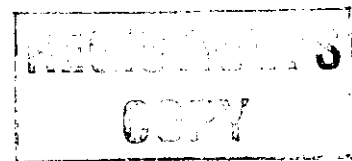


Registered number
4270948



S & M CAFE LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 7 SEPTEMBER 2003




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COMPANIES HOUSE 25/01/05

S & M CAFE LIMITED

COMPANY INFORMATION

Directors

K M Finch
R Haddow
J Kinn

Secretary

J Kinn

Auditors

Spofforths
Courtyard House
30 Worthing Road
Horsham
West Sussex
RH12 1SL

Registered office

48 Brushfield Street
London
E1 6AG

Registered number

4270948

S & M CAFE LIMITED

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The following pages do not form part of the statutory accounts:

Management profit and loss account	12 to 13
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S & M CAFE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 7 SEPTEMBER 2003

The directors present their report and accounts for the year ended 7 September 2003.

Principal activities

The company's principal activity during the year continued to be the operation of restaurants.

Directors

The directors who served during the year and their interests in the share capital of the company were as follows:

	£1 Ordinary shares	
	7	31
	September	August
	2003	2002
K M Finch	800	800
R Haddow (Appointed 17 December 2002)	-	-
J Kinn (Appointed 7 February 2003)	-	-

J W Diedericks had served as a director until 25 April 2003

Directors' responsibilities

Company law requires the directors to prepare accounts 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 for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

A resolution to reappoint Spofforths as auditors will be put to the members at the Annual General Meeting.

Small company special provisions

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on


K M Finch
Director

19/01/05

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

S & M CAFE LIMITED

We have audited the accounts of S & M Café Limited for the year ended 7 September 2003 on pages 3 to 11.

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

As described in the statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if 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 transactions with the company 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts 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 accounts.

Fundamental uncertainty - going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 of the financial statements concerning the directors' efforts to renegotiate loans and raise further capital. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes the successful conclusion of these matters, we consider that these disclosures should be brought to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 7 September 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Spofforths
Chartered Accountants and Registered Auditors
Courtyard House
30 Worthing Road
Horsham
West Sussex
RH12 1SL

Date:

19 January 2005

S & M CAFE LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 7 SEPTEMBER 2003**

	Notes	2003 £	2002 £
Turnover		799,434	258,417
Cost of sales		(767,049)	(214,660)
Gross profit		32,385	43,757
Administrative expenses		(652,411)	(196,620)
Administrative expenses - exceptional items	17	(154,713)	-
Operating loss	3	(774,739)	(152,863)
Interest receivable		483	-
Interest payable		(36,670)	(3,562)
Loss on ordinary activities before taxation		(810,926)	(156,425)
Tax on loss on ordinary activities		-	-
Loss for the financial year		(810,926)	(156,425)
Retained loss for the financial year	13	(810,926)	(156,425)

S & M CAFE LIMITED

BALANCE SHEET

AS AT 7 SEPTEMBER 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	4	23,334	46,667
Tangible assets	5	520,249	151,654
Investments	6	<u>2</u>	<u>2</u>
		543,585	198,323
Current assets			
Stocks		6,921	-
Debtors	8	9,510	101,254
Cash at bank and in hand		<u>9,197</u>	<u>-</u>
		25,628	101,254
Creditors: amounts falling due within one year	9	<u>(575,997)</u>	<u>(284,491)</u>
Net current liabilities		(550,369)	(183,237)
Total assets less current liabilities		(6,784)	15,086
Creditors: amounts falling due after more than one year	10	(378,228)	(70,711)
Net liabilities		<u>(385,012)</u>	<u>(55,625)</u>
Capital and reserves			
Called up share capital	11	2,354	1,000
Share premium	12	579,985	99,800
Profit and loss account	13	<u>(967,351)</u>	<u>(156,425)</u>
Shareholders' funds		<u>(385,012)</u>	<u>(55,625)</u>

The accounts have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985.


K M Finch
Director

Approved by the board on

19th January 2005

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Consolidation

The company and its subsidiary comprise a small group. The company has therefore taken advantage of the exemption provided by section 248 of the Companies Act 1985 not to prepare group accounts.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Short leasehold improvements	10% per annum
Fixtures, fittings and equipment	10 - 20% per annum

Lease premiums are capitalised at the fair values of the premium, and amortised over the length of the lease on a straight line basis as follows:

Acton	over 25 years
Brushfield Street	over 12 years

Amortisation

Goodwill is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised through the profit and loss account over the directors' estimate of its useful economic life of 3 years.

Stocks

Stocks are consistently valued at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial information that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial information.

A net deferred tax asset is regarded as recoverable and therefore recognised only where, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2 Going concern

The company meets its day to day working capital requirements through an overdraft facility and two bank loans. In addition, the company had made arrangements with certain key creditors for deferral of payment. In the absence of additional fundraising the directors expect that the company will be unable to trade within its current facilities. However, the directors' plans for raising funds of a minimum of £900,000 (net of expenses) from a share issue ("the Offer") are at an advanced stage. In addition the directors are currently negotiating with the lenders to the company for new terms for amounts borrowed totalling £518,000. The lenders to the company have confirmed in writing to the directors that they will, subject only to the successful completion of the Offer, provide facilities to the company at that level, although the precise terms of those facilities have yet to be agreed.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future.

The validity of this assumption depends on the successful conclusion of the Offer and negotiations with the company's lenders. The financial statements do not include any adjustments that would result if the Offer were not concluded successfully.

Whilst the directors are presently uncertain as to the outcome of the matters mentioned above, they believe it is appropriate for the financial statements to be prepared on the going concern basis.

