Company number SC141496

Cafédirect plc

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

Jeff Halliwell (Chair)
Belinda Gooding
Lebi Hudson
John Shaw
John Steel
Lenin Tocto Minga
Bart Van Eyk

SECRETARY

John Dunlop

REGISTERED OFFICE

4th Floor, 115 George Street
Edinburgh EH2 4JN

BUSINESS ADDRESS

Industry House
21 Whiston Road
London
E2 8EX

AUDITOR

RSM UK Audit LLP
Chartered Accountants
25 Farringdon Street
London, EC4A 4AB

REGISTRAR

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

SOLICITOR

Wrigleys Solicitors LLP
19 Cookridge Street
Leeds, LS2 3AG

BANKERS

Triodos Bank NV
Deanery Road
Bristol
BS1 5AS

Natwest Bank plc
15 Bishopsgate
London, EC2P 2AP

BUSINESS REVIEW

The company's turnover for the year ended 31 December 2016 was £12.4m, no change on 2015. In an extremely challenging year in the UK supermarket sector, Cafedirect lost distribution as mainstream retailers reduced ranges to compete with discounters, such as Aldi & Lidl. Despite these structural changes reducing distribution in the first half of the year, Cafédirect's rate of sale in remaining stockists was strong, and sales recovered in the second half, with a polarised position consisting of good growth in well aligned retailers and significant declines in mainstream ones. The year was one of extremes with significant sales decline in the first half of the year, offset by a recovery in the last 6 months.

A key contributor was Cafédirect's direct sales in the out of home channel, which grew by 43%, with more key account wins including the first direct university and a large multi-site new business win. Export sales grew by 18%, although the high quality online coffee club did not grow as expected as marketing investment was reduced.

Our flagship single origin, roast and ground coffees, Machu Picchu and Kilimanjaro performed well, now accounting for over 40% of company turnover. Tea and freeze dried coffee, operating in declining, price sensitive sectors, continued to decline.

The key shift was experienced in the first quarter of the year as sales declined, stocks and debtors increased and the cash position weakened. The Board of Directors responded quickly by reducing expenditure, reselling excess stock, managing creditors and debtors and agreeing with our bankers an increased overdraft facility. In the second half of the year a recovery plan was implemented including a restructure, reducing headcount by 25%, and moving office, to reduce the on-going operating cost of the business.

Coffee prices were relatively stable, although currency fell significantly post Brexit. With over 90% of the companies raw material and manufacturing costs functionally in dollars or euros this had a material effect. Good forward currency planning meant that there was little impact in 2016, however price increases have been required in 2017 to recover some of the higher input costs.

The significant changes across the business meant that operating costs including property related costs and other expenses were reduced as compared to 2015. Marketing expenditure was reduced to £0.3m from £0.9m in 2015.

In addition to the issues in the first quarter, the company's distribution partner failed to adequately service Cafédirect customers, leading to poor service levels and lost sales. A one-off cost of £0.23m in respect of these issues is recognised in the accounts. The company moved all its distribution business to a new partner and service levels have now recovered to a satisfactory level.

The consequence of these extraordinary events resulted in a gross margin declined to 16.4% in 2016 from 21.3% in 2015. Despite this decline, the cost-saving measures slightly reduced the annual loss to (£0.94m) (2015 (£1.07m)).

The Directors are confident that the swift actions to reduce cost, and continued focus on targeted sales, will ensure a sustainable business in the medium term.

The directors are pleased to report that, despite the loss position, £552,400 (2015: £621,218) was invested in the growers and their communities via Fairtrade premiums and the Cafédirect Producers' Foundation. Supporting the core costs of the Cafédirect Producers' Foundation has enabled them to continue to deliver programmes with growers funded by third parties and to leverage an increased amount of 3rd party funding for their charitable activities with growers.

During the year stock was managed down to £2.8m v £3.5m in 2015, debtors were reduced by £0.5m to £2.3m as at 31 December 2016 and creditors reduced by £0.3m to £2.7m.

The loss made during the year contributed to a decline in the company's cash position from a net negative balance of £0.3m in 2015 to a net negative balance of £1.1m at the end of 2016.
The company year-end balance sheet showed net assets of £2.7m (2015: £3.7m).

