5936386 .

Rome Pikco Limited

Report and Financial Statements

31 May 2007

Registered No 05936386

Directors
G W Ford
B J Price

Secretary
B J Price

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers
Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Solicitors
PWC Legal
1 Embankment Place
London
WC2N 6DX

Registered office
3 Neal Street
London
WC2H 9PU

Directors' report

The dırectors present theır report and financıal statements for the Rome Pıkco Lımıted group ("the group") for the perıod ended 31 May 2007

Principal activities

Rome Pıkco Lımıted ıs the holdıng company of Rome Bıdco Lımıted, whıch, durıng the perıod purchased Caffe Nero Group Lımıted Caffe Nero ıs the tradıng name of a group of hıgh qualıty Italıan style coffee bars In addıtıon to ıts core range of hıgh qualıty espresso-based coffees, Caffe Nero offers an array of pastrıes, baked goods, freshly made panını, sandwıches, salads and pastas, as well as cakes and bıscottı

Rome Pıkco Lımıted was ıncorporated on 15 September 2006

Results and dividends

As a result of acquırıng Caffe Nero Group Lımıted, the group generated revenues for the perıod of £37 6 mıllıon and EBITDA of £7 4 mıllıon Operatıng profit of £3 1 mıllıon (8 3% of sales) was achıeved

The group made a loss before taxatıon of £15 0 mıllıon

No dıvıdend ıs proposed

Expansion

At the year end Caffe Nero had 310 stores operatıng ın 161 UK towns and cıtıes, of whıch 15 were opened post acquısıtıon The dırectors belıeve that there ıs the potentıal ın the UK market for at least 450 Caffe Nero stores

Significant developments

On 1 February 2007 the entıre share capıtal of Caffe Nero Group Lımıted was purchased by Rome Bıdco Lımıted, a subsıdıary of Rome Pıkco Lımıted, for total consıderatıon of £233,519,000

Durıng the post balance sheet perıod, on 15 June 2007, an agreement came ınto effect for the establıshment of a Joınt Venture company, Caffe Nero Gıda Urunlerı AS, to be ıncorporated ın Turkey

Treasury and risk management

The group had gross debt at the year end of £256 0m, and net debt of £245 7m Of these amounts, £106 7m ıs a fixed ınterest loan from the group's parent company It ıs the group's polıcy to hedge approxımately 75% of the floatıng rate thırd party debt Further detaıls of the group's financıal objectıves and rısks are set out ın note 18, Fınancıal Instruments

The group had net lıabılıtıes at the year end of £7 1m due to the accountıng treatment of the ınvestment from the parent undertakıng

Key performance indicators

The Board has assessed that the followıng KPIs are the most effectıve measures of progress towards achıevıng the group's strategıes and as such towards fulfillıng the group's objectıves

Number of stores opening

A key part of the group's strategy ıs to ıncrease ın scale The key measure of thıs ıs the number of stores opened We expect to open approxımately 45 stores next year

Like for like sales

The group seeks to ıncrease profitabılıty by ıncreasıng the sales of unıts open for more than one year The group targets a range of 2-4% ın lıke for lıke sales Performance was ın lıne wıth target ın the post-acquısıtıon perıod

Directors' report

Store profit

The success of the group in its store opening programme and its like for like sales is shown in increasing store profit both in absolute terms and as a percentage of sales Performance was in line with target in the post-acquisition period

EBITDA

The ability of the group to fund its future rollout without recourse to external finance is determined by EBITDA Performance was in line with target in the post-acquisition period

Risk factors

The Directors continually identify, evaluate and manage material risks and uncertainties faced by the Group which could adversely affect the Group's business, operating results and financial condition The list below details what the directors consider to be the principal risks and uncertainties This list is not intended to be exhaustive and other risks may emerge over time

- Damage to the brand image due to failures in environmental health in the stores or contamination of products
- Adverse effect of any reports showing coffee to have negative health impacts
- Disruption to the business through failure of key suppliers
- Increases in prices of key raw ingredients
- Increases in other key costs such as wages and rents
- The loss of key personnel or the failure to manage succession planning
- Decreased customer demand for Caffe Nero's products
- Adverse economic conditions in the UK retail / leisure markets
- Failure to manage the growth so as to protect the brand and culture of the business
- Breakdowns in internal controls through fraud or error
- Changes in planning rules or findings at planning inquiries which would make suitable sites harder to obtain
- The impact of terrorist attacks in key urban areas
- A possible health pandemic that may cause customers to stay away from stores or make stores hard to staff sufficiently
- Increased competition in the markets in which Caffe Nero operates

Directors and their interests

The directors who served during the year were as follows

Hackwood Directors Ltd (resigned 28 November 2006)
G W Ford (appointed 28 November 2006)
B J Price (appointed 28 November 2006)

There are no directors' interests in the shares of the company disclosable under the Companies Act

During the year, the directors and their interests in the share capital of the Rome Holdco, the largest parent company of the Group of which Rome Pikco Limited is a member, were as follows

	At 31 May 2007 (or earlier date of resignation) ordinary shares of 0 5p each	*At 15 September 2006 (or subsequent date of appointment) ordinary shares of 0 5p each*
G W Ford (1)	13,998	-
B J Price (2)	266	-

Directors' report

(1) G W Ford's interest in ordinary shares is registered as follows

Saratoga Limited	13,570
Paladin Partners 1	428

(2) B J Price's interest in ordinary shares is registered as follows

Paladin Partners 1	266

There have been no changes to directors' interests since the year end

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with Creditor days average at the period end were 76 days