3 Operating loss

	2003	2002
	£	£
This is stated after charging:		
Depreciation of owned fixed assets	42,736	2,440
Depreciation of assets held under finance leases and hire purchase contracts	5,444	5,444
Exceptional impairment of tangible fixed assets (see note 17)	135,646	-
Exceptional impairment of lease premium (see note 17)	19,067	-
Amortisation of goodwill	23,333	23,333
Directors' emoluments	148,417	148,417
Operating lease rentals - land and buildings	85,478	33,531
Auditors' remuneration	4,250	4,250

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

4 Intangible fixed assets

Goodwill
£

Cost

At beginning of year

70,000

At end of year

70,000

Amortisation

At beginning of year

23,333

Provided during the year

23,333

At end of year

46,666

Net book value

At 7 September 2003

23,334

At 31 August 2002

46,667

5 Tangible fixed assets

	Short leasehold improvements £	Fixtures fittings and equipment £	Short leasehold buildings £	Total £
Cost				
At beginning of year	93,888	65,650	-	159,538
Additions	414,911	61,577	95,000	571,488
At end of year	508,799	127,227	95,000	731,026
Depreciation				
At beginning of year	3,109	4,775	-	7,884
Charge for the year	30,534	12,129	5,517	48,180
Exceptional impairment (note 17)	135,646	-	19,067	154,713
At end of year	169,289	16,904	24,584	210,777
Net book value				
At 7 September 2003	339,510	110,323	70,416	520,249
<i>At 31 August 2002</i>	<i>90,779</i>	<i>60,875</i>	<i>-</i>	<i>151,654</i>

Net book value of fixtures, fittings and equipment included above held under finance leases and hire purchase contracts

2003 **2002**
£ £

99,047 **16,997**

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

6 Investments

	Investments in subsidiary undertaking £
Cost	
At beginning of year	2
At beginning and end of year	2

7 Investment in subsidiary undertakings

Name of Company	Holding	Proportion of voting rights and shares held	Aggregate capital and reserves
S & M Café (Islington) Limited	Ordinary shares	100%	1
S & M (Brushfield Street) Limited	Ordinary shares	100%	1

S & M Café (Islington) Limited is a company incorporated in England and Wales. During the period the company was dormant. S & M (Brushfield Street) Limited is a company incorporated in England and Wales. During the period the company was dormant.

8 Debtors

	2003 £	2002 £
Trade debtors	-	1,254
Unpaid share capital	-	100,000
Other debtors	9,510	-
	9,510	101,254

9 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank loans and overdrafts (secured)	165,810	64,034
Obligations under finance lease and hire purchase contracts	21,971	4,558
Trade creditors	194,443	99,783
Other taxes and social security costs	101,569	42,649
Other creditors	92,204	73,467
	575,997	284,491

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

10 Creditors: amounts falling due after one year	2003	2002
	£	£
Bank loans (secured)	237,766	62,658
Obligations under finance lease and hire purchase contracts	40,462	8,053
Other loans	100,000	-
	378,228	70,711

11 Share capital	2003	2002
	£	£
Authorised:		
Ordinary shares of £1 each	4,911	1,000
"A" Ordinary shares of £1 each	89	-
	5,000	1,000

	2003	2002	2003	2002
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £1 each	2,316	2,316	2,316	962
"A" Ordinary shares of £1 each	38	38	38	38
	2,354	2,354	2,354	1,000

During the year 1,316 ordinary £1 shares were issued at premiums as follows:

Date	Shares	Nominal value	Premium	Total
	No	£	£	£
11 December 2002	53	53	-	53
12 December 2002	28	28	-	28
17 December 2002	848	848	449,152	450,000
17 December 2002 (see below)	51	51	-	51
18 December 2002	106	106	-	106
11 August 2003	152	152	99,848	100,000
12 August 2003	78	78	-	78
	1,316	1,316	549,000	550,316

During the year 89 "A" ordinary £1 shares were issued at par value. On 17 December 2002, 51 "A" ordinary shares of £1 were re-designated as ordinary £1 shares on a one for one basis by written resolution.

The "A" Ordinary shares rank pari pasu with the Ordinary shares except as detailed below:

- The "A" ordinary shares carry no voting rights.
- The "A" ordinary shares carry no entitlement to any dividend.
- The "A" ordinary shares may be converted into ordinary shares.
- Any "A" ordinary shares transferred to an existing member of the company shall automatically convert to the class of share already held by that member.

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

12 Reserves

	Share premium account £
At beginning of year	99,800
Arising on share issue	549,000
Expenses of issue	(68,815)
At end of year	579,985

13 Profit and loss account

	2003 £
At beginning of year	(156,425)
Retained loss	(810,926)
At end of year	(967,351)

14 Post balance sheet events

On 1 October 2004 the Company was acquired by S&M Cafes Group plc by way of a share for share exchange and is now a 100% subsidiary undertaking of that company.

15 Other financial commitments

	2003 £	2002 £
At the year end the company had annual commitments under non-cancellable operating leases as set out below:		
Operating leases which expire:		
within two to five years	20,000	20,000
in over five years	155,000	155,000
	175,000	175,000

16 Transactions with directors

During the year the company provided a loan to K Finch, a director. At the period end the balance due from K Finch to the company was £13,228 as shown in other debtors. The maximum during the year was £13,228. In addition to this loan, a gross unpaid salary of £10,000 has been accrued. This has been disclosed separately from the directors loan balance as part of other creditors.

S & M CAFE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 7 SEPTEMBER 2003

17 Exceptional items

Subsequent to the period end, the Acton branch of the business was closed. As a consequence an impairment review was carried out on assets held at the period end. Tangible fixed assets with a net book value prior to adjustment of £135,646 have been written down to their net realisable value of £nil. The lease premium relating to the branch which had a net book value of £39,067 prior to adjustment has been written down to its net realisable value of £20,000.