Since the year end the business has continued to restructure to ensure its long term success both for its shareholders and for the benefit of the smallholder growers and their communities, as noted above. To assist in this process The Board of Directors appointed Triodos Corporate Finance to advise on a capital restructure of the business.

In addition to this, the company acquired the assets and intellectual property of the London Tea Company on 8 May 2017. The London Tea Company is a contemporary, 100% Fairtrade tea brand. This acquisition provides Cafédirect with greater penetration into the higher growth tea sector of fruit and herbal teas.

In September 2017 the company has successfully delivered £900,000 through a Rights Issue to existing and new shareholders, which will enable continued brand investment and growth of the business.

Also in September 2017 the company has confirmed the restructuring of the existing short term loan facility with Triodos Bank, converting this into an 8 year Loan Facility plus a 5 year Stock Finance facility.

The above structural changes along with strong trading performance in the first eight months of 2017 provide a solid and sustainable platform for the future growth of the business.

KEY PERFORMANCE INDICATORS

The company's key financial performance indicators, which are closely monitored throughout the year and measured against pre-set targets, include:

- Sales values, analysed by product group and key sectors such as UK retail, UK out-of-home and international;
- Gross profit, both in absolute terms and as a percentage of sales;
- The level of administration expenses, looking at the ongoing UK business separately from other costs;
- Operating profit and profit before tax;
- The level of working capital employed, both in absolute terms and as a percentage of sales; and
- Cash generated by the business.

The company's performance in 2016 against most of these indicators is set out in the Business Review section.

In addition, the company has a number of other key performance indicators, with the company's performance against these indicators sometimes being called the company's "social return". These include:

- The amounts paid by Cafédirect for its coffee, tea and cocoa raw materials over and above market prices. These amounts include, but are not necessarily restricted to Fairtrade premiums;
- The amount donated to Cafédirect Producers' Foundation; and
- The volume of coffee, tea and cocoa raw materials purchased from growers.

Performance in 2016 against these indicators is set out in the 'Benefits to Growers' section below.

BENEFITS TO GROWERS

As a Fairtrade company, Cafédirect meets all the requirements laid down by the Fairtrade Labelling Organisation (FLO), including the payment of Fairtrade premiums for coffee, tea and cocoa raw materials. In 2016, Cafédirect paid Fairtrade premiums of £364,000 (2015: £433,000).

Cafédirect is unique because of its commitment to the Producer Partnership Programme (PPP), a programme that exceeds Fairtrade requirements. PPP consists of individual business development programmes tailored to the needs of disadvantaged smallholder grower organisations in developing countries. They include, inter alia, marketing, quality control, climate change mitigation and adaptation, crop husbandry and crop diversification projects.

Since 2010 the PPP has been managed by the Cafédirect Producers' Foundation (CPF), a producer-owned charity which is overseen by trustees some of whom are themselves coffee and tea growers. Cafédirect donates money to CPF, which decides how best to use the money to run its operations and manage the PPP. Typically, grower organisations put programmes forward for approval by CPF and implement the programmes themselves. This is an important step towards the company's goal of empowering disadvantaged smallholder producers. It also more broadly supports disadvantaged smallholder communities, not just growers who supply product to Cafédirect, as programme benefits are widely shared. In 2016, Cafédirect made donations of £188,400 to CPF (2015: £188,218) to support these charitable programmes. CPF has been able to leverage Cafédirect's support for operating costs by raising additional 3rd party funds to support expanded programme activities for the benefit of farmer organizations.

Raw material purchases from grower organisations in Latin America, Africa and Asia in 2016 were as follows:

- 1,274 tonnes of coffee beans (2015: 1,326 tonnes);
- 71.5 tonnes of tea (2015: 92 tonnes); and
- 25.2 tonnes of cocoa beans (2015: 44 tonnes).

RISKS AND UNCERTAINTIES

The company seeks to mitigate exposure to all forms of risk, both internal and external, where practicable, and to transfer risk to insurers, where cost-effective. This approach is governed by the company's Gold Standard which includes the statement that Cafédirect will "work directly with smallholder growers through long-term partnerships which seek to reduce the disproportionately high risks they face in the global market".

