

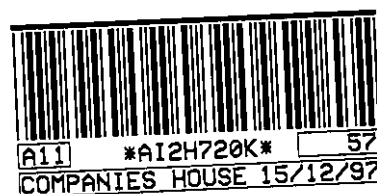
COSTA LIMITED

DIRECTORS' REPORT AND ACCOUNTS

1 MARCH 1997



Registered Number: 1270695



COSTA LTD

DIRECTORS:

RB Simpson
MA Johnson
RR Clewley (resigned 24 February 1997)
MCW Dowell (appointed 1 December 1996)

SECRETARY:

MR Buxton Smith

REGISTERED OFFICE:

Chiswell Street
London EC1Y 4SD

AUDITORS:

Ernst & Young
Chartered Accountants
Becket House
Lambeth Palace Road
London SE1 7EU

REGISTERED NUMBER:

1270695

DIRECTORS' REPORT

Accounts

The directors submit to the shareholders their report and accounts for the period ended 1 March 1997.
The company changed its name to Costa Limited on 12 September 1997.

Principal activity and review of business development

The principal activity of the company during the year was the manufacture, distribution and sale of coffee. The company intends to continue this activity for the foreseeable future. Trading for the year under review was highly satisfactory. Sixteen new retail units were opened during this time and the company is actively seeking to expand its retail estate.

The directors have a reasonable expectation that the company will continue in operational existence for the foreseeable future and have, therefore, used the going concern basis in preparing the financial statements.

Results and Dividends

The profit after tax for the year ended 1 March 1997 amounted to £926,931 (eight months of 1995/6 - £489,319), which has been transferred to reserves. The directors do not recommend the payment of a dividend.

Fixed assets

The movements of fixed assets during the year are set out in note 7 to the accounts.

Directors

The Directors of the company during the year are listed on page 1.

Directors' interests

According to the register maintained as required under the Companies Act 1985, the beneficial interests of the directors in shares and options over the ordinary shares in the parent undertaking, Whitbread PLC, including shares held under the Whitbread PLC Share Ownership Scheme, are as follows:-

	<u>1 March 1997</u>	<u>3 March 1996 or appointment</u>
RB Simpson	43,748	10,810
MA Johnson	436	968
MCW Dowell	3,674	3,643

DIRECTORS' REPORT (continued)

Directors' interests (continued)

Options over ordinary shares

During the year the following movements in options over the ordinary share capital of the parent undertaking, Whitbread PLC, took place:-

		Options held at 3/3/96 or appointment	<u>Options granted</u>		<u>Options exercised</u>		Options held at 1/3/97
			<u>Number</u>	<u>Price (p)</u>	<u>Number</u>	<u>Price (p)</u>	
RB Simpson	(a)	100,400	42,800	727.8	25,800	292.2	72,800
					26,300	451.2	
					14,400	416.2	
					3,900	456.8	
	(b)	3,734			-	-	3,734
MA Johnson	(a)	15,400	12,900	739.2	-	-	28,300
MCW Dowell	(a)	19,200	-	-	-	-	19,200
	(b)	3,463	-	-	-	-	3,463

(a) the Executive Share Option Scheme

(b) the Savings Related Share Option Scheme

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors.

By order of the Board



SECRETARY

26 November 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 5, is made with a view to distinguishing the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 6 to 14 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable Accounting Standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent fraud and other irregularities.

