meet its liabilities as they fall due. These forecasts assume that the rollout of the franchising programme continues in accordance with the Group's plan. Although the Group has a significant number of potential franchisees in its pipeline, the pace of rollout of the franchise programme is, by its nature, uncertain. A number of franchises have been terminated since the year end, in order to protect the Group's best interests. The resale of these stores has begun. Other than this, the programme has been in line with the plan and in the opinion of the directors, it will continue to be so. Having carefully reviewed all material factors, the directors consider the forecasts are soundly based and believe on this basis that the financial facilities will continue to be available to the Group. The directors also wish to draw attention to the continued attraction of the brand in the UK and overseas and as a co-brand partner in the UK.

Report of the directors *(continued)*

For the 53 week period ended 30 March 2008

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 60 days (25 March 2007 – 33 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 Group 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.

Post balance sheet events

In May and July 2008, the Group issued £780,000 worth of convertible loan notes at par (being £1 per loan note). £510,000 of this was cash, while £270,000 was used as consideration to cancel RDF agreements as mentioned in the Chairman's report.

The loan notes will be convertible (in whole or in part) at 3p per ordinary share on any conversion date (being 31 March in 2009, 2010, 2011 and 2012).

On 11 April 2008, Mr Breach and Mr Bartlett each provided a further £50,000 interest free loan to Coffee Republic PLC. As at 11 April 2008, and at 28 August 2008, the total amount of interest free loans provided by these directors to Coffee Republic was £100,000.

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 Group'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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Report of the directors (*continued*)

For the 53 week period ended 30 March 2008

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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:

P Breach

Director
28 August 2008

Directors' report on remuneration

For the 53 week period ended 30 March 2008

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

During the year under review the remuneration committee ("the 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 Group 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 Group;
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 Group.

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</i>	<i>Benefits in kind</i>	<i>2008 Total</i>	<i>2007 Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>(3) £'000</i>	<i>(3) £'000</i>
P Breach ⁽¹⁾	-	-	-	-
S Bartlett ⁽¹⁾	-	-	-	-
N Jeffrey ⁽²⁾	18	-	18	19
J Muirhead (appointed 21 September 2007)	32	1	33	-
S Drysdale (resigned 31 July 2007)	18	-	18	97
	<hr/>	<hr/>	<hr/>	<hr/>
	68	1	69	116
	<hr/>	<hr/>	<hr/>	<hr/>

1. Mr Breach and Mr Bartlett received no emoluments in respect of the year. As stated in the Chairman's report their incentive will be based on the standard executive share plan.
2. Included in the emoluments above are payments of £18,000 (25 March 2007: £19,000) to Riley Croft Partnership for the services of Mr. Jeffrey.
3. No bonuses were paid during the year (25 March 2007: £nil).
4. In addition, in the prior year, a compromise agreement was reached with Mr Hashemi, who resigned on 19 October 2006 in the amount of £201,000 (including charges and professional fees).

The Group does not operate a pension scheme.

During the period the share based payment charge in relation to key management was £6,400 (25 March 2007: £16,000)

Directors' report on remuneration (*continued*)

For the 53 week period ended 30 March 2008

Directors' interests in share options

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

	25 March				30 March				<i>Earliest</i>	<i>Latest</i>
	2007	<i>Granted</i>	<i>Exercised</i>	<i>Forfeited</i>	2008	<i>Exercise price</i>	<i>Date of grant</i>	<i>exercise date</i>	<i>exercise date</i>	
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	
J Muirhead	-	5,000,000	-	-	5,000,000	2.18p	5.02.08	5.02.11	5.02.18	

During the year 5 million share options were granted on the 5 February 2008 to key management with an exercise price of 2.18p. The earliest date that key management can exercise these options is 5 February 2011, with the options expiring on the 5 February 2018.

The market price of the Group's ordinary shares on 30 March 2008 was 2.03p and the range during the year then ended was 1.95p to 3.98p.

No share options were exercised in the year by directors of the Group except for those mentioned above.

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 period ended 30 March 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity 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 annual report and Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent Company 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. This other information comprises only the directors' report, the chairman's statement 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 March 2008 and of its loss for the period 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 30 March 2008;
- 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.

Independent auditor's report to the shareholders of Coffee Republic PLC
(continued)

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 £2.5m during the period ended 30 March 2008 and, at that date, the Group's current liabilities exceeded its current assets by £1.6m and the Group's net liabilities were £1.8m although since the year end the Group has received cash of £510,000 through the issue of convertible loan notes. The Group is dependent on the continued support of bank finance, including an overdraft facility arrangement, which is repayable on demand. The directors are of the opinion that the bank will continue to support them if they meet the forecasted results as presented to the bank at the time of the granting of the overdraft. 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
28 August 2008

Consolidated income statement

For the 53 week period ended 30 March 2008

	Note	2008 £'000	2007 £'000
Revenue	4	5,849	9,719
Cost of sales		(6,539)	(10,731)
Gross loss		(690)	(1,012)
Administrative expenses		(1,601)	(1,213)
Operating loss excluding non-trading items		(1,580)	(1,604)
Impairment of property, plant & equipment		(439)	-
Loss on disposal of property, plant & equipment		(272)	(621)
Operating loss		(2,291)	(2,225)
Finance income	7	-	14
Finance expense	7	(206)	(212)
Loss before tax		(2,497)	(2,423)
Tax expense	8	-	-
Loss for the period attributable to equity holders of the parent		(2,497)	(2,423)
Earnings per share attributable to equity holders of the parent:			
Basic and diluted	9	(0.40)p	(0.47)p

All amounts relate to continuing operations.

Consolidated statement of changes in equity

For the 53 week period ended 30 March 2008

	Called up share capital	Share premium reserve	Share option reserve	Retained losses	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 26 March 2006	513	4,616	-	(4,590)	539
Loss for the year	-	-	-	(2,423)	(2,423)
Share option charges	-	-	43	(14)	29
Shares issued (net of costs)	53	1,080	-	-	1,133
Balance at 25 March 2007	566	5,696	43	(7,027)	(722)
Loss for the year	-	-	-	(2,497)	(2,497)
Share option charges	-	-	22	-	22
Share options exercised and forfeited	-	-	(43)	43	-
Shares issued (net of costs)	60	1,318	-	-	1,378
Balance at 30 March 2008	626	7,014	22	(9,481)	(1,819)

The notes on pages 22 to 48 form part of these financial statements.

Consolidated balance sheet

As at 30 March 2008

	Notes	2008 £'000	2007 £'000
Assets			
Non-current			
Intangibles	10	152	133
Property, plant and equipment	11	1,547	2,311
Prepaid operating lease expenses	13	264	322
		1,963	2,766
Current			
Inventories	12	19	47
Prepaid operating lease expenses	13	321	551
Trade and other receivables	14	1,247	1,054
Cash and cash equivalents		9	25
Assets classified as held for sale	15	190	-
		1,786	1,677
Total assets		3,749	4,443
Equity			
Equity attributable to equity holders of the parent			
Share capital	19	626	566
Share premium reserve	20	7,014	5,696
Share option reserve	20	22	43
Retained losses	20	(9,481)	(7,027)
Total equity		(1,819)	(722)
Liabilities			
Non-current			
Trade and other payables	16	1,230	699
Loans and borrowings	17	902	1,527
Provisions and other liabilities	18	14	33
		2,146	2,259
Current			
Trade and other payables	16	2,727	1,895
Loans and borrowings	17	674	938
Provisions and other liabilities	18	21	73
		3,422	2,906
Total liabilities		5,568	5,165
Total equity and liabilities		3,749	4,443

The financial statements were approved by the board and authorised for issue on 28th August 2008 and were signed on its behalf by:

Peter Breach
Chairman

The notes on pages 22 to 48 form part of these financial statements.

