

Registered number  
4270948

**REGISTRAR'S  
COPY**

**S & M CAFE LIMITED**  
**DIRECTORS' REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 5 SEPTEMBER 2004**



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25/01/05

# **S & M CAFE LIMITED**

## **COMPANY INFORMATION**

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### **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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# S & M CAFE LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 5 SEPTEMBER 2004

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The directors present their report and accounts for the year ended 5 September 2004.

#### 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:

|           | <b>£1 Ordinary shares</b> |                  |
|-----------|---------------------------|------------------|
|           | <b>5</b>                  | <b>8</b>         |
|           | <b>September</b>          | <b>September</b> |
|           | <b>2004</b>               | <b>2003</b>      |
| K M Finch | <b>735</b>                | <b>800</b>       |
| R Haddow  | -                         | -                |
| J Kinn    | -                         | -                |

#### 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**

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We have audited the accounts of S & M Café Limited for the year ended 5 September 2004 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.

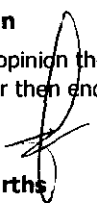
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. 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 5 September 2004 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 5 SEPTEMBER 2004**

|  | Notes | 2004<br>£          | 2003<br>£ |
|--|-------|--------------------|-----------|
| <b>Turnover</b>                                    |       | <b>1,255,553</b>   | 799,434   |
| Cost of sales                                      |       | <b>(1,123,529)</b> | (767,049) |
| <b>Gross profit</b>                                |       | <b>132,024</b>     | 32,385    |
| Administrative expenses                            |       | <b>(722,352)</b>   | (652,411) |
| Administrative expenses - exceptional items        | 18    | <b>(22,500)</b>    | (154,713) |
| <b>Operating loss</b>                              | 3     | <b>(612,828)</b>   | (774,739) |
| Interest receivable                                |       | -                  | 483       |
| Interest payable                                   |       | <b>(66,891)</b>    | (36,670)  |
| <b>Loss on ordinary activities before taxation</b> |       | <b>(679,719)</b>   | (810,926) |
| Tax on loss on ordinary activities                 |       | -                  | -         |
| <b>Loss for the financial year</b>                 |       | <b>(679,719)</b>   | (810,926) |
| <b>Retained loss for the financial year</b>        | 14    | <b>(679,719)</b>   | (810,926) |

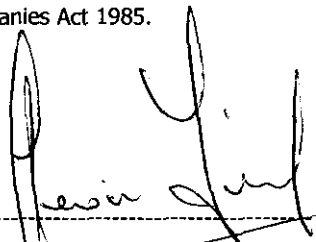
# S & M CAFE LIMITED

## BALANCE SHEET

AS AT 5 SEPTEMBER 2004

|  | Notes | 2004<br>£               | 2003<br>£               |
|--|-------|-------------------------|-------------------------|
| <b>Fixed assets</b>  |       |                         |                         |
| Intangible assets  | 4     | -                       | 23,334                  |
| Tangible assets  | 5     | 578,841                 | 520,249                 |
| Investments  | 6     | <u>2</u>                | <u>2</u>                |
|  |       | <b>578,843</b>          | <b>543,585</b>          |
| <b>Current assets</b>  |       |                         |                         |
| Stocks   |       | 6,921                   | 6,921                   |
| Debtors  | 8     | 47,717                  | 9,510                   |
| Cash at bank and in hand                                       |       | <u>9,752</u>            | <u>9,197</u>            |
|  |       | <b>64,390</b>           | <b>25,628</b>           |
| <b>Creditors: amounts falling due within one year</b>          | 9     | <u>(1,127,971)</u>      | <u>(575,997)</u>        |
| <b>Net current liabilities</b>                                 |       | <b>(1,063,581)</b>      | <b>(550,369)</b>        |
| <b>Total assets less current liabilities</b>                   |       | <b>(484,738)</b>        | <b>(6,784)</b>          |
| <b>Creditors: amounts falling due after more than one year</b> | 10    | (178,493)               | (378,228)               |
| <b>Provisions for liabilities and charges</b>                  | 11    | (16,500)                | -                       |
| <b>Net liabilities</b>   |       | <u><b>(679,731)</b></u> | <u><b>(385,012)</b></u> |
| <b>Capital and reserves</b>                                    |       |                         |                         |
| Called up share capital  | 12    | 3,219                   | 2,354                   |
| Share premium  | 13    | 964,120                 | 579,985                 |
| Profit and loss account  | 14    | <u>(1,647,070)</u>      | <u>(967,351)</u>        |
| <b>Shareholders' funds</b>                                     |       | <u><b>(679,731)</b></u> | <u><b>(385,012)</b></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