Employees

The group provides employees with information concerning trading, development and other appropriate matters through formal and informal briefings Employees are consulted on a regular basis to ensure their views are taken into account in making decisions likely to affect their interests

The group gives full and fair consideration to the employment of disabled people, including the continuation in employment of employees who have become disabled All employees are given equal opportunities for training and promotion, having regard to their particular aptitudes and abilities

Donations

No contributions were made for either charitable or political purposes

Statement of disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

a) to the best of each director's knowledge and belief, there is no relevant audit information of which the company's auditors are unaware, and

b) each director has taken all the steps a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting

By order of the board

B J Price
Secretary
28 September 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Reporting Standards as adopted by the European Union

The directors are required to prepare group financial statements for each financial year which present fairly the financial position of the group and of the company, the financial performance of the group and cash flows of the group and of the company for that period In preparing those financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- 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 group and company's financial position and financial performance, and
- state that the group and company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

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

Independent auditors' report

to the members of Rome Pikco Limited

We have audited the group and parent company financial statements (the 'financial statements') of Rome Pikco Limited for the period ended 31 May 2007 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Shareholders' Equity and the related notes 1 to 25 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the group 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

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 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

Independent auditors' report

to the members of Rome Pikco Limited

(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group and parent company's affairs as at 31 May 2007 and of its loss for the period then ended,
- 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

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London 29 September 2007

Group income statement

For the period ended 31 May 2007

	Notes	2007 £000
Revenue	3	37,590
Cost of sales		(27,384)
Gross profit		10,206
Administrative expenses excluding depreciation, amortisation, impairment and exceptional items		(2,810)
EBITDA		7,396
Administrative expenses - depreciation, amortisation and impairment		(4,275)
Total administrative expenses		(7,085)
Operating profit	4	3,121
Bank interest receivable		239
Finance expense	6	(18,330)
Loss before taxation		(14,970)
Tax on profit on ordinary activities	7	5,849
Loss attributable to equity holders of the parent	20	(9,121)

Group balance sheet

As at 31 May 2007

	Notes	2007 £000
Non-current assets		
Intangible assets	9	219,992
Deferred tax asset	7	5,549
Property, plant and equipment	10	48,697
Lease premiums	12	2,561
Other receivables	13	282
		277,081
Current assets		
Inventories	14	872
Lease premiums	12	363
Other receivables	13	1,794
Cash and cash equivalents	17	10,389
		13,418
Total assets		290,499
Current liabilities		
Trade and other payables	15	(23,178)
Financial liabilities	16	(108,677)
Provisions	18	(105)
Derivative financial instruments	17	(508)
		(132,468)
Non-current liabilities		
Financial liabilities	16	(147,365)
Deferred tax liability	7	(17,700)
Provisions	18	(63)
		(165,128)
Total liabilities		(297,596)
Net liabilities		(7,097)
Equity		
Called up share capital	19	-
Share premium account	20	2,024
Retained earnings	20	(9,121)
Shareholders' equity	20	(7,097)

The financial statements were approved by the board of directors and signed on its behalf by

G W Ford
Director

B J Price
Director

28 September 2007

Company balance sheet
at 31 May 2007

	Notes	2007 £000
Non-current assets		
Investments	11	100,474
Current assets		
Amounts due from subsidiary undertakings	13	46,758
Prepayments	13	74
Total assets		147,306
Current liabilities		
Amounts due to subsidiary undertakings	15	(331)
Financial liabilities	16	(106,654)
Non-current liabilities		
Financial liabilities	16	(40,960)
Total liabilities		(147,945)
Net liabilities		(639)
Equity		
Called up share capital	19	-
Share premium account	20	2,024
Retained earnings	20	(2,663)
Shareholders' equity	20	(639)

The financial statements were approved by the board of directors and signed on its behalf by

G W Ford
Director

B J Price
Director

28 September 2007

Group statement of cash flows

for the period ended 31 May 2007

	2007 £000
Cash flows from operating activities	
Loss before taxation	(14,970)
Finance expense	18,330
Interest receivable	(239)
Adjustments for	
Depreciation and amortisation	4,163
Impairment write down	112
Loss on disposal of fixed assets	21
	7,417
Increase in inventories	(50)
Increase in receivables	(1,779)
Increase in payables	4,532
Decrease in provisions	(30)
Net cash from operating activities	10,090
Cash flows from investing activities	
Payments to acquire intangible non-current assets	(54)
Payments to acquire property, plant and equipment	(3,997)
Acquisition of subsidiary, net of cash acquired	(225,353)
Interest received	239
Net cash used in investing activities	(229,165)
Cash flows from financing activities	
Issue of ordinary share capital	2,024
Issue of ordinary share capital in subsidiary	4,983
New long-term loans	146,143
Interest paid	(2,957)
Loan advanced from parent	98,450
Payment of loan arrangement fees	(3,150)
Movement in intercompany balance with Rome Holdco S a r l	1,671
Repayment of loan	(17,700)
Net cash from financing activities	229,464
Net increase in cash and cash equivalents	10,389
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	10,389

Group statement of changes in shareholders' equity

for the period ended 31 May 2007

	Share capital £000	*Share premium reserve £000*	*Retained earnings £000*	*Total £000*
At 15 September 2006	-	-	-	-
Shares issued	-	2,024	-	2,024
Loss for the period	-	-	(9,121)	(9,121)
At 31 May 2007	-	2,024	(9,121)	(7,097)

Company statement of changes in shareholders' equity

for the period ended 31 May 2007

	Share capital £000	*Share premium reserve £000*	*Retained earnings £000*	*Total £000*
At 15 September 2006	-	-	-	-
Shares issued	-	2,024	-	2,024
Loss for the period	-	-	(2,663)	(2,663)
At 31 May 2007	-	2,024	(2,663)	(639)