Consolidated cash flow statement

For the 53 week period ended 30 March 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Loss for the period attributable to equity holders of the parent		(2,497)	(2,423)
Finance income		-	(14)
Finance expense		206	212
Loss on disposal of fixed assets		272	621
Impairment of property, plant and equipment		439	-
Depreciation of property, plant and equipment		454	585
Non-cash share option charge		22	43
Amortisation of intangibles and lease premiums		60	58
Operating loss before change in working capital and provisions		<u>(1,044)</u>	<u>(918)</u>
Movements in working capital			
Decrease/(increase) in trade and other receivables		87	(322)
Decrease in inventories		28	30
Increase/(decrease) in trade and other payables		1,363	(86)
Decrease in provision		(71)	(147)
Net cash received/(used) in operations		<u>363</u>	<u>(1,443)</u>
Cash flows from investing activities			
Finance income		-	14
Payments for property, plant and equipment		(628)	(330)
Proceeds from disposal of property plant and equipment		90	707
Payments for intangible assets		(71)	-
Net cash (used)/received from investing activities		<u>(609)</u>	<u>391</u>
Cash flows from financing activities			
Loan proceeds received		100	-
Repayment of secured loan		(620)	(200)
Proceeds from issue of ordinary shares (gross)		1,428	1,167
Payment for share issue costs		(50)	(34)
Payments of capital element of finance leases		(40)	(10)
Finance expense		(206)	(212)
Net cash received from financing activities		<u>612</u>	<u>711</u>
Increase/(decrease) in cash and cash equivalents in the period		<u>366</u>	<u>(341)</u>
Net cash and cash equivalents at the beginning of the period		<u>(395)</u>	<u>(54)</u>
Net cash and cash equivalents at the end of the period	24	<u>(29)</u>	<u>(395)</u>

The notes on pages 22 to 48 form part of these financial statements.

Notes forming part of the financial statements

For the 53 week period ended 30 March 2008

1. Accounting policies

Reporting entity

Coffee Republic PLC ("The Group") is a public limited Company incorporated and domiciled in the United Kingdom. The address of the registered office is 50 Lothian Road Festival Square, Edinburgh, EH3 9WJ. The Company's ordinary shares are traded on the Alternative Investment Market (AiM).

Basis of preparation – accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("EU adopted IFRS") and with those parts of the Companies Act 1985 applicable to companies preparing its financial statements in accordance with IFRS. This is the first time the Group has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK GAAP accounting standards. The Group issued a press release in December 2007 incorporating its interim IFRS financial statements to 23 September 2007. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 3.

The financial statements are prepared under the historical cost convention. The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000), except where indicated.

Basis of preparation – going concern

The directors consider that it is appropriate for the accounts to be prepared on a going concern basis. At 30 March 2008, the Group had net liabilities of £1.8m and net current liabilities of £1.6m although since the year end the Group has raised £510,000 cash through the issue of convertible loan Notes. The Group is dependent on the continued support of the Group's bank. Overdraft facilities were reviewed in May 2008 and continue to be repayable on demand. The directors have prepared forecasts for the business which indicate the Group can continue to meet its liabilities as they fall due. These forecasts assume that the rollout of the franchising programme continues in accordance with the Group's plan. Although the Group has a significant number of potential franchisees in its pipeline, the pace of rollout of the franchise programme is, by its nature, uncertain. A number of franchises have been terminated since the year end, in order to protect the Group's best interests. The resale of these stores has begun. Other than this, the programme has been in line with the plan and in the opinion of the directors, it will continue to be so. Having carefully reviewed all material factors, the directors consider the forecasts are soundly based and believe on this basis that the financial facilities will continue to be available to the Group. The directors also wish to draw attention to the continued attraction of the brand in the UK and overseas and as a co-brand partner in the UK.

Changes in accounting policies

(a) First-time adoption

IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied in preparing these financial statements. The Group has elected to take advantage of certain transitional provisions within IFRS 1 which offer exemption from presenting comparative information or applying IFRS retrospectively:

- Business combinations effected before 27 March 2006 have not been restated.
- The carrying amount of capitalised goodwill at 27 March 2006 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 28 March 2006. The carrying amount was adjusted for intangible assets that would have been required to be recognised in the acquiree's separate financial statements in accordance with IAS 38 'Intangible Assets'.
- Share based payments – IFRS 2 has been applied to all grants of equity-settled awards after 7 November 2002 that had not vested before 27 March 2006.

(b) New standards, amendments to published standards and interpretations to existing standards effective in 2007

The following new standards, amendments and interpretations have been published and are mandatory for the Group's accounting periods commencing on or after 1 January 2007. None have had a material impact on the financial statements.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

1. Accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7, *Financial instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – capital disclosures*: IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the group it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 'Financial Instruments: disclosure and presentation'. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital. The Group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 26 March 2007.

(b) New standards, amendments to published standards and interpretations to existing standards effective in 2007 (continued)

- IFRIC 10, '*Interim and impairment*' – which requires that any impairment loss recognised for goodwill or investment in equity instruments or financial asset carried at cost in an interim period may not be reversed at a subsequent balance sheet date. The interpretation has not had any impact on the timing or recognition of impairment losses as the Group already accounted for such amounts using principles consistent with IFRIC 10.
- IFRIC 8, '*Scope of IFRS 2*'. IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. The interpretation has not had any impact on the recognition of share-based payments in the Group.
- IFRIC 11, '*IFRS 2 – Group and treasury share transactions*' – which requires arrangements whereby an employee is granted right to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if the entity chooses or is required to buy those equity instruments from another party or the shareholders of the entity provide the equity instruments needed. Effective for annual periods beginning on or after 1 March 2007. The interpretation has not had any impact on the recognition of share based payments.