AUDITORS' REPORT

REPORT OF THE AUDITORS to the members of Costa Limited

We have audited the financial statements on pages 6 to 14 which have been prepared under the historical cost convention, as modified by the revaluation of property, and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

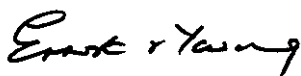
Basis of opinion

We conducted our audit in accordance with 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 1 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

26/11 1997

PROFIT AND LOSS ACCOUNT

Year to 1 March 1997		Year ended 1 March 1997	8 months ended 2 March 1996
	Notes	£	£
TURNOVER		12,719,373	6,743,204
Cost of sales		<u>(9,937,642)</u>	<u>(6,004,938)</u>
GROSS PROFIT		2,781,731	738,266
Administrative expenses		(1,581,330)	(212,376)
Profit on disposal of fixed assets		<u>12,571</u>	<u>18,212</u>
PROFIT BEFORE INTEREST		1,212,972	544,102
Other interest receivable and similar income	4	-	8,274
Interest payable and similar charges	5	<u>-</u>	<u>(8,095)</u>
PROFIT BEFORE TAXATION		1,212,972	544,281
Taxation	6	<u>(286,041)</u>	<u>(54,962)</u>
RETAINED PROFIT FOR THE PERIOD	15	<u><u>926,931</u></u>	<u><u>489,319</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year to 1 March 1997		
PROFIT FOR THE FINANCIAL PERIOD	926,931	489,319
Unrealised surplus/(deficit) on revaluation of fixed assets	-	(514,991)
TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD	<u><u>926,931</u></u>	<u><u>(25,672)</u></u>

BALANCE SHEET1 March 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	7	4,027,047	1,693,965
Investments	8	204	204
		<u>4,027,251</u>	<u>1,694,169</u>
CURRENT ASSETS			
Stocks	9	1,915,723	1,113,765
Debtors	10	823,854	724,387
Cash at bank and in hand		2,117,090	1,116,428
		<u>4,856,667</u>	<u>2,954,580</u>
CREDITORS - amounts falling due within one year	11	<u>(5,171,565)</u>	<u>(1,853,452)</u>
NET CURRENT ASSETS		<u>(314,898)</u>	<u>1,101,128</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,712,353	2,795,297
CREDITORS - amounts falling due after more than one year	12	(6,594)	(16,469)
		<u>3,705,759</u>	<u>2,778,828</u>
CAPITAL AND RESERVES			
Called up share capital	14	101	101
Revaluation reserve	15	(514,991)	(514,991)
Profit and loss account	15	4,220,649	3,293,718
SHAREHOLDERS' FUNDS	16	<u>3,705,759</u>	<u>2,778,828</u>

Director

MCW DOWELL

1997

26 NOVEMBER 1997

ACCOUNTING POLICIES

a) **Accounting Convention**

The accounts are prepared under the historical cost convention, as modified by the revaluation of property, and in accordance with applicable Accounting Standards.

b) **Depreciation**

Freehold and leasehold industrial buildings, plant and machinery and vehicles are written off by equal instalments over their estimated useful lives. Retail leasehold properties, with less than 20 years to run, are amortised over the remaining terms of the lease. The rates of depreciation are as follows:

Freehold industrial and office buildings - over the lower of 50 years or the estimated remaining useful life from the later of the date of acquisition and the latest valuation

Leasehold industrial premises where the lease has less than 20 years to run - over the remaining term of the lease

Vehicles - over 4 to 7 years

Other plant and machinery - mainly over 10 years

c) **Stocks**

Finished goods are stated at the lower of cost, which includes appropriate overheads, and net realisable value.

Raw materials are valued at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

d) **Deferred taxation**

Deferred taxation is recognised under the liability method on all timing differences where it is considered that a liability will crystallise or tax will be recoverable in the foreseeable future.

e) **Turnover**

Turnover is the value of goods and services sold to third parties as part of the company's continuing ordinary activities, after deducting sales based taxes.

f) **Cash flow statement**

As permitted by Financial Reporting Standard No. 1(revised), a cash flow statement has not been prepared by the company.

g) **Leases**

Rental payments in respect of operating leases are charged against profit on a straight line basis over the period of the lease.

h) **Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Day to day transactions are recorded in sterling at the rates ruling on the date of those transactions. Currency gains and losses are dealt with in the profit and loss account.

i) **Group Accounts**

As permitted by s.228 of the Companies' Act 1985 group accounts have not been prepared since the company is a wholly owned subsidiary of a European Community parent.