19/01/05

# **S & M CAFE LIMITED**

## **NOTES TO THE ACCOUNTS**

### **FOR THE YEAR ENDED 5 SEPTEMBER 2004**

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#### **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 5 SEPTEMBER 2004

#### *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

|  | 2004    | 2003    |
|--|---------|---------|
|  | £       | £       |
| This is stated after charging:   |         |         |
| Depreciation of owned fixed assets   | 70,160  | 42,736  |
| Depreciation of assets held under finance leases and hire purchase contracts | 15,283  | 5,444   |
| Amortisation of goodwill   | 23,334  | 23,333  |
| Directors' emoluments  | 126,686 | 148,417 |
| Exceptional impairment of tangible fixed assets (see note 18)                | 6,000   | 135,646 |
| Exceptional costs relating to onerous contracts (see note 18)                | 16,500  | -       |
| Exceptional impairment of lease premium (see note 18)                        | -       | 19,067  |
| Operating lease rentals - land and buildings                                 | 190,012 | 85,478  |
| Auditors' remuneration   | 9,500   | 4,250   |

# S & M CAFE LIMITED

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 5 SEPTEMBER 2004

#### 4 Intangible fixed assets

#### Goodwill £

##### Cost

At beginning of year

70,000

**At end of year**

**70,000**

##### Amortisation

At beginning of year

46,666

Provided during the year

23,334

**At end of year**

**70,000**

##### Net book value

**At 5 September 2004**

-

*At 7 September 2003*

23,334

#### 5 Tangible fixed assets

|                            | Short leasehold<br>improvements<br>£ | Fixtures fittings<br>and equipment<br>£ | Short<br>leasehold<br>buildings<br>£ | Total<br>£     |
|----------------------------|--------------------------------------|---|--------------------------------------|----------------|
| <b>Cost</b>                |                                      |   |                                      |                |
| At beginning of year       | 508,515                              | 127,511                                 | 95,000                               | 731,026        |
| Additions                  | 113,763                              | 36,272                                  | -                                    | 150,035        |
| <b>At end of year</b>      | <b>622,278</b>                       | <b>163,783</b>                          | <b>95,000</b>                        | <b>881,061</b> |
| <b>Depreciation</b>        |                                      |   |                                      |                |
| At beginning of year       | 169,289                              | 16,904                                  | 24,584                               | 210,777        |
| Charge for the year        | 63,286                               | 15,974                                  | 6,183                                | 85,443         |
| Exceptional impairment     | 6,000                                | -                                       | -                                    | 6,000          |
| <b>At end of year</b>      | <b>238,575</b>                       | <b>32,878</b>                           | <b>30,767</b>                        | <b>302,220</b> |
| <b>Net book value</b>      |                                      |   |                                      |                |
| <b>At 5 September 2004</b> | <b>383,703</b>                       | <b>130,905</b>                          | <b>64,233</b>                        | <b>578,841</b> |
| <i>At 7 September 2003</i> | <i>339,226</i>                       | <i>110,607</i>                          | <i>70,416</i>                        | <i>520,249</i> |

Net book value of plant and machinery included above held under finance leases and hire purchase contracts

**2004**                      **2003**  
£                                      £

**142,667**                      **99,047**

# S & M CAFE LIMITED

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 5 SEPTEMBER 2004

#### 6 Investments

|                                     | Investments in subsidiary undertaking<br>£ |
|-------------------------------------|--|
| <b>Cost</b>                         |  |
| At beginning of year                | 2  |
| <b>At beginning and end of year</b> | <b>2</b>                                   |

#### 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

|               | 2004<br>£     | 2003<br>£    |
|---------------|---------------|--------------|
| Trade debtors | 1,788         | -            |
| Other debtors | 45,929        | 9,510        |
|               | <b>47,717</b> | <b>9,510</b> |

#### 9 Creditors: amounts falling due within one year

|   | 2004<br>£        | 2003<br>£      |
|---|------------------|----------------|
| Bank loans and overdrafts (secured)                         | 410,874          | 165,810        |
| Obligations under finance lease and hire purchase contracts | 39,291           | 21,971         |
| Trade creditors   | 170,136          | 194,443        |
| Other taxes and social security costs                       | 332,552          | 101,569        |
| Other loans   | 50,000           | -              |
| Other creditors   | 125,118          | 92,204         |
|   | <b>1,127,971</b> | <b>575,997</b> |