Company statement of cash flows

for the period ended 31 May 2007

	2007
	£000
Cash flows from operating activities	
Loss before taxation	(2,663)
Interest payable	10,566
Amortisation of loan issue costs	44
Interest receivable	(8,204)
Increase in debtors	(74)
Net cash flows from operating activities	(331)
Cash flows from investing activities	
Payment to acquire investment	(2,024)
Loan advanced by parent	98,450
Loan advanced to subsidiary	(137,004)
Loan advanced by subsidiary	331
Net cash used in investing activities	(40,247)
Cash flows from financing activities	
Issue of ordinary share capital	2,024
New long-term loans	38,554
Net increase from financing activities	40,578
Net increase in cash and cash equivalents	-
Cash and cash equivalents at beginning and end of period	-

Notes to the financial statements

at 31 May 2007

1. Accounting policies

Authorisation of financial statements and statement of compliance with IFRSs

The Rome Pikco Limited group and company financial statements for the period ended 31 May 2007 were authorised for issue by the board of the directors on 28 September 2007 and the balance sheets were signed on the board's behalf by G Ford and B Price Rome Pikco Limited is a private limited company incorporated and domiciled in England & Wales

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards as they apply to the financial statements for the period ended 31 May 2007 applied in accordance with the provisions of the Companies Act 1985 The financial statements are also consistent with International Financial Reporting Standards as issued by the IASB

The financial statements have been prepared on a going concern basis as the group's immediate parent undertaking, Rome Pik Holdco Limited, has confirmed to the directors that it will not seek repayment of amounts owed until such time as the group is able to meet these liabilities

An additional line item for EBITDA has been presented on the face of the income statement as the Board believes its presentation is relevant to the understanding of the Group's financial performance

The company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 May 2007

The group and company financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except as otherwise indicated

The company was incorporated on 15 September 2006 This is the group's first set of financial statements and covers the period from incorporation to 31 May 2007

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year The nature of estimation means that actual outcomes could differ from those estimates

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are the measurement and impairment of goodwill The Group identifies whether goodwill is impaired on an annual basis, and this requires an estimation of the value in use of the cash generating units to which the goodwill is allocated This involves estimation of future cash flows and choosing a suitable discount rate

The measurement of intangibles other than goodwill on a business combination involves the estimation of future cashflows and the selection of a suitable discount rate

Basis of consolidation

The group financial statements consolidate the financial statements of the parent company (Rome Pikco Limited) and all its subsidiary undertakings drawn up to 31 May of each year, using consistent accounting policies

Subsidiary undertakings have been included in the group financial statements using the purchase method of accounting 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

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

Subsidiaries are entities controlled by the company Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies All inter-company balances and transactions, including unrealised profits arising from them, are eliminated

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement Following initial recognition, goodwill is measured at cost less any accumulated impairment losses Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired

For the purpose of impairment testing goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units The Group considers each of its stores to be a cash generating unit

Intangibles

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses Intangible assets acquired separately from a business are carried initially at cost 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 Expenditure on internally developed intangible assets is taken to the income statement in the year in which it is incurred Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows

Lease premiums	-	over the duration of the legal agreement
Software	-	3 years
Brand	-	20 years
Trademark	-	20 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended

Depreciation

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life, as follows

Leasehold improvements	-	over the lease term
Furniture, fittings and equipment	-	over 3 to 5 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years Such reversal is recognised in profit or loss After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life

Any impairment recognised in relation to goodwill balances cannot be reversed

Investments

Non-current asset investments are stated at cost less provision for impairment The carrying value of fixed asset investments is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

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 For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

Interest bearing loans and overdrafts

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, when the Group becomes party to the related contracts After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense

Store opening costs

Operating costs incurred by stores prior to opening are written off to the income statement in the period in which they are incurred

Inventories

Inventories are stated at the lower of cost and net realisable value Inventories comprise food and packaging goods for resale The group applies a first in first out basis of inventory valuation

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

Financial assets

Financial assets are recognised when the group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or as available for sale financial assets, as appropriate The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end When financial assets are recognised initially, they are measured at fair value, being the transaction price, plus in the case of financial assets not a fair value through the profit or loss, directly attributable transaction costs

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place The subsequent measurement of financial assets depends on their classification, as follows

Loan and receivables

Loans and receivables are non –derivative financial assets that are designated as such or are not classified in any of the three preceding categories After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category Financial assets are classified as held for trading if they are acquired for sale in the short term Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired

Assets carried at cost

If there is objective evidence that no impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

Available for sale financial assets

If an available for sale financial asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from equity to the income statement Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss Reversals in respect of equity instruments classified as available- for- sale are not recognised in the income statement

Leases

Leases taken by the Group are assessed individually as to whether they are finance leases or operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Operating lease rental payments, other than contingent rentals, are recognised as an expense in the income statement on a straight-line basis over the lease term The benefit of lease incentives is spread over the term of the lease

Contingent rentals, which are determined by revenue of individual stores, are charged when incurred Where a minimum guarantee exists, a charge is made to the income statement, based on planned performance, to the extent that the individual store is expected to exceed minimum guarantee levels, or at the minimum guarantee level if there is a projected shortfall in performance

Where lease premiums are paid, these are depreciated over the lease terms, which range between 6 and 20 years

Current tax

Current tax is the amount of income tax payable on the taxable profit for the period Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the tax authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

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

- The initial recognition of goodwill or 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 income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