Profit before taxation is stated after charging and crediting:

2. STAFF COSTS AND NUMBERS

The average number of employees during the period was 239 full time and 39 part time (1995/6 - 185 in total)

Directors' emoluments (excluding pension contributions) were as follows:

The directors' remuneration above relates to the period to 9 October 1995. After that date no director received any remuneration from the company.

Bank interest	-	8,026
Other interest	-	248
	-	8,274

NOTES TO THE ACCOUNTS

	<u>1996/7</u>	<u>1995/6</u>
	£	£
5. <u>INTEREST PAYABLE</u>		
Interest payable on bank loans and overdrafts and other loans wholly repayable within five years - not by instalments	-	480
Interest payable on all other loans	-	5,667
Interest payable on finance leases and hire purchase contracts	-	1,948
	<u>-</u>	<u>8,095</u>

6. TAXATION

Current taxation on profits for the year:

U.K. Corporation Tax at 33% (1995/6 - 33%)

Deferred taxation

286,041	319,397
-	(264,435)
<u>286,041</u>	<u>54,962</u>

Deferred taxation

The charge for the U.K. Corporation Tax has been relieved by £124,637 (1995/6 - £20,123), less a prior year adjustment of £3,399 (1995/6 - £106,693), in respect of accelerated capital allowances.

The potential amount of deferred taxation at 33% not provided in these accounts is £286,440 (1996 - £165,202) in respect of accelerated capital allowances. No provision has been made for any chargeable gains which might arise in the event of properties being sold at their revalued amounts as in the ordinary course of business these assets would be retained indefinitely.

NOTES TO THE ACCOUNTS7. TANGIBLE FIXED ASSETS

	Industrial property	Retail property	Plant and machinery	Total
	£	£	£	£
Cost or valuation:				
At 2 March 1996	370,000	(36,000)	3,120,588	3,454,588
Additions	14,250	1,862,034	877,257	2,753,541
Disposals	-	-	(227,508)	(227,508)
At 1 March 1997	<u>384,250</u>	<u>1,826,034</u>	<u>3,770,337</u>	<u>5,980,621</u>
Depreciation:				
At 2 March 1996	16,537	28,746	(1,805,906)	(1,760,623)
Depreciation for the year	28,834	(16,802)	(360,462)	(348,430)
Disposals	-	(316)	155,795	155,479
At 1 March 1997	<u>45,371</u>	<u>11,628</u>	<u>(2,010,573)</u>	<u>(1,953,574)</u>
Net book amounts 1 March 1997	<u>429,621</u>	<u>1,837,662</u>	<u>1,759,764</u>	<u>4,027,047</u>
Net book amounts 2 March 1996	<u>386,537</u>	<u>(7,254)</u>	<u>1,314,682</u>	<u>1,693,965</u>

A valuation of the company's fixed assets was carried out as at 8 October 1995. The property was valued at open market value for the purpose of its existing use by chartered surveyors employed by the parent company.

If this and previous revaluations had not taken place the book value of fixed assets would be:

Gross amounts	860,123	2,171,530	3,787,098	6,818,751
Depreciation	<u>(115,829)</u>	<u>(145,122)</u>	<u>(2,015,762)</u>	<u>(2,276,713)</u>
Net book amounts 1 March 1997	<u>744,294</u>	<u>2,026,408</u>	<u>1,771,336</u>	<u>4,542,038</u>
Net book amounts 2 March 1996	<u>701,210</u>	<u>181,492</u>	<u>1,326,254</u>	<u>2,208,956</u>

Included in plant and machinery are leased assets with a net book value of £23,938 (1995/6 - £76,756). The depreciation charge on leased assets amounted to £7,346 (1995/6 £15,699).