**S & M CAFE LIMITED****NOTES TO THE ACCOUNTS****FOR THE YEAR ENDED 5 SEPTEMBER 2004**

| <b>10 Creditors: amounts falling due after one year</b>     | <b>2004</b>    | <b>2003</b> |
|---|----------------|-------------|
|   | <b>£</b>       | <b>£</b>    |
| Bank loans (secured)  | <b>95,083</b>  | 237,766     |
| Obligations under finance lease and hire purchase contracts | <b>33,410</b>  | 40,462      |
| Other loans   | <b>50,000</b>  | 100,000     |
|   | <b>178,493</b> | 378,228     |

**11 Provisions for liabilities and charges**

|  |               |             |
|--|---------------|-------------|
| Vacant property                        | <b>2004</b>   | <b>2003</b> |
|  | <b>£</b>      | <b>£</b>    |
| Charged to the profit and loss account | <b>16,500</b> | -           |
| At end of year                         | <b>16,500</b> | -           |

A provision has been made in respect of the lease of the Acton unit. The directors expect that this lease will be assigned to another tenant in January 2005. This has been charged to the profit and loss account as an exceptional item.

# S & M CAFE LIMITED

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 5 SEPTEMBER 2004

#### 12 Share capital

|                                     | 2004         |              | 2003         |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | £            |              | £            |              |
| Authorised:                         |              |              |              |              |
| Ordinary shares of £1 each          |              | 4,911        |              | 4,911        |
| "A" Ordinary shares of £1 each      |              | 89           |              | 89           |
|                                     |              | <u>5,000</u> |              | <u>5,000</u> |
|                                     |              |              |              |              |
|                                     | 2004         | 2003         | 2004         | 2003         |
|                                     | No           | No           | £            | £            |
| Allotted, called up and fully paid: |              |              |              |              |
| Ordinary shares of £1 each          | 3,181        | 2,316        | 3,181        | 2,316        |
| "A" Ordinary shares of £1 each      | 38           | 38           | 38           | 38           |
|                                     | <u>3,219</u> | <u>2,354</u> | <u>3,219</u> | <u>2,354</u> |

During the period 865 ordinary £1 shares were issued at premiums as follows:

| Date            | Shares<br>No | Nominal value<br>£ | Premium<br>£   | Total<br>£     |
|-----------------|--------------|--------------------|----------------|----------------|
| 09 October 2003 | 78           | 78                 | 49,844         | 49,922         |
| 10 October 2003 | 65           | 65                 | -              | 65             |
| 22 April 2004   | 145          | 145                | -              | 145            |
| 23 April 2004   | 347          | 347                | 384,423        | 384,770        |
| 23 April 2004   | 230          | 230                | -              | 230            |
|                 | <u>865</u>   | <u>865</u>         | <u>434,267</u> | <u>435,132</u> |

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.

#### 13 Reserves

|                        | Share<br>premium<br>account<br>£ |
|------------------------|----------------------------------|
| At beginning of year   | 579,985                          |
| Arising on share issue | 434,267                          |
| Expenses of issue      | (50,132)                         |
| <b>At end of year</b>  | <b><u>964,120</u></b>            |

# S & M CAFE LIMITED

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 5 SEPTEMBER 2004

#### 14 Profit and loss account

2004

£

|                       |                    |
|-----------------------|--------------------|
| At beginning of year  | (967,351)          |
| Retained loss         | (679,719)          |
| <b>At end of year</b> | <b>(1,647,070)</b> |

#### 15 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.

#### 16 Other financial commitments

2004

2003

£

£

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

#### 17 Transactions with directors

During the year the company provided a loan to K Finch, a director. The balance at the start of the period was £13,228. The maximum during the year was £25,820. The balance at the end of the year was £25,820. In addition to this loan, a gross unpaid salary of £18,590 has been accrued. This has been disclosed separately from the directors loan balance as part of other creditors.

K Finch has provided security over the balances due to HSBC Bank plc and Dr Rickards.

#### 18 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 £6,000 have been written down to their net realisable value of £nil (2003: £135,646 was written down to £nil). In the prior year, the lease premium relating to the branch which had a net book value of £39,067 prior to adjustment was written down to its net realisable value of £20,000. No further adjustments in respect of impairment have been made to the capitalised value of lease premiums in the current year.

A provision has been recognised in respect of an onerous contract of £16,500 (see note 11).