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

Deferred tax balances are not discounted

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity Otherwise income tax is recognised in the income statement

Capital instruments

Ordinary shares are classified as equity instruments Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in equity

Derecognition of financial assets and liabilties

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold or cancelled or expires

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

Sale of goods

Revenue is recognised when the goods have passed to the buyer

Interest income

Revenue is recognised as interest accrues applying the effective interest method

Rental income

Revenue is recognised in accordance with the Group's right to receive payment under the terms of the lease agreement

Notes to the financial statements

at 31 May 2007

1. Accounting policies (continued)

Derivatives

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

Any gains or losses arising from changes in fair values on derivatives that do not qualify for hedge accounting are taken directly to the income statement The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements

International Accounting Standards (IAS/IFRSs)		*Effective Date Accounting periods beginning on or after*
IFRS 7	Financial Instruments Disclosures	1 January 2007
IFRS 8	Operating segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements Capital Disclosure	1 January 2007

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The directors do not believe that application of the above standards will have a material impact on the company's financial statements in the period of initial application

Upon adoption of IFRS 7, the company will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to More specifically the company will need to disclose the fair value of its financial instruments and its risk exposure in greater detail

Notes to the financial statements

at 31 May 2007

2. Business combinations

During the year, the Group made the following acquisition

Name of business acquired	*Principal activity*	*Date of acquisition*	*Proportion of shares acquired*	*Cost of acquisition (£000s)*
Caffe Nero Group Ltd	Operator of a group of Italian-style coffee bars	1 February 2007	100%	233,519

The transaction has been accounted for by the purchase method of accounting Based on the assessment of the identifiable assets, liabilities and contingent liabilities at their fair values at acquisition date, goodwill has been calculated at £160,821,000 as summarised below Due to the proximity of the acquisition to the year end, the fair values stated below are provisional

Acquired Caffe Nero balance sheet	*Book value in acquired company*	*Fair value adjustments*	*Fair value*
	£000	*£000*	*£000*
Non-current assets			
Goodwill	832	(832)	-
Intangible assets	122	60,000	60,122
Property, plant and equipment	46,722	-	46,722
Lease premiums	2,563	-	2,563
Other receivables	282	-	282
Current assets			
Inventories	822	-	822
Lease premiums	336	-	336
Trade and other receivables	5,013	-	5,013
Cash and cash equivalents	8,166	-	8,166
Current liabilities			
Trade and other payables	(15,430)	-	(15,430)
Non-current liabilities			
Interest-bearing loans and borrowings	(17,700)	-	(17,700)
Provisions	(198)	-	(198)
Deferred tax liability	-	(18,000)	(18,000)
Total value of net assets	31,530	41,168	72,698
Cost of acquisition			
Consideration in cash			231,458
Stamp duty payable			553
Directly attributable fees			1,508
			233,519
Goodwill			160,821

Notes to the financial statements

at 31 May 2007

2. Business combinations (continued)

Directly attributable costs included in the cost of acquisition are the direct legal and accounting costs incurred in developing the acquisition contracts and performing due diligence activities

The goodwill comprises value attributed to future results of the acquired Caffe Nero stores from ongoing trading at existing store locations

From the date of acquisition, Caffe Nero Group Limited has contributed a profit of £4 5m to the Group If this acquisition had taken effect on 15 September 2006, the consolidated revenues and net loss of the Group would have been £79 7m and (£7 2m) respectively

3. Revenue

Revenue, which is stated net of value added tax, represents amounts received from the sale of goods from the group's principal continuing activity, being the operation of high quality Italian style coffee bars All of the revenue is derived in the United Kingdom

4. Operating profit

This is stated after charging/(crediting)

		2007
		£000
Auditors' remuneration	- audit services *	85
	- non-audit services tax	15
Costs relating directly to opening new sites		277
Depreciation of property, plant and equipment		3,113
Impairment of property, plant and equipment		112
Amortisation		1,005
Depreciation of lease premiums		45
Loss on disposal of fixed assets		21
Operating lease rentals	- land and buildings	5,570
Other operating income	- rental income	(82)
Other operating income	- marketing income	(155)

*£5,000 of this relates to the company

Operating lease rentals are split between minimum lease payments of £5 6m and contingent rents of £0 1m

Notes to the financial statements

at 31 May 2007

5. Staff costs

	2007
	£000
Wages and salaries	8,479
Social security costs	1,893
Other pension costs	4
	10,376

The average monthly number of employees during the period was as follows

	2007
	No
Operational	1,654
Administration	315
	1,969

Directors' emoluments

	Basic salary	*Fees and bonuses*	*Benefits*	*Total 2007*
	£	*£*	*£*	*£*
G W Ford	77,000	15,000	9,001	101,001
B J Price	49,000	10,833	3,727	63,560
Total	126,000	25,833	12,728	164,561

Benefits represent car allowance, non-cash healthcare benefits

6. Finance expense

	2007
	£000
Senior debt interest	1,951
Mezzanine debt interest	1,880
Pik Notes interest	2,362
Amortisation of loan issue costs	275
Loan issue costs written off in the year	3,150
Loss on fair value of interest rate swap	508
Interest on loan from parent	8,204
	18,330

Notes to the financial statements

at 31 May 2007

7. Taxation

a) Analysis of tax in the period

	2007 £000
Current tax	-
Deferred tax	5,849
Income tax credit reported on the income statement	5,849

b) Reconciliation of total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006 - 30%) The differences are explained below

	2007 £000
Loss on ordinary activities before tax	(14,970)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(4,491)
Effect of	
Expenses not deductible for tax purposes	550
Movement in deferred tax asset not recognised	(1,908)
Income tax expense reported on consolidated income statement	(5,849)

c) Deferred tax

Deferred tax recognised in the financial statements and the amounts not recognised are as follows