The following interpretations are not applicable to the business of the Group and will therefore have no impact on the financial statements

- IFRIC 7 – '*Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies*.'
- IFRIC 9 – '*Reassessment of embedded derivatives*'

(c) Standards, amendments and interpretations to published standards not yet effective

- IFRIC 12, *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 is still to be endorsed by the EU. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the group's operations due to absence of such arrangements.
- IFRIC 13, *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. Management is currently assessing the impact of IFRIC 13 on the accounts.
- IFRIC 14, *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. Management is currently assessing the impact of IFRIC 14 on the accounts.
- *Revised IFRS 3, Business Combinations* and complementary Amendments to *IAS 27, Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments to IAS 27 are still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and result in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

1. Accounting policies (*continued*)

Changes in accounting policies (continued)

- *Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee share saving schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

(c) Standards, amendments and interpretations to published standards not yet effective (continued)

- *IFRS 8, 'Operating segments'* – which requires segmental disclosures that reflect the segments that management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This standard was issued in November 2006 and becomes effective for financial years beginning on or after 2009. The adoption may result in additional disclosure, but is not expected to impact the segments for which the group currently presents information.
- *IAS 23 Borrowing costs (revised)* (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.
- *IFRIC 15, Agreements for the Construction of Real Estate* (effective for accounting periods beginning on or after 1 January 2009). IFRIC 15 is still to be endorsed by the EU. IFRIC 15 addresses two issues: (a) whether the agreement is within the scope of IAS 11 or IAS 18; and (b) when the revenue from the construction or real estate shall be recognised. This IFRIC is not applicable to the company as it is not operating in the real estate sector.
- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2008). IFRIC 16 is still to be endorsed by the EU. IFRIC 16 provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. Management is currently assessing the impact of IFRIC 16 on the accounts.
- *Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The revised version of IAS 1 (revised 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005 and key changes include: the requirement to aggregate information in the financial statements on the basis of shared characteristic; changes in the titles of some primary statements (non mandatory); introducing the possibility of a single Statement of Comprehensive income (combining the Income Statement and the Statement of Recognised Income and Expense); Only the total of comprehensive income is to be shown in the Statement of Changes in equity. Management is currently assessing the impact of the Amendment on the accounts.
- *Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The amendments result in certain types of financial instrument that meet the definition of a liability, but represent the residual interest in the net assets of the entity, being classified as equity. Management is currently assessing the impact of the Amendment on the accounts.
- *Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU. The amendments permit the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 Financial instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition. Management is currently assessing the impact of the Amendment on the accounts.
- *Improvements to IFRS* (effective for accounting periods beginning on or after 1 July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. Management is currently assessing the impact of the Amendment on the accounts.

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

1. Accounting policies (*continued*)

Basis of consolidation

The consolidated accounts incorporate the financial statements of Coffee Republic PLC and its subsidiary undertakings (the Group).

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group uses the purchase method of accounting to consolidate the results of subsidiary undertakings. Accordingly the Group Income Statement and Group Statement of Cash Flows include the results and cash flows of subsidiaries from the date of acquisition. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition and any excess has been capitalised as goodwill.

Foreign currency translation

Items included in the financial statements of each Group's entities are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The functional currency of Coffee Republic PLC is British sterling ("GBP").

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are shown in the balance sheet at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement as incurred.

Depreciation is provided so as to write off the cost of each asset to their residual values over their estimated useful lives on a straight line basis as follows:

Short term leasehold and improvements - over the period of the lease

Fixtures, fittings and equipment - 5 years

Motor vehicles - 5 years

The useful lives and residual values of the above are reviewed by the directors on an annual basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer to impairment of assets accounting policy below.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement.

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. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the gain is recognised immediately in the income statement.

Goodwill carried in the balance sheet is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Goodwill arising on acquisitions prior to 27 March 2006 is stated in accordance with UK GAAP and has not been re-measured on transition to IFRS as permitted by IFRS 1. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and cannot be subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to an entity sold.

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

1. Accounting policies (*continued*)

Intangible assets

Intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. Intangible assets acquired separately from a business are carried initially at cost. The amortisation expense is included within the administrative expenses line in the consolidated income statement.

An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Trademarks	15 years	Amortised cost

Impairment of assets

Assets that have an indefinite useful life (goodwill) are not subject to amortisation and are tested at least annually for impairment and if events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation and depreciation are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is based on the estimated selling price less the cost of disposal.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Financial assets

Financial assets considered to be loans and receivables are assets which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade and other receivables), but also incorporate other types of contractual monetary asset.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Deferred tax

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts with the exception of:

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

1. Accounting policies (*continued*)

- Goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available within the foreseeable future against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised within the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Share capital

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Revenue recognition

Revenue from wholly owned continuing operations comprises the fair value of the sale of goods and services, net of value-added tax.

Revenue 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, commencing at the date the agreement is signed.

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following items:

- All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. Bank borrowings which are interest bearing liabilities that are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Leases

Lease of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

The present value of the minimum lease payments during the lease term is capitalised as a tangible asset and the corresponding leasing commitments is included as a liability. Rental payables are apportioned between interest, which is charged to the income statement and equity, which reduces the outstanding commitment.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Where lease premiums are paid, these are capitalised and depreciated over the lease term, which range between 8 and 15 years.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

1. Accounting policies (continued)

Employee share incentive plans

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification to the original award. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2. Critical accounting estimates and key judgments

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, available information, and other factors including expectations of future events that are believed to be reasonable under the circumstances. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity are described below:

(a) Impairment of goodwill and other intangibles

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. More information concerning carrying values is included in note 10.

(b) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. More information concerning carrying values is included in note 11.

(c) Share based payment

The Group has a equity-settled share-based remuneration schemes for employees (including directors). Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes model on the date of grant based on certain assumptions. Those assumptions are described in note 23 and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

3. First time adoption of International Financial Reporting Standards (IFRS)

Reconciliations and explanatory notes on how the transition to IFRS has effected profit and net assets previously reported under UK Generally Accepted Accounting Principles are given below:

**Reconciliation of UK GAAP to IFRS income statement
for the 52 week period ended 25 March 2007**

	UK GAAP (IFRS format)	IFRS 3 goodwill amortisation	IAS 1 presentation of exceptional items	IFRS income statement
	£'000	£'000	£'000	£'000
Revenue	9,719	-	-	9,719
Cost of sales	(10,751)	20	-	(10,731)
Gross loss	(1,032)	20	-	(1,012)
Administrative expenses	(395)	4	(822)	(1,213)
Exceptional items	(201)		201	-
Operating loss	(1,628)	24	(621)	(2,225)
Exceptional items – loss on disposal of fixed assets	(621)	-	621	-
Finance income	14	-	-	14
Finance expense	(212)	-	-	(212)
Net loss for the period before and after tax	(2,447)	24	-	(2,423)
Net loss attributable to equity holders of the parent	(2,447)	24	-	(2,423)
Loss per share				
Basic and diluted	(0.47)p			(0.47)p

(1) Under UK GAAP goodwill is required to be amortised over its expected useful economic life. Under IFRS 3, the goodwill arising on the acquisition of Goodbean Limited is no longer amortised but held at its carrying value on the balance sheet and tested annually for impairment. The UK GAAP goodwill amortisation charge in the year 2007 was £24,000 and has been reversed. As permitted by IFRS 1 the Group has chosen to apply IFRS 3 prospectively from the date of transition (27 March 2006) and has chosen not to restate previous business combinations. Therefore, goodwill is stated in the opening balance sheet (at 27 March 2006) at £133,000 being its UK GAAP carrying value at that date.