The directors consider that the principal risks facing the company are as follows:

- The company buys raw material commodities (coffee, tea and cocoa) from small and disadvantaged growers, often located in remote and under-developed regions of the world. The market prices of these commodities are quoted on international commodity exchanges. Any increases or volatility in prices or shortages in supply can affect the company's performance. The company mitigates this risk by holding appropriate levels of stock in the supply chain;
- The company outsources the processing and packing of its products to third party suppliers. Any issues that these suppliers encounter could disrupt supply and affect the company's performance. To mitigate this risk the company takes out business interruption insurance, ensures that suppliers have contingency plans in place and identifies alternative supply options;
- The company is exposed to currency movements in that it buys most of its raw materials in US dollars, pays for its processing of freeze-dried coffee in Euros and sells most of its finished products in pounds sterling. The company uses foreign exchange forward contracts to mitigate this risk as set out in note 15 to the accounts; At 31 December 2016 a proportion of the company's future currency requirements were covered by such contracts. As required by FRS 102 the fair value of the exchange rate risk hedge has been disclosed in note 15 to the accounts;
- A significant proportion of the company's revenues are derived from the UK supermarkets and an out-of-home distributor, and therefore inevitably come from a relatively small number of customers. The company mitigates this risk by developing sales in other sectors, such as out-of-home wholesalers and international, and taking out credit insurance where appropriate;
- Increase in aggressive pricing and discounting by competitors as they respond to the squeeze on UK household incomes can impact the company's sales volumes and market share. To mitigate this risk the company continually reviews its overall competitiveness in the market, incurs appropriate levels of promotional spend and focuses on promoting the distinctive elements of its brand.
- Losses in recent years have significantly deteriorated the company's cash position and the seasonal nature of commodity harvests and the working capital requirements of the business mean that there is a risk that company could exceed its overdraft facility and no longer be a going concern. The company mitigates this risk by ensuring a strong focus on cash management, negotiating short-term increases in the overdraft limit, if required, identifying

alternative financing arrangements, as necessary, and ensuring that plans for the future achieve an improvement in the cash position and establish a sustainable business going forward.

By order of the Board

John Steel
Director

29th September 2017

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the company in the year under review was that of brand management and trading in Fairtrade coffee, tea and cocoa products under the brand name Cafédirect.

No significant change in the nature of these activities occurred during the year

RESULTS AND DIVIDENDS

The results for the year are set out on page 19.

Taking into account the company's results and Gold Standard, as well as an assessment of the company's current risk profile and future plans, the directors are not recommending the payment of a dividend (2015: nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year and since the year-end and their beneficial interests in the share capital of the company are as follows:

	2016 No. shares	2015 No. shares
Belinda Gooding	-	-
Jeff Halliwell	1,000	1,000
Lebi Hudson	-	-
John Shaw	-	-
John Steel	-	-
Lenin Tocto	-	-
Bart van Eyk	-	-

SUBSTANTIAL SHAREHOLDINGS

As at the date of this report, the company is aware of the following shareholdings of 3% or more:

	No. of Ordinary shares	% of total
Oikocredit, Ecumenical Development Co-Operative Society, U.A.	1,666,667	19.9%
Oxfam Activities Limited	903,000	10.8%
Cafédirect Producers Limited	461,600	5.5%
Rathbone Nominees Limited	263,780	3.1%

ANALYSIS OF ORDINARY SHAREHOLDERS AT 31 DECEMBER 2016

Number of shares	Number of shareholders	% of total shareholders	Number of shares	% of total Shares
1 – 500	2,435	56.5	976,000	11.6
501 – 1,000	1,066	24.7	998,790	11.9
1,001 – 5,000	713	16.5	1,710,402	20.4
5,001 – 10,000	54	1.3	405,718	4.8
10,001 and over	41	1.0	4,302,647	51.3
Total	4,309	100.0	8,393,557	100.0

GUARDIANS' SHARE

The company has one Guardians' share, held by the Guardian Share Company Limited (Company No. 04863720). As at the date of this report, there are three members of the Guardian Share Company Limited, Oxfam Activities Limited, Cafédirect Producers Limited and Oikocredit Ecumenical Development Co-Operative Society, U.A.