		2007
	Recognised £000	Not recognised £000
Decelerated/(accelerated) capital allowances	–	1,087
Other timing differences	(17,700)	299
Tax losses	(5,549)	7
Deferred tax asset / (liability)	(12,151)	1,393

Movements in the recognised deferred tax asset / (liability) are as follows

	£000
At 15 September 2006	–
On acquisition	(18,000)
Profit and loss account movement during the period	5,849
At 31 May 2007	(12,151)

Deferred tax assets are recognised once it is considered more likely than not that they will be recoverable against future taxable trading profits arising in the group During March 2007, the UK Government announced budget tax changes which, if enacted in the proposed manner, will have a significant effect on the Group's future tax position It is proposed that the rate of UK Corporation tax will reduce form 30% to 28% from 1 April 2008 This rate change will affect both the amount of future cash payments to be made by the Group and will also reduce the size of the Group's deferred tax liability As at 31 May 2007 these changes to the UK tax system are not regarded as 'substantively enacted' as they are still subject to parliamentary agreement and so their effect is not reflected in the Group's 31 May 2007 balance sheet

Notes to the financial statements

at 31 May 2007

8. Loss attributable to members of parent company

The loss attributable to the parent company for the period was £2,663,000

9. Intangible assets

Group	*Software*	*Brand*	*Trademark*	*Goodwill*	*Total*
	£	£	£	£	£
Cost					
At 15 September 2006	–	–	–	–	–
Goodwill arising on acquisition of subsidiary	–	–	–	160,821	160,821
Acquired with subsidiary	122	60,000	–	-	60,122
Additions	8	–	46	–	54
At 31 May 2007	130	60,000	46	160,821	220,997
Amortisation					
At 15 September 2006	–	–	–	–	–
Amortisation charge	5	1,000	–	–	1,005
At 31 May 2007	5	1,000	–	–	1,005
Net book value					
At 31 May 2007	125	59,000	46	160,821	219,992
At 15 September 2006	–	–	–	–	–

Goodwill arising on acquisition relates to the acquisition of Caffe Nero Group Limited on 1 February 2007 (see note 2)

The brand is amortised over its expected useful economic life of 20 years

Impairment testing of goodwill

The group tests annually for impairment or more frequently if there are indications that goodwill may be impaired

The goodwill of £160,821,000 relates to the future results of the acquired Caffe Nero stores Goodwill is allocated to cash generating units based on their annualised cash contribution at the time of acquisition The Group considers each of its stores to be a cash generating unit

The recoverable amounts of the stores are calculated from value in use calculations based on cash flow projections approved by senior management The discount rate applied to cash flow projections is 10% The growth rate applied is store specific and dependent upon the age of the store

The company balance sheet contains no intangible assets

Notes to the financial statements

at 31 May 2007

10. Property, plant and equipment

Group

	Leasehold improvements	*Furniture, fittings and equipment*	*Total*
	£000	*£000*	*£000*
Cost			
At 15 September 2006	-	-	-
Acquired with subsidiary	35,906	10,816	46,722
Additions	3,766	1,487	5,253
Disposals	(121)	-	(121)
At 31 May 2007	39,551	12,303	51,854
Depreciation			
At 15 September 2006	-	-	-
Provided during the period	2,165	948	3,113
Impairment	67	45	112
Disposals	(68)	-	(68)
At 31 May 2007	2,164	993	3,157
Net book value			
At 31 May 2007	37,387	11,310	48,697
At 15 September 2006	-	-	-

The company balance sheet contains no property, plant and equipment

The impairment charge relates to the unrecoverable elements of assets relating to cash generating units One store has been impaired during the year and written down to a net book value of nil since the directors do not consider that this store will be profitable

The recoverable amounts of the stores are calculated from value in use calculations based on cash flow projections approved by senior management The discount rate applied to cash flow projections is 10% The growth rate applied is store specific and dependent upon the age of the store

Notes to the financial statements

at 31 May 2007

11. Non current asset investments

	Subsidiary undertakings £000
Company	
Cost	
At 15 September 2006	-
Shares in subsidiary company	2,024
Loans to subsidiary company	98,450
As at 31 May 2007	100,474

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet

The company holds all the equity share capital of Rome Bidco Limited which is the parent company of Caffe Nero Group Limited, which operates Italian style coffee bars Caffe Nero Group Limited holds all the equity share capital of Nero Holdings Limited and Aroma Limited which also operate coffee bars The results of these companies have been consolidated in these financial statements All these companies are registered in England and Wales

On 1 March 2007, Rome Bidco Limited acquired the entire share capital of Caffe Nero Investments Limited for £100 Caffe Nero Investments Limited is the holding company of Caffe Nero Ventures Limited which is the management company of the group's overseas investments, joint venture partners and franchises

12. Lease premiums

	Lease premiums £000
Cost	
At 15 September 2006	-
Acquired with subsidiary	2,899
Additions	70
At 31 May 2007	2,969
Depreciation	
At 15 September 2006	-
Depreciation charge	45
At 31 May 2007	45
Net book value	
At 31 May 2007	2,924
At 15 September 2006	-

The net book value at 31 May 2007 is split as follows

Non-current assets	2,561
Current assets	363

Lease premiums are depreciated over the lease terms, which range between 6 and 20 years

Notes to the financial statements

at 31 May 2007

13. Other receivables

	Group 2007 £000	*Company 2007 £000*
Other debtors	420	–
Amount due from subsidiary undertaking	-	46,758
Prepayments	1,656	74
	2,076	46,832