(2) Under UK GAAP expenses deemed to meet the definition of exceptional under FRS 3 can be separately disclosed on the face of the income statement. Under IAS 1, exceptional costs are not permitted to be disclosed after operating results and are included within administrative expenses.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

3. First time adoption of International Financial Reporting Standards (IFRS) (continued)

Reconciliation of UK GAAP to IFRS balance sheet as at 25 March 2007

	UK GAAP (IFRS format) £'000	IFRS 3 goodwill amortisation (1) £'000	IAS 16 Operating Leases (3) £'000	IFRS balance sheet £'000
ASSETS				
Non-current assets				
Goodwill	109	24	-	133
Property, plant and equipment	2,691	-	(380)	2,311
Prepaid operating lease expenses	-	-	322	322
	<u>2,800</u>	<u>24</u>	<u>(58)</u>	<u>2,766</u>
Current assets				
Inventories	47	-	-	47
Prepaid operating lease expenses	-	-	551	551
Trade and other receivables	1,547	-	(493)	1,054
Cash and cash equivalents	25	-	-	25
	<u>1,619</u>	<u>-</u>	<u>58</u>	<u>1,677</u>
Total assets	<u>4,419</u>	<u>24</u>	<u>-</u>	<u>4,443</u>
EQUITY				
Capital and reserves attributable to equity holders of the parent				
Share capital	566	-	-	566
Share premium reserve	5,696	-	-	5,696
Share option reserve	43	-	-	43
Retained earnings and other reserves	(7,051)	24	-	(7,027)
Total equity	<u>(746)</u>	<u>24</u>	<u>-</u>	<u>(722)</u>
LIABILITIES				
Non-current liabilities				
Trade and other payables	699	-	-	699
Loans & borrowings	1,527	-	-	1,527
Provisions and other liabilities	33	-	-	33
	<u>2,259</u>	<u>-</u>	<u>-</u>	<u>2,259</u>
Current liabilities				
Trade and other payables	1,895	-	-	1,895
Loans and borrowings	938	-	-	938
Provisions and other liabilities	73	-	-	73
	<u>2,906</u>	<u>-</u>	<u>-</u>	<u>2,906</u>
Total liabilities	<u>5,165</u>	<u>-</u>	<u>-</u>	<u>5,165</u>
Total equity and liabilities	<u>4,419</u>	<u>24</u>	<u>-</u>	<u>4,443</u>

- (3) Prepaid operating leases include quarterly rent instalments paid in advance and lease premiums. Lease premiums are usually paid as consideration to a landlord or an outgoing tenant of a property before the expiry of the lease term on that property. Under UK GAAP, such payments were treated as tangible assets, capitalised and depreciated over the length of the lease term. Under IFRS these payments are treated as prepaid operating lease costs and classified as such. These costs are subsequently amortised over the length of the lease term. There is neither an impact on the income statement nor on the cash flows of the Company.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

3. First time adoption of International Financial Reporting Standards (IFRS) (continued)**Reconciliation of UK GAAP to IFRS balance sheet at 26 March 2006**

	UK GAAP (IFRS format)	IAS 16 Operating Leases	IFRS balance sheet
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Goodwill	133	-	133
Property, plant and equipment	4,367	(438)	3,929
Prepaid operating lease expenses	-	380	380
	<u>4,500</u>	<u>(58)</u>	<u>4,442</u>
Current assets			
Inventories	77	-	77
Prepaid operating lease expenses	-	643	643
Trade and other receivables	1,225	(585)	640
Cash and cash equivalents	128	-	128
	<u>1,430</u>	<u>58</u>	<u>1,488</u>
Total assets	<u>5,930</u>	<u>-</u>	<u>5,930</u>
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	513	-	513
Share premium reserves	4,616	-	4,616
Retained earnings and other reserves	(4,590)	-	(4,590)
Total equity	<u>539</u>	<u>-</u>	<u>539</u>
LIABILITIES			
Non-current liabilities			
Trade and other payables	140	-	140
Bank loan (secured)	2,000	-	2,000
	<u>2,140</u>	<u>-</u>	<u>2,140</u>
Current liabilities			
Trade and other payables	2,561	-	2,561
Loans and borrowings	382	-	382
Provisions and other liabilities	308	-	308
	<u>3,251</u>	<u>-</u>	<u>3,251</u>
Total liabilities	<u>5,391</u>	<u>-</u>	<u>5,391</u>
Total equity and liabilities	<u>5,930</u>	<u>-</u>	<u>5,930</u>

IAS 7 statement of cashflows

The consolidated statement of cashflows prepared under IFRS presents substantially the same information as required by UK GAAP and the adoption of IFRS has had no impact on the cash flows of the Group.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

4. Segmental information

a) Primary reporting segment

For management purposes, the Group is currently organised into four operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Period ended 30 March 2008	Owned £'000	Franchised £'000	Concession £'000	International £'000	Group £'000
Revenue					
External revenue	4,552	1,210	37	50	5,849
Results					
Segment results	(849)	574	8	14	(253)
Unallocated corporate expenses					(2,038)
Operating loss					(2,291)
Finance expense					(206)
Loss for the financial year before and after tax					(2,497)
Balance sheet as at 30 March 2008					
Assets					
Segment assets	928	871	114	-	1,913
Unallocated corporate assets					1,836
Consolidated total assets					3,749
Liabilities					
Segment liabilities	(1,151)	(1,424)	(8)	(19)	(2,602)
Unallocated corporate liabilities					(2,966)
Consolidated total liabilities					(5,568)

Other information	Capital additions £'000	Loss on disposal of fixed asset £'000	Depreciation £'000	Impairment provisions Property, plant & equipment £'000	Trade receivables £'000
Owned	216	(178)	(280)	(325)	-
Franchised	248	(94)	(94)	(114)	-
Concession	-	-	-	-	-
International	-	-	-	-	-
Unallocated	217	-	(80)	-	(191)
Total	681	(272)	(454)	(439)	(191)
Notes	11	5 & 11	5 & 11	5 & 11	5 & 14

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

4. Segmental information (continued)

a) Primary reporting segment (continued)

Period ended 25 March 2007	Owned £'000	Franchised £'000	Concession £'000	International £'000	Group £'000
Revenue					
External revenue	9,227	492	-	-	9,719
Results					
Segment results	(1,149)	410	-	-	(739)
Unallocated corporate expenses					(1,486)
Operating profit					(2,225)
Net finance costs					(198)
Loss for the financial year before and after tax					(2,423)
Balance sheet as at 25 March 2007					
Assets					
Segment assets	1,580	298	2	-	1,880
Unallocated corporate assets					2,563
Consolidated total assets					4,443
Liabilities					
Segment liabilities	620	532	-	-	1,152
Unallocated corporate liabilities					4,013
Consolidated total liabilities					5,165
Other information					
	Capital additions	Loss on disposal of fixed asset	Depreciation	Impairment provisions	
	£'000	£'000	£'000	Property, plant & equipment	Trade receivables
				£'000	£'000
Owned	136	(175)	(331)	-	-
Franchised	139	(46)	(204)	-	-
Concession	-	-	-	-	-
International	-	-	-	-	-
Unallocated	55	(400)	(50)	-	-
Total	330	(621)	(585)	-	-
Notes	11	5 & 11	5 & 11	5 & 11	5 & 14

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

4. Segmental information (*continued*)

Unallocated Corporate assets	2008	2007
	£'000	£'000
Goodwill	133	133
Prepayments and other	1,703	2,430
Total	<u>1,836</u>	<u>2,563</u>
Unallocated Corporate Liabilities		
Bank Loan	1,380	2,000
Creditors	881	760
Overdraft	293	420
Accruals	412	833
Total	<u>2,966</u>	<u>4,013</u>

b) Secondary reporting segment

The Group's secondary reporting format for segment information is geographical segments.