POLITICAL AND CHARITABLE DONATIONS

During the year the company made donations of £188,400 to Cafédirect Producers' Foundation (2015: £188,218). The company made no political donations during the year.

EMPLOYEES

It is the company's policy to keep employees informed, through regular team meetings and other communications, on performance and on matters affecting them as employees.

It is also the company's policy to give proper consideration to applications for employment received from people with disabilities, and to give employees who become disabled every opportunity to continue their employment.

Share Incentive Plan
There were no awards made during the year.

Pensions
All employees are entitled to join the company's defined contribution pension scheme after completing three months' service. The company contributes an amount equal to 9% of basic salary provided the employee contributes at least 1% of their basic salary.

Healthcare
The company operates a private healthcare scheme which all employees are entitled to join after completing 3 months' service.

PAYMENT OF SUPPLIERS

It is the company's policy to agree payment terms with suppliers when negotiating business transactions and to pay suppliers in accordance with contractual or other legal obligations.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

STRATEGIC REPORT

In accordance with session 414c (ii) of the Companies Act and included in the Strategic Report is the review of the business, principal risks and uncertainties and key performance indicators. This information would have been required by schedule 7 of the "Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008" to be contained in the Directors' report.

GOING CONCERN

As detailed in the strategic report, the company incurred a loss after tax for the year of £939,851 and the cash position at the balance sheet date had deteriorated to a net negative balance of £1,051,599.

Since the year end the business has continued to restructure to ensure its long term success both for its shareholders and for the benefit of the smallholder growers and their communities, as noted above. To assist in this process The Board of Directors appointed Triodos Corporate Finance to advise on a capital restructure of the business.

In September 2017 the company has successfully delivered £900,000 through a Rights Issue to existing and new shareholders, which will enable continued brand investment and growth of the business. The funds from the Rights Issue were substantially received in September 2017.

Also in September 2017 the company has confirmed the restructuring of the existing short term loan facility with Triodos Bank, converting this into a £1.3 million, 8 year Loan Facility plus a £0.4 million, 5 year Stock Finance facility, which provides certainty over the debt financing of the company and replaces the existing overdraft facility.

The above structural changes along with stronger trading performance in the first eight months of 2017 provide a solid and sustainable platform for the future growth of the business.

Having reviewed the plans and associated forecasts, the additional equity investment; long term loan facility and the current trading conditions, the directors confirm that they have a reasonable expectation that the company has adequate resources to continue meeting its liabilities as they fall due for the foreseeable future. Accordingly, the going concern basis has been adopted in the preparation of the accounts.

AUDITOR

A resolution to reappoint RSM UK Audit LLP as auditor will be put to the members at the Annual General Meeting.

By order of the Board

J Halliwell

Jeff Halliwell
Director

29th September 2017

CORPORATE GOVERNANCE

CODE OF BEST PRACTICE

The Board recognises that the UK Corporate Governance Code, published by the Financial Reporting Council in June 2016, represents best practice for public companies and is committed to working towards compliance with the code in a manner that is appropriate to the company's size and structure.

THE BOARD

At 31 December 2016, the Board consisted of:

Non-executive chair
Chief Executive
1 Independent non-executive director (consumer representative)
2 Producer directors
1 Guardians nominee director
1 Oikocredit nominee director

Each year, one third of the eligible directors retire, in rotation, at the Annual General Meeting in accordance with the company's Articles of Association. Accordingly, Jeff Halliwell and Belinda Gooding retired, and both offered themselves for re-election and were re-elected. The selection of new directors is delegated to the Nominations and Remuneration Committee, which makes recommendations to the Board. Cafédirect Producers Limited and the Guardian Share Company Limited nominate the Producer directors and the Guardians nominee director respectively.

THE DIRECTORS

EXECUTIVE DIRECTOR

John Steel was appointed Chief Executive in July 2012. John was previously Managing Director & then Chairman of Cornish Sea Salt Ltd. Prior to this he held a number of commercial and general management positions with leading FMCG businesses, such as Nestle & Premier Foods, along with more entrepreneurial start-up and consultancy experience. John is non-executive Chair of the Quantock Brewery Limited.