Included in non-current assets (other receivables) is an amount of £282,000 due after more than one year (relating to lease deposits paid)

14. Inventories

	Group 2007 £000	*Company 2007* £000
Goods for resale	872	–

Cost of sales in the income statement includes £7,353,000 in respect of the cost of goods sold

15. Current liabilities

	Group 2007 £000	*Company 2007 £000*
Trade payables	9,374	–
Amount due to subsidiary undertaking	-	331
Amount due to parent undertaking	1,671	-
Other creditors, including taxation and social security	3,099	–
Accruals and deferred income	9,034	-
	23,178	331

Notes to the financial statements

at 31 May 2007

16. Financial liabilities

Group	*Current* *£000*	*Non-current* *£000*	*Total 2007* *£000*
Interest bearing loans and borrowings			
Term loans			
BoS term loan – Senior A - £20,000,000	1,835	17,066	18,901
BoS term loan – Senior B - £25,000,000	–	23,618	23,618
BoS term loan – Senior C - £25,000,000	–	23,612	23,612
BoS term loan – Capex facility	188	1,812	2,000
BoS term loan – Revolving credit facility	-	1,500	1,500
Mezzanine term loan - £40,000,000	–	38,188	38,188
Rolled up interest – Mezzanine term loan	-	609	609
Pik notes			
Pik notes - £40,000,000	–	38,598	38,598
Rolled up interest on Pik Notes	-	2,362	2,362
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	8,204	-	8,204
Total	108,677	147,365	256,042

Company	*Current* *£000*	*Non-current* *£000*	*Total 2007* *£000*
Interest bearing loans and borrowings			
Pik notes - £40,000,000	–	38,598	38,598
Rolled up interest on Pik Notes	-	2,362	2,362
Loan from parent undertaking	98,450	-	98,450
Rolled up interest due to parent undertaking	8,204	-	8,204
Total	106,654	40,960	147,614

The loans from the company's parent undertaking are repayable on demand No interest is payable on the first loan of £38 6m On the second loan of £98 4m, interest is payable at 25% per annum in the first year, 23% per annum in the second year, 20% per annum in the third year and 19% per annum thereafter

Notes to the financial statements

at 31 May 2007

Loan repayment dates

	Amount to be repaid at each repayment date Group £000	Company £000
Senior A (Interest charged at LIBOR* + 2.25% margin)		
31 August & 30 November 2007 and 28 February & 31 May 2008	500	-
31 August & 30 November 2008 and 28 February & 31 May 2009	625	-
31 August & 30 November 2009 and 28 February & 31 May 2010	750	-
31 August & 30 November 2010 and 28 February & 31 May 2011	750	-
31 August & 30 November 2011 and 28 February & 31 May 2012	750	-
31 August & 30 November 2012 and 28 February & 31 May 2013	750	-
31 August & 30 November 2013	1,167	-
31 January 2014	1,167	-
Senior B (Interest charged at LIBOR* + 2 75% margin)		
31 January 2015	25,000	-
Senior C (Interest charged at LIBOR* + 3.25% margin)		
31 January 2016	25,000	-
Capex facility (Interest charged at LIBOR* + 2.25% margin)		
28 February 2008	63	-
31 May 2008	125	-
31 August & 30 November 2008 and 28 February & 31 May 2009	125	-
31 August & 30 November 2009 and 28 February & 31 May 2010	125	-
31 August & 30 November 2010 and 28 February & 31 May 2011	125	-
31 August & 30 November 2011	125	-
28 February 2012	62	-
Revolving credit facility (Interest charged at LIBOR* + 2.25% margin)		
31 January 2014	1,500	-
Mezzanine (Interest charged at LIBOR* + 5 00% cash margin + 5 00% PIK margin)**		
31 January 2017	40,000	-
PIK Notes (Interest charged at 18.75%)		
31 January 2018	40,000	40,000

* *where LIBOR means the British Bankers Association Interest Settlement Rate for Sterling*

**5% of the interest payable is settled by cash, 5% is rolled up into the carrying value of the loan*

The term loans were principally taken out to finance the acquisition made in the year All the term loans are charged interest at variable rates as set out in the table above In order to hedge the interest rate risk the Group has entered into an interest rate swap, the effect of which is to fix 75% of the term loans over a period of three years

Interest rate swaps to the value of £82 5 million have been used to part hedge the Senior A, B and C and the Mezzanine term loans Further details of the interest rate swap are given in note 17

The Mezzanine and Pik notes are listed on the Channel Islands Stock Exchange

The loans are secured by a floating charge on the assets of the group All loan repayments are to be made in the same currency in which the loan principal is denominated

Notes to the financial statements

at 31 May 2007

17. Financial instruments

The group and company's principal financial instruments comprise bank loans and cash Cash and cash equivalents are considered to be cash at bank, cash on short term money market deposits and cash at hand The main purpose of the bank loans is to raise finance for the group's operations and acquisitions The group has various other financial instruments, such as trade payables, that arise directly from its operations The disclosures below exclude short term assets and liabilities, as their fair value is not considered to differ materially from their carrying value It is, and has been throughout the period under review, the group and company's policy that no trading in financial instruments shall be undertaken

The main risks arising from group and company's financial instruments are interest rate risk and liquidity risk, there is no currency risk as all financial instruments are held in sterling The Board reviews and agrees policies for managing each of these risks and these policies are summarised below

Interest rate risk

The group borrows in sterling at floating rates of interest Excess cash is placed on short term deposit for up to a week with Bank of Scotland at variable money market rates