Period ending 30 March 2008	UK & Republic of Ireland £'000	Rest of World £'000	Group £'000
Revenue			
Total external revenue	5,799	50	5,849
Balance sheet - assets			
Segment assets	3,749	-	3,749
Other information			
Capital additions	681	-	681
Period ending 25 March 2007			
Revenue			
Total external revenue	9,719	-	9,719
Balance sheet - assets			
Segment assets	4,443	-	4,443
Other information			
Capital additions	330	-	330

Notes forming part of the financial statements (*continued*)

For the 53 week period ended 30 March 2008

5. Loss on operations

	2008 £'000	2007 £'000
The operating result is stated after charging:		
Depreciation		
Owned assets	432	580
Leased assets	22	5
Amortisation		
Lease premiums	58	58
Intangibles	2	-
Operating leases		
Plant and machinery	25	10
Other	1,414	2,296
Auditors' remuneration		
Audit	42	45
Non audit- other taxation services	10	10
Loss on disposal of property, plant and equipment	272	621
Staff costs (See note 6)	2,257	3,674
Impairment of property, plant and equipment	439	71
Impairment of trade receivables	191	-
Compromise agreement expenses ⁽¹⁾	-	201
	<u> </u>	<u> </u>

(1) The compromise agreement expenses (which included charges and professional fees) included within administration expenses relate to the agreement reached between the Group and Mr. Hashemi, during the year ended 25 March 2007, as explained in the Directors' Report on Remuneration on pages 14 and 15.

6. Employee costs (including directors)

	2008 £'000	2007 £'000
Employee costs, including directors, consist of:		
Wages and salaries	2,027	3,426
Social security	208	205
Share based payment remuneration	22	43
	<u> </u>	<u> </u>
	2,257	3,674
	<u> </u>	<u> </u>

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

	2008	2007
Selling	112	246
Administration	20	19
	<u> </u>	<u> </u>
	132	265
	<u> </u>	<u> </u>

"Key management" comprises the directors of the Group. Tables giving details of directors' emoluments and share options are given in the Directors' Report on Remuneration on pages 14 and 15.

7. Finance income and expense

	2008 £'000	2007 £'000
<i>Finance income</i>		
Interest received on bank deposit	-	(14)
	<u> </u>	<u> </u>
<i>Finance expense</i>		
Interest expense on financial liabilities measured at amortised cost	181	205
Finance leases	25	7
	<u> </u>	<u> </u>
Total finance expense	206	212
	<u> </u>	<u> </u>
Net finance expense recognised in income statement	206	198
	<u> </u>	<u> </u>

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

7. Finance income and expense (continued)

Both the interest income and expense have been calculated using the effective interest method

8. 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:

	2008	2007
	£'000	£'000
Loss on ordinary activities before tax	(2,497)	(2,423)
Corporation tax at the standard rate in the UK of 30% (25 March 2007 – 30%)	(749)	(727)
Effects of:		
Expenses not deductible for tax purposes	130	234
Depreciation for period in excess of capital allowances	350	191
Tax losses to be carried forward	251	166
Movement in provision	(9)	(29)
Capital gain on disposal	27	165
Current tax charge for the period	-	-

The Group had tax losses of approximately £9.8 million as at 30 March 2008 (25 March 2007: £9.0 million), which are available to carry forward against future taxable profits. The Group had capital allowances available of approx £15.6 million (25 March 2007: £15.0 million) In line with the Group's accounting policy, a deferred tax asset of £7.1 million at 30 March 2008 (25 March 2007: £7.2 million) has not been recognised in the financial statements. The deferred tax asset arises from trading losses (£ 2.8 million; 2007: £2.7 million) and deferral of capital allowances (£ 4.3 million; 2007: £4.5 million). The tax values of the losses and capital allowances available to the group have been impacted by the change of the corporation tax rate from 30% to 28% for future periods.

9. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	2008	2007
	pence	pence
Basic loss per share	(0.40)	(0.47)
Diluted loss per share	(0.40)	(0.47)

	2008	2007
	£'000	£'000
Numerator		
Loss for the financial year	(2,497)	(2,423)
Denominator (millions of shares)		
Weighted average number of ordinary shares	623.5	517.6
Diluted weighted average number of ordinary shares	623.5	517.6

Details of share options which could potentially dilute basic loss per share in the future, but which were not included in the calculation of diluted loss per share because they are antidilutive for the period presented are included in note 23 and the Directors' Report on Remuneration.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

10. Intangible assets

	Goodwill £'000	Trademark £'000	Total £'000
Cost			
At 27 March 2006 and 25 March 2007	133	-	133
Additions	-	21	21
At 30 March 2008	<u>133</u>	<u>21</u>	<u>154</u>
Amortisation			
At 27 March 2006 and 25 March 2007	-	-	-
Provided for year	-	2	2
At 30 March 2008	<u>-</u>	<u>2</u>	<u>2</u>
Net book value			
At 30 March 2008	<u>133</u>	<u>19</u>	<u>152</u>
At 27 March 2006 and 25 March 2007	<u>133</u>	<u>-</u>	<u>133</u>

Impairment of goodwill

The goodwill arises from the acquisition of Goodbean Limited on 2 December 2001 and is allocated to the Group of cash generating units that comprise the business acquired. As at 30 March 2008, the carrying value of the Goodbean cash generating unit was £386,000 (25 March 2007: £450,000).

The Group tests annually for impairment or more frequently if there are indications that the goodwill may be impaired. The recoverable amounts of the coffee bars are calculated from value in use calculations based on cash flow projections from formally approved budgets to March 2009 and an EBITDA growth rate of 3% for the Goodbean business. The discount rate applied to cash flow projections is 8.25%.

Management have based their calculations on the historical performance of these assets and of their specific knowledge of the industry.

It is the directors' opinion that there is no impairment of goodwill for the period ending 30 March 2008 (25 March 2007: £nil).

11. Property, plant and equipment

	Short term leasehold costs and improvements £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
Cost			
At 27 March 2006	2,026	9,139	11,165
Additions	25	305	330
Disposals	(246)	(3,149)	(3,395)
At 25 March 2007	<u>1,805</u>	<u>6,295</u>	<u>8,100</u>
Additions	102	579	681
Disposals	(787)	(2,485)	(3,272)
Transfers to non-current assets classified as held for sale	(248)	(171)	(419)
At 30 March 2008	<u>872</u>	<u>4,218</u>	<u>5,090</u>

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

11. Property, plant and equipment (continued)

	Short term leasehold costs and improvements £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
Depreciation			
At 27 March 2006	866	6,370	7,236
Provided for year	97	488	585
Disposals	(105)	(1,998)	(2,103)
Impairment	-	71	71
	<hr/>	<hr/>	<hr/>
At 25 March 2007	858	4,931	5,789
Provided for year	253	201	454
Disposals	(789)	(2,121)	(2,910)
Impairment	159	280	439
Transfers to non-current assets classified as held for sale	(116)	(113)	(229)
	<hr/>	<hr/>	<hr/>
At 30 March 2008	365	3,178	3,543
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 March 2008	507	1,040	1,547
	<hr/>	<hr/>	<hr/>
At 25 March 2007	947	1,364	2,311
	<hr/>	<hr/>	<hr/>
At 26 March 2006	1,160	2,769	3,929
	<hr/>	<hr/>	<hr/>

The net book value of fixtures, fittings and equipment includes an amount of £88,000 (25 March 2007: £59,000) in respect of assets held under finance leases.