NOTES TO THE ACCOUNTS8. FIXED ASSET INVESTMENTS

	<u>1997</u>	<u>1996</u>
	£	£
Investments in subsidiary companies	<u>204</u>	<u>204</u>

9. STOCKS

	<u>1997</u>	<u>1996</u>
	£	£
Raw materials	1,143,368	611,671
Finished goods for resale	<u>772,355</u>	<u>502,094</u>
	<u>1,915,723</u>	<u>1,113,765</u>

10. DEBTORS

Trade debtors	620,749	477,396
Other debtors	113,108	35,109
Prepayments and accrued income	<u>89,997</u>	<u>211,882</u>
	<u>823,854</u>	<u>724,387</u>

11. CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank loans and overdrafts	344,603	-
Obligations under finance leases and hire purchase agreements (note 13)	11,305	28,295
Trade creditors	1,130,009	766,038
Amounts due to group undertakings	2,338,089	11,092
Corporation Tax	300,559	654,863
Social security and other taxes	93,188	124,979
Other creditors	164,174	181,323
Accruals and deferred income	<u>789,638</u>	<u>86,862</u>
	<u>5,171,565</u>	<u>1,853,452</u>

Amounts due to group and parent undertakings have no fixed repayment date and carry no interest.

NOTES TO THE ACCOUNTS12. CREDITORS- AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1997</u>	<u>1996</u>
	£	£
Obligations under finance leases and hire purchase contracts (note 13)	<u>6,594</u>	<u>16,469</u>
	<u>6,594</u>	<u>16,469</u>

13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The minimum payments to which the company is committed are as follows:

Under one year	11,305	28,295
In the second to fifth year inclusive	<u>6,594</u>	<u>16,469</u>
	17,899	44,764
less: amount representing future finance charges	(1,483)	(2,507)
	<u>16,416</u>	<u>42,257</u>

Hire purchase liabilities are secured on the assets to which they relate.

14. SHARE CAPITAL

	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£	£	£	£
Deferred shares of £1 each	1,000	1,000	100	100
Ordinary shares of US\$ 0.01 each (100 shares)	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>1,001</u>	<u>1,001</u>	<u>101</u>	<u>101</u>

15. RESERVES

	<u>Revaluation reserve</u>	<u>Profit & loss account</u>	<u>Total</u>
	£	£	£
2 March 1996	(514,991)	3,293,718	2,778,727
Profit retained	-	926,931	926,931
1 March 1997	<u>(514,991)</u>	<u>4,220,649</u>	<u>3,705,658</u>

NOTES TO THE ACCOUNTS16. MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1996/7</u>	<u>1995/6</u>
	£	£
Shareholders' funds at 2 March 1996	2,778,828	2,804,499
Profit earned for ordinary shareholders	926,931	489,319
Shares issued in the period	-	1
Revaluation	-	(514,991)
Shareholders' funds at 1 March 1997	<u>3,705,759</u>	<u>2,778,828</u>

17. OPERATING LEASES

The company had annual commitments under non-cancellable operating leases for property as follows:

	<u>Property</u>	<u>Plant & machinery</u>	<u>Total</u>
	£	£	£
<u>1997</u>			
Expiry date:			
Within one year	241,050	-	241,050
Between two to five years	701,320	81,429	782,749
In over five years	713,200	-	713,200
	<u>1,655,570</u>	<u>81,429</u>	<u>1,736,999</u>
<u>1996</u>			
Expiry date:			
Within one year	83,104	-	83,104
Between two to five years	803,435	-	803,435
In over five years	248,000	-	248,000
	<u>1,134,539</u>	<u>-</u>	<u>1,134,539</u>

18. RELATED PARTIES

The company is a wholly owned subsidiary of Whitbread PLC and has taken advantage of the exemption given in Financial Reporting Standard No. 8 not to disclose transactions with other group companies.

19. PARENT UNDERTAKING

The parent undertaking of the group of undertakings for which group accounts are drawn up and of which the company is a member is Whitbread PLC, registered in England and Wales. Copies of Whitbread PLC's accounts can be obtained from Chiswell Street, London EC1Y 4SD.