The Group's policy is to keep approximately 75% of its borrowings at fixed interest rates This is achieved by entering into interest rate swaps which are designated to hedge underlying debt obligations The Group classifies interest rate swaps as derivative financial instruments and states them at fair value These do not qualify for hedge accounting

Liquidity risk

The group objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and facilities

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the group and company at the period end denominated in sterling were as follows

Group

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Fixed rate							
Pik Notes	-	-	-	-	-	(40,000)	(40,000)
Loans under interest rate swap	(1,500)	(1,875)	(2,250)	(2,250)	(2,250)	(72,375)	(82,500)
Loans from parent	(98,450)	-	-	-	-	-	(98,450)
Rolled up interest on loan from parent	(8,204)	-	-	-	-	-	(8,204)
Total	(108,154)	(1,875)	(2,250)	(2,250)	(2,250)	(112,375)	(229,154)
Floating rate							
Cash and short term deposits	10,389	-	-	-	-	-	10,389
Loans	(688)	(1,125)	(1,250)	(1,250)	(1,062)	(25,625)	(31,000)
Rolled up interest on Mezzanine loan	-	-	-	-	-	(609)	(609)

Notes to the financial statements

at 31 May 2007

Company

	Within 1 year £000	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*More than 5 years £000*	*Total £000*
Fixed rate							
Pik Notes	-	-	-	-	-	(40,000)	(40,000)
Rolled up interest on Pik Notes	-	-	-	-	-	(2,362)	(2,362)
Loan from parent	(98,450)	-	-	-	-	-	(98,450)
Rolled up interest on loan from parent	(8,204)	-	-	-	-	-	(8,204)
Total	(106,654)	-	-	-	-	(42,362)	(149,016)

The floating rate financial liabilities bear interest at rates based on the percentages above LIBOR as set out in note 16

Floating rate cash and deposits earn interest at rates linked to LIBOR

The bank loans are subject to performance criteria which if breached would cause amounts to be repayable on demand Performance is measured with reference to gearing, interest cover and cash flow The group regularly monitors actual and forecast compliance with these covenants and makes regular reports to the banks

Borrowing facilities

The group has various borrowing facilities available to it The undrawn committed facilities available at each relevant period or year end were as follows

	2007 £000
Expiring in more than five years	14,500

Fair values of financial assets and liabilities

The book values of financial assets and liabilities of the group are set out below The directors consider that there were no material differences between the book values and fair values of all the group financial assets and liabilities at each year end

	2007 £000
Cash at bank and in hand	10,389
Loans from parent undertaking	(106,654)
Current portion of third party long term borrowings	(2,003)
Long term third party borrowings	(147,365)
Onerous contract	(168)
Interest rate swap	(508)

Notes to the financial statements

at 31 May 2007

Interest rate swap

During the period, the group has entered into an interest rate swap to fix the interest rate for 75% of its long term debt The interest rate swap has a duration of three years and is a cash flow hedge for the underlying long term debt Payments of interest under the hedge arrangement are due on the same dates as those on which the interest payments on the underlying borrowings fall due for payment Payments and receipts under these interest rate swaps are recognised in the income statement when they become due

The table below summarises the details of the interest rate swap

Principal amount £000	*Termination date*	*Interest rate %*
82,500	26 February 2010	5 775%

18. Provisions

Group

	Onerous contract £000
At 15 September 2006	–
Acquired with subsidiary	198
Utilised	(30)
At 31 May 2007	168

Provisions are split as follows

	2007 £000
Non-current liabilities	63
Current liabilities	105

The onerous contract provision represents the lease incentives given to sublet a property, which are expected to be utilised over the next 2 financial years The lease on the unit expires in 2020

The company has no provisions

Notes to the financial statements

at 31 May 2007

19. Share capital

	£1 ordınary shares number	£
Authorısed	50	50
Allotted, called up and fully paıd		
At 15 September 2006	-	-
Issued durıng the year	50	50
At 31 May 2007	50	50

The company has one class of shares wıth equal votıng rıghts

The company has one class of shares wıth equal votıng rıghts Consıderatıon receıved on the ıssue of shares was £2,024,000 splıt £50 as share capıtal and £2,023,950 as share premıum

20. Reserves and reconciliation of movement ın equity

Group

	Share capıtal £000	Share premıum reserve £000	Retaıned earnıngs £000	Total £000
At 15 September 2006	-	-	-	-
Shares ıssued	-	2,024	-	2,024
Loss for the year	-	-	(9,121)	(9,121)
At 31 May 2007	-	2,024	(9,121)	(7,097)

Company

	Share capıtal £000	Share premıum reserve £000	Retaıned earnıngs £000	Total £000
At 15 September 2006	-	-	-	-
Shares ıssued	-	2,024	-	2,024
Loss for the year	-	-	(2,663)	(2,663)
At 31 May 2007	-	2,024	(2,663)	(639)

Under the terms of the Group's bankıng facılıtıes, companıes wıthın the Group cannot pay dıvıdends wıthout the consent of the lenders

Notes to the financial statements

at 31 May 2007

21. Contingent liability

There is an unlimited cross guarantee in favour of the group's bankers covering the term loans of Rome Pikco Limited and certain of its subsidiaries

22. Capital commitments

At 31 May 2007, capital commitments contracted but not provided for in the group and company financial statements were £116,679

23. Other financial commitments

The group has a number of lease agreements that, pursuant to their economic substance, qualify as non-cancellable operating lease agreements These primarily relate to rents payable on land and buildings The terms of the leases vary significantly but can broadly be summarised as follows

Lease terms

Shop leases are typically between 10 and 15 years with rent reviews every 5 years