The net book values of the coffee bars were compared to value in use calculations based on cash flow projections from formally approved budgets to March 2009 and an EBITDA growth rate of 3%. The discount rate applied to cash flow projections is 8.25%.

Management have based their calculations on the historical performance of these assets and of their specific knowledge of the industry

12. Inventories

	2008 £'000	2007 £'000
Consumables	19	47
	<hr/>	<hr/>

The total recognised inventory purchases were £1.3m in the income statement in the 53 weeks ended to 30 March 2008 (25 March 2007 – £2.2m).

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

13. Prepaid operating leases expenses

Prepaid operating leases has two components. Included in amounts held within one year is the sum of £263,000 (2007: £493,000) which represents quarterly instalments on operating leases paid in advance. There is a further £322,000 (2007: £380,000) which is made up of lease premiums, which IFRS requires to be treated as rent paid in advance and amortised over the length of the lease, normally over 8 or 15 years. As a result, £321,000 (2007: £551,000) is classified with current assets, with the remaining balance included in non-current assets.

14. Trade and other receivables

	2008	2007
	£'000	£'000
Trade receivables	968	619
Less: provision for impairment of trade receivables	(191)	-
	<hr/>	<hr/>
Trade receivables – net	777	619
Other receivables	381	387
Prepayments and accrued income	89	48
	<hr/>	<hr/>
	1,247	1,054

The closing provision for trade receivables represents the charge in the income statement. Other receivables include £185,000 (25 March 2007: £236,000), which falls due after more than one year. All other amounts are due within one year.

All of the closing trade and other receivables are denominated in GBP. There are no other currencies included in the closing balances.

15. Assets classified as held for sale

The following major classes of assets have been classified as held for sale in the consolidated balance sheet:

	2008	2007
	£'000	£'000
Short term leasehold costs and improvements	165	-
Fixtures, fittings, equipment	25	-
	<hr/>	<hr/>
	190	-
	<hr/>	<hr/>

Prior to the year end, the directors' elected to dispose of two sites, being the York House site at Manchester and the New Inn Hall Street site at Oxford, both of which have therefore been classified as assets held for sale as at 30 March 2008. The disposal process is expected to be finalised within the next few months and the proceeds of disposals are approximately the amount of the revised carrying values reported above. For the New Inn Hall Street site, an impairment loss of £114,000 (25 March 2007: £nil) has been recognised during the year on the reclassification as held for sale.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

16. Trade and other payables

	2008	2007
	£'000	£'000
Current		
Trade payables	1,684	726
Other payables	383	280
Accruals and deferred income	599	718
Taxation and social security	61	171
	<u>2,727</u>	<u>1,895</u>
Non-current		
Deferred income	<u>1,230</u>	<u>699</u>

The fair value of the above trade and other payables is not individually determined as the directors' consider the carrying amount to be a reasonable approximation of fair value.

The maturity analysis of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost, is as follows:

	2008	2007
	£'000	£'000
Up to 3 months	2,007	1,157
3 to 6 months	240	246
6 to 12 months	480	492
Later than 1 year and not later than 5 years	1,230	699
	<u>3,957</u>	<u>2,594</u>

17. Loans and borrowings

	2008	2007
	£'000	£'000
Non-current		
Bank loan (secured)	780	1,500
Obligations under finance leases (note 21)	22	27
Loans from related parties (note 26)	100	-
	<u>902</u>	<u>1,527</u>

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

17. Loans and borrowings (continued)

	2008	2007
	£'000	£'000
Current		
Bank overdraft	38	420
Bank loan (secured)	600	500
Obligations under finance leases (note 21)	36	18
	<u>674</u>	<u>938</u>
Total loans and borrowings	<u>1,576</u>	<u>2,465</u>

The fair value of the above loans and borrowings (including loans from related parties) is not individually determined as management considers the book value to be a reasonable approximation of fair value.

Maturity analysis of loans and borrowings:

	2008	2007
	£'000	£'000
Not later than 1 month	92	464
Later than 1 month and not later than 3 months	108	87
Later than 3 month and not later than 6 months	159	131
Later than 6 month and not later than 12 months	315	256
Later than 1 year and not later than 5 years	902	1,527
	<u>1,576</u>	<u>2,465</u>

The bank loans and overdrafts are secured by a fixed charge and floating on the assets of Coffee Republic (UK) Limited and Goodbean Limited (note 11).

Included within the not later than one month category is the bank overdraft of £38,000 (25 March 2007: £420,000) which is payable on demand.

All of the above loans and borrowings are held in GBP.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

18. Provisions

	Onerous lease £'000	Leasehold dilapidations £'000	Other £'000	Total £'000
Balance at 26 March 2006	182	47	78	307
Released in the year	(137)	-	(64)	(201)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 25 March 2007	45	47	14	106
Charged to income statement	-	-	4	4
Utilised in the year	-	(2)	-	(2)
Released in the year	(43)	(28)	(2)	(73)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 March 2008	<u>2</u>	<u>17</u>	<u>16</u>	<u>35</u>
Balance at 30 March 2008				
Due within one year or less	2	3	16	21
Due after more than one year	-	14	-	14
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>2</u>	<u>17</u>	<u>16</u>	<u>35</u>
Balance at 25 March 2007				
Due within one year or less	43	28	2	73
Due after more than one year	2	19	12	33
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>45</u>	<u>47</u>	<u>14</u>	<u>106</u>

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

Onerous lease contracts predominantly relate to the excess of rents payable over rents receivable on sub-let properties. Inherent uncertainties in measuring the provision relates to estimates of the amount of rent that will be received in the future on vacant property, and estimating future rents on property where the current sub-lease is of a shorter duration than the head lease.

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The cost is recognised over the remaining term of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Other provisions relate to the estimated disposal costs of future property disposals. The main uncertainty relates to estimating the cost that will be incurred during the disposal process.

19. Called up share capital

	2008 Number	Authorised		2007 £'000
		2008 £'000	2007 Number	
Ordinary shares of 0.1p	800,000,000	800	800,000,000	800
	<hr/>	<hr/>	<hr/>	<hr/>
		Allotted called up and fully paid		
	2008 Number	2008 £'000	2007 Number	2007 £'000
Ordinary shares of 0.1p	625,893,569	626	565,565,304	566
	<hr/>	<hr/>	<hr/>	<hr/>

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

19. Called up share capital (continued)

On 2 May 2007, 28,278,265 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 593,843,569.

On 15 June 2007, 26,000,000 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 619,843,569.

On 6 August 2007, options over 5,050,000 ordinary shares of 0.1p each were exercised at 1.25p per ordinary share. The number of shares in issue following the exercise of these options was 624,893,569.

On 26 September 2007, options over 1,000,000 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 625,893,569.

Outstanding options

A summary and reconciliation of the outstanding options has been provided in note 23.

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 pages 15.

20. Reserves

Group	Share premium reserve £'000	Share option reserve £'000	Retained losses £'000
At 26 March 2006	4,616	-	(4,590)
Loss for the year	-	-	(2,423)
Premium on issue of shares (net of costs)	1,080	-	-
Share option charge	-	43	(14)
At 25 March 2007	5,696	43	(7,027)
Loss for the year	-	-	(2,497)
Premium on issue of shares (net of costs)	1,318	-	-
Share option charge	-	(21)	43
At 30 March 2008	7,014	22	(9,481)

The nature and purpose of each of the reserves within shareholders' equity is explained below:

- Share premium reserve – the accumulated amount subscribed for share capital in excess of nominal value.
- Share option reserve – reflects the credit to equity made in respect of the charge for share options.
- Retained losses – the cumulative losses recognised in the income statement together with those losses required to be taken direct to equity.

21. Leases

Finance leases

The Group leases the majority of its computer equipment (net carrying value £88,000). Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

21. Leases (continued)

Future lease payments are due as follows:

	Minimum lease payment 2008 £'000	Interest 2008 £'000	Present value 2008 £'000
Not later than one year	36	11	47
Later than one year and not later than five years	22	7	29
	<u>58</u>	<u>18</u>	<u>76</u>
	Minimum lease payment 2007 £'000	Interest 2007 £'000	Present value 2007 £'000
Not later than one year	18	4	22
Later than one year and not later than five years	27	9	36
	<u>45</u>	<u>13</u>	<u>58</u>

22. Financial risk factors

The Group is exposed to certain risks arising from its use of financial instruments. The Group does not make any use of derivative-based financial instruments. However, IFRS 7 requires that it provides the following disclosures on its financial assets and liabilities as set out below.

The Group's financial assets and liabilities are shown on the face of the balance sheet and in the table below and they can be classified as either receivables, payables or borrowings.

	2008 £'000	2007 £'000
Financial assets		
Trade and other receivables (See note 14)	1,158	1,006
Cash and cash equivalents	9	25
Total financial assets	<u>1,167</u>	<u>1,031</u>
Financial liabilities		
Trade and other payables (See note 16)	2,423	1,524
Loans and borrowings (See note 17)	1,576	2,465
Total financial liabilities	<u>3,999</u>	<u>3,989</u>

In accordance with IAS 39, all financial assets are classified as loans and receivables and all financial liabilities are held at amortised cost. In the directors' opinion, there is no material difference between the book value and the fair value of any of the financial instruments.

Risk management is carried out by the finance department under policies approved by the Board of directors. The Group finance department identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Board provides guidance on overall risk management including the risks identified in the previous paragraph.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

22. Financial risk factors (continued)

The Group has some exposure to credit risk, interest rate risk and liquidity risk. The Group does not have any material exposure to currency risk or market price risk. There has been no material change to the financial instruments used within the business during the period and therefore no material changes to the risk management policies put in place by the Board which are discussed below.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets held at the balance sheet date. The Group's maximum exposure to credit risk in relation to trade receivables is as follows:

	2008	2007
	£'000	£'000
Trade receivables are due -		
Current	240	194
Past due 30 to 60 days	-	33
Past due 61 to 90 days	5	47
More than 91 days	723	345
Total receivables before impairment	968	619
Impairment of trade receivables	(191)	-
Total receivables after impairment	777	619

All receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Due to the inherent risk of the franchisee businesses, the Group considers credit risk to be a significant risk to the business. The Group mitigates its exposure to this credit risk by obtaining personal guarantees from franchisees and has commenced collecting rent on a weekly basis for newly written business. Additionally, as the Group holds the head lease to the lease premises, if a franchisee defaults on its obligations the Group is able to re-lease the premise to another tenant.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Cash flow and fair value interest rate risk

The Group borrows in sterling at both floating and fixed rates of interest. The interest rate profile of the Group's financial liabilities, gross of debt issue costs, was as follows:

Interest rate risk profile of financial liabilities:

	2008	2007
	£'000	£'000
Floating rate financial liabilities (includes bank overdraft)	1,418	2,420
Finance leases – fixed rate	58	45
Financial liabilities on which no interest is paid	100	-
	1,576	2,465

Cash flow interest rate risk derived from the Group's floating rate financial liabilities is charged interest at LIBOR plus 3.5%.

The period to maturity of the interest-free financial liabilities, being loans from related parties, is not less than 12 months.

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

22. Financial risk factors (continued)

The directors do not consider the impact of possible interest rate changes based on current market conditions to be material to the net result for the year or the equity position at the year end.

It is estimated that a general movement of a 100 basis point higher/lower in interest rates would result in a movement in the Group's loss before tax of approximately £7,000 (25 March 2007: £13,000).

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, the Group seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

Capital

The Company considers its capital to comprise its ordinary share capital, share premium, the share option reserve and accumulated retained losses. There have been no changes in what the Company considers to be its capital since the previous period. The primary objective of the Company is to maximise the return for equity shareholders through capital growth. In order to achieve its objectives in this area, the Company seeks to maintain a capital structure appropriate to its size, strategy for growth and underlying business risks.

23. Share option scheme

The charge for equity-settled share based remuneration recorded in the financial statements comprises £22,000 (25 March 2007: £43,000).

The Group 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. 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 30 March 2008, outstanding share options for directors and employees to subscribe to ordinary shares of 0.1p were:

	Exercise price (pence)	Date of grant	Number of shares	Exercisable between
Approved	2.18	26/02/2008	7,128,438	26/02/2011- 25/02/2018
Unapproved	2.18	26/02/2008	9,871,562	26/02/2011- 25/02/2018
	2008 Number	2008 Weighted average exercise price (pence)	2007 Number	2007 Weighted average exercise price (pence)
Outstanding at the beginning of the year	14,050,000	1.12	45,825,000	1.15
Granted during year	17,000,000	2.18	-	-
Exercised during year	6,050,000	1.21	15,400,000	1.25
Cancelled during year	-	-	15,000,000	1.10
Forfeited during year	8,000,000	1.11	-	-
Lapsed during year	-	-	1,375,000	1.10
Outstanding at end of year	17,000,000	2.18	14,050,000	1.12

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

23. Share option Scheme (continued)

The exercise price of options at the end of the year is 2.18p (25 March 2007: 1.00p and 1.25p) and their weighted average contractual life was 3 years (25 March 2007: 8.1 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 2.9p (25 March 2007: 2.95p).

The weighted average fair value of each option granted during the year was 0.01p (25 March 2007: 0.01p).

The Group 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:

	2008	2007
	Black Scholes	Black Scholes
Option pricing model used		
Weighted average share price at grant date (pence)	2.1	0.9
Weighted average exercise price (pence)	2.18	1.15
Weighted average contractual life (years)	3	8.1
Expected volatility (%)	56	70
Expected dividend growth rate (%)	0	0
Risk-free interest rate (%)	5.25	4.8

24. Notes supporting cash flow statement

Cash and cash equivalents for the purposes of cash flow comprise:

	At 30 March	At 25 March
	2008	2007
	£'000	£'000
Cash at bank and in hand	9	25
Bank overdraft	(38)	(420)
	<u>(29)</u>	<u>(395)</u>

25. Operating commitments

The total rental expense commitments under non-cancellable operating leases were as follows:

	Leasehold property		Other	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	3,170	2,536	5	-
Within two to five years	10,708	8,391	7	-
After five years	13,490	8,496	-	-
	<u>27,368</u>	<u>19,423</u>	<u>12</u>	<u>-</u>

As at 30 March 2008, the Group did not have any contracted capital commitments that were not provided for in the accounts (25 March 2007: £Nil).