Determination of rent payments

Rent payments are based on the amount specified in the agreement

Terms of renewal

The agreements are not terminated automatically after expiry of the lease term and in the majority of cases, there will be an opportunity to negotiate lease extensions with the lessor

Restrictions

There are no restrictions imposed upon the group concerning dividends, additional debt or further leasing under any of the existing lease arrangements

Future minimum rentals payable under non-cancellable operating leases are as follows

Group	*Land and buildings*
	2007
	£000
Due	
In less than one year	16,324
After one year but not more than five years	61,287
After five years	89,323
	166,934

Subleases

The group does sublease areas of leased properties and receives sublease payments from third parties Group companies other than the parent have sublet space in certain properties These typically are flats on short term tenancies, other commercial lettings on periods of less than 5 years and shops on leases of up to 10 years The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 May 2007 is £1 4m

Notes to the financial statements

at 31 May 2007

24. Related party transactions

Transactions with key management are disclosed in note 5 The following transactions, took place between Rome Bidco Limited and related parties during the period

- On 12 March 2007, Rome Bidco Limited purchased 2,082,262 shares in Caffe Nero Group Limited from Gerry Ford at £2 70 per share, and 2,609,411 shares in Caffe Nero Group Limited from Ben Price at £2 70 per share
- On 31 January 2007, the company lent Rome Bidco Limited £38 6m to assist in financing the acquisition of Caffe Nero Group This loan incurs no interest and is repayable on demand
- On 31 January 2007, Rome Pik Holdco Limited, the immediate parent undertaking of the company lent the company £98 4m This is repayable on demand and interest is payable at 25% per annum in the first year, 23% per annum in the second year, 20% per annum in the third year and 19% per annum thereafter £8 2m of interest has accrued since the loan was made
- On 31 January 2007, the company lent Rome Bidco Limited £98 4m to assist in financing the acquisition of Caffe Nero Group The terms of the loan and interest applied are as set out above Issue costs of £3 15m incurred in relation to the loan have been written off in the period These were paid on behalf of Rome Bidco Limited by Caffe Nero Group Limited
- Caffe Nero Group Limited has provided the mechanics through which a number of debt and equity issue fees, and other acquisition fees could be paid on behalf of both the company and Rome Bidco Limited These were then recharged through the intercompany accounts These amounted to £0 3m on behalf of the company and £4 7m on behalf of Rome Bidco Limited
- Caffe Nero Group Limited has paid interest on the third party loans of Rome Bidco Limited During the period, this amounted to £3 0m and was recharged through the intercompany account
- Rome Bidco Limited has provided funding cash to Caffe Nero Group Limited to repay its debt existing at the time of the acquisition and to pay the various fees referred to above It has also provided its capex and revolver loans to Caffe Nero Group Limited The total funding passed to Caffe Nero Group Limited is £14 9m

The amounts outstanding between the company and other group companies as at 31 May 2007 are as follows

	Amounts owed to Rome Pikco Limited £000	*Amounts owed to Rome Bidco Limited £000*	*Amounts owed to Caffe Nero Group Limited £000*
Amounts owed by Rome Pikco Limited	–	(145,208)	331
Amounts owed by Rome Bidco Limited	145,208	–	(7,310)
Amounts owed by Caffe Nero Group Limited	(331)	7,310	–
Amounts owed to Rome Pik Holdco Limited	(106,654)	–	–
Amounts owed to Rome Holdco Sarl	–	–	(1,671)
	38,223	(137,898)	(8,650)

Notes to the financial statements

at 31 May 2007

The following transactions have taken place between the Rome Pikco Limited Group entities and its ultimate shareholders during the period

- Of the acquisition fees referred to above, £1 5m was paid to Cheyson Partners Limited, which is the General Partner of Paladin Partners 1, which owns 33 0% of Rome Holdco Sarl, the ultimate parent undertaking of the company

- Of the acquisition fees referred to above, £1 65m was paid to Saratoga Limited, which owns 67 0% of Rome Holdco Sarl, the ultimate parent undertaking of the company These were incurred as a result of arranging the funding necessary to acquire Saratoga and Paladin Partners 1 shares in Caffe Nero Group Limited

- Caffe Nero Group Limited has accrued monitoring fees payable to Saratoga Limited and Cheyson Partners Limited As at 31 May 2007, the amounts owed and outstanding were £23,333 and £25,000 respectively

- Saratoga and Paladin Partners 1 have rolled their cash receivable on the sale of their shares in Caffe Nero Group Limited into Rome Holdco Sarl in the form of equity and preferred equity certificates In addition to their equity share ownership disclosed above, as at 31 May 2007, Saratoga and Paladin Partners 1 held £32 7m and £65 7m of preferred equity certificates respectively Gerry Ford and Ben Price hold interest in the preferred equity certificates, as follows

G W Ford (1)	£36 0m
B J Price (2)	£2 1m

(1) G W Ford's interest in ordinary shares is registered as follows

Saratoga Limited	£33 7m
Paladin Partners 1	£3 3m

(2) B J Price's interest in ordinary shares is registered as follows

Paladin Partners 1	£2 1m

25. Ultimate parent undertaking

At the year end, the company's ultimate parent undertaking was Saratoga Limited, a company incorporated in the Isle of Man The company's immediate parent undertaking was Rome Pik Holdco Ltd

Rome Holdco Sarl is the parent undertaking of the smallest and largest group of which the company is a member and for which group financial statements are prepared Copies of the group financial statements for Rome Holdco Sarl will be available from Rome Holdco Sarl at 46A Avenue JF Kennedy, L-1855 Luxembourg