Notes forming part of the financial statements (continued)

For the 53 week period ended 30 March 2008

25. Operating commitments (continued)

The total rental receivable commitments under non-cancellable operating leases were as follows:

	Leasehold property	
	2008	2007
	£'000	£'000
Operating leases which expire:		
Within one year	1,984	1,600
Within two to five years	6,937	5,013
After five years	10,002	5,094
	18,923	11,707
	18,923	11,707

26. Related party transactions

During the financial year, Mr Breach and Mr Bartlett each provided Coffee Republic PLC with an interest free loan of £50,000. As part of the terms of agreement, the loans are repayable on demand.

Since the year end, Mr Breach and Mr Bartlett have provided further interest free loans to Coffee Republic PLC as set out in note 27.

The only other related party transactions are the payment of Directors' Emoluments that relate to the companies as set out in the Directors' Report on Remuneration on pages 14 and 15.

27. Post balance sheet events

In May and July 2008, the Group issued £780,000 worth of convertible loan notes at par (being £1 per loan note). £510,000 of this was cash, while £270,000 was used as consideration to cancel RDF agreements as mentioned in the Chairman's report.

The loan notes will be convertible (in whole or in part) at 3p per ordinary share on any conversion date (being 31 March in 2009, 2010, 2011 and 2012).

On 11 April 2008, Mr Breach and Mr Bartlett each provided a further £50,000 in interest free loans to Coffee Republic PLC. As at 11 April 2008, and as at 28 August 2008, the total amount of interest free loans provided by each director to Coffee Republic was £100,000.

Company balance sheet

As at 30 March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments	4	-	-
		<hr/>	<hr/>
Net assets		-	-
		<hr/>	<hr/>
Capital and reserves			
Share capital	5	626	566
Share premium reserve	6	7,014	5,696
Share option reserve		22	
Retained losses	6	(7,662)	(6,262)
		<hr/>	<hr/>
Shareholders' funds		-	-
		<hr/>	<hr/>

The financial statements were approved by the board and authorised for issue on 28 August 2008 and were signed on its behalf by:

Peter Breach

Chairman

Notes forming part of the Company financial statements

For the 53 week period ended 30 March 2008

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice "UK GAAP".

The principal accounting policies of the Company have remained unchanged from the previous year and are set out below.

Basis of consolidation

Consolidated financial statements are prepared for the Group and are presented separately. These financial statements therefore present information about the Company as an individual entity and not about it as a group.

Profit and loss account

As permitted by section 230 of the Companies Act 1985 a separate profit and loss account for the parent Company is not presented.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Impairment of fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the assets against the higher of realisable value and value in use.

Financial liabilities and equity

Financial liabilities and equity are measured initially at the amount of the net proceeds, being the fair value of proceeds received on issue after the deduction of issue costs.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification to the original award. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Company has adopted UITF abstract 44 'Group and Treasury Share Transactions'. The effect of adopting this is that Coffee Republic PLC recognises as a cost of investments the value of its own shares that it makes available for the purpose of granting share options to the employees of its subsidiaries.

2. Parent company profit and loss account

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account for the parent company is not presented. The Company's result for the period was a loss of £1.38m (25 March 2007: loss £1.67m). The auditors remuneration has been paid by subsidiary companies, see note 5 of the consolidated financial statements for further details.

3. Employee costs (including directors)

There are no employees of the Company.

The directors did not receive any remuneration during the financial year in their roles as directors of the company. They had received remuneration for their roles as directors in subsidiary companies, see the remuneration report on page 14 for further details.

Notes forming part of the Company financial statements (continued)

For the 53 week period ended 30 March 2008

4. Fixed asset investments

	Subsidiary undertakings 2008 £'000	Subsidiary undertakings 2007 £'000
Shares at cost	2,748	2,748
Long term loan to subsidiary undertakings		
Brought forward	29,496	28,363
Additional long term loan to subsidiary	1,378	1,133
Share option Scheme	22	-
Carried forward	<u>30,896</u>	<u>29,496</u>
Total investment and loans to subsidiary undertakings		
Total investment	33,644	32,244
Less: provision	(33,644)	(32,244)
	<u>-</u>	<u>-</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.

5. Share capital

	2008 Number	Authorised		2007 £'000
		2008 £'000	2007 Number	
Ordinary shares of 0.1p	<u>800,000,000</u>	<u>800</u>	<u>800,000,000</u>	<u>800</u>
		Allotted called up and fully paid		
		2008 Number	2007 Number	2007 £'000
Ordinary shares of 0.1p	<u>625,893,569</u>	<u>626</u>	<u>565,565,304</u>	<u>566</u>

For further details of movements in share capital in the year see note 19 of the consolidated financial statements

6. Reserves

	Share premium reserve £'000	Retained losses £'000
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>
Loss for the year	-	(1,400)
Premium on issue of shares (net of costs)	1,318	-
At 30 March 2008	<u>7,014</u>	<u>(7,662)</u>

Notes forming part of the Company financial statements (continued)

For the 53 week period ended 30 March 2008

7. Share option scheme

The charge for equity-settled share based remuneration recorded in the financial statements comprises £22,000 (25 March 2007: £43,000) which has been expensed in the subsidiary entities.

The Company operates both an approved and an unapproved share option scheme for the benefit of directors and certain employees of the Group under which options are granted to motivate, retain and recruit key staff. 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 30 March 2008, outstanding share options for directors and employees to subscribe to ordinary shares of 0.1p were:

	Exercise price (pence)	Date of grant	Number of shares	Exercisable between
Approved	2.18	26/02/2008	7,128,438	26/02/2011- 25/02/2018
Unapproved	2.18	26/02/2008	9,871,562	26/02/2011- 25/02/2018
	2008 Number	2008 Weighted average exercise price (pence)	2007 Number	2007 Weighted average exercise price (pence)
Outstanding at the beginning of the year	14,050,000	1.12	45,825,000	1.15
Granted during year	17,000,000	2.18	-	-
Exercised during year	6,050,000	1.21	15,400,000	1.25
Cancelled during year	-	-	15,000,000	1.10
Forfeited during year	8,000,000	1.11	-	-
Lapsed during year	-	-	1,375,000	1.10
Outstanding at end of year	17,000,000	2.18	14,050,000	1.12

The exercise price of options at the end of the year is 2.18p (25 March 2007: 1.00p and 1.25p) and their weighted average contractual life was 3 years (25 March 2007: 8.1 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 2.9p (25 March 2007: 2.95p).

The weighted average fair value of each option granted during the year was 0.01p (25 March 2007: 0.01p).

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:

	2008 Black Scholes	2007 Black Scholes
Option pricing model used		
Weighted average share price at grant date (pence)	2.1	0.9
Weighted average exercise price (pence)	2.18	1.15
Weighted average contractual life (years)	3	8.1
Expected volatility (%)	56	70
Expected dividend growth rate (%)	0	0
Risk-free interest rate (%)	5.25	4.8

8. Commitments

As at 30 March 2008, the Company did not have any operating or contracted capital commitments not provided for in the accounts (25 March 2007: £nil).