NON EXECUTIVE DIRECTORS

Chairman:
Jeff Halliwell was appointed as a director, Chair and a member of the company's Nominations and Remuneration Committee in 2012. Jeff's executive background is as Managing Director of major food manufacturing businesses such as Fox's Biscuits/ Northern Foods, and the dairy cooperative First Milk. He is now Chair of Airport Coordination Ltd., a Non-Executive Director of Natures Menu Ltd., Chair of Transport Focus and a Governor of the University of Northampton. He was formerly a trustee of the charity Shaw Trust, Vice-Chair of Governors of the University of Bedfordshire, and a Non-Executive Director of NHS Norfolk and Waveney PCT.

Consumer director:
Belinda Gooding was appointed as a director and a member of the company's Nominations and Remuneration Committee in 2011 and became Chair of the committee in 2012. Belinda is the Founder and Chief Executive of Roots and Wings, a new organic and natural brand, a Non Executive Director on two other boards and previously worked in major FMCG businesses.

Guardians nominee director:
John Shaw, FCMA, was appointed as a director and Chair of the company's Audit Committee in 2009. Following a career at Parcelforce Worldwide and Royal Mail, John was the Finance & IS Director of Oxfam until his retirement in 2009.

NON EXECUTIVE DIRECTORS (CONT.)

Producer directors:
Lebi Hudson is the General Manager of the Rungwe Smallholders Tea Association (RSTGA) in Tanzania who have been working with Cafédirect since 2003. RSTGA played a key role in testing the WeFarm platform developed by Cafédirect Producers' Foundation and have made significant investment in participatory governance processes in their organisation under Lebi's leadership.

Lenin Tocto is a Peruvian national and lives in Peru. He is the General Manager of the Asociación Provincial de Cafetaleros Solidarios San Ignacioin in Peru, who have been in partnership with Cafédirect since 2000. Lenin is well networked with other Latin American partners and has a long history of assisting cooperatives to become thriving businesses.

Director nominated by Oikocredit:
Bart van Eyk joined the Cafédirect Board in September 2015 after joining Oikocredit in August 2015. Bart holds an MBA from Nijmegen University and has extensive international business and leadership experience, with a background in microfinance, business innovation and structured finance in emerging markets. Bart began his career as an officer in the Netherlands Royal Air Force before joining ABN AMRO where he stayed for almost 10 years in international private banking and business development in new growth markets. Prior to joining Oikocredit, Bart was founder and CEO of Musoni, the world's first 100% cashless microfinance institution in Kenya.

The Board is responsible for setting strategy, approving budgets, capital expenditure, investments and disinvestments. A report summarising the company's financial and operational performance is sent to the directors at least seven days in advance of Board meetings, the aim being to provide each director with information to help them make informed judgements on matters referred to the Board. The Board meets at least four times a year.

DIRECTORS' REMUNERATION

The Board has established a Nominations and Remunerations Committee, consisting entirely of non-executive directors. Details of each director's remuneration are set out on page 17.

SHAREHOLDER INFORMATION

The Board invites all shareholders to participate at the Annual General Meeting and provides the Annual Report, company announcements and other information on the website at www.cafedirect.co.uk.

If you have any questions about transfer of shares, change of name or address, lost share certificates, death of a registered holder of shares, or any other query relating to the company's shares, please contact the Registrar on 0871 664 0300, or at the following address:

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

SHAREHOLDER INFORMATION (CONT.)

Shares are traded on a match bargain basis and the share trading platform and match-bargain market broker service is now operated by Ethex, the UK's first not-for-profit positive investment platform. If you have any questions about the buying or selling of Cafédirect share please contact Ethex by telephone on 01865 403 304, or at the following address:

Ethex Investment Club Limited
The Old Music Hall
106-108 Cowley Road
Oxford, OX4 1JE

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INTERNAL CONTROL

The directors have responsibility for the company's system of internal control and for reviewing its effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The directors confirm that the process for identifying, evaluating and managing the significant risks faced by the company is in accordance with the FRC's Internal Control: Guidance to Directors (previously known as the Turnball Guidance), was in place throughout the accounting period and up to the date when the financial statements were approved, and is regularly reviewed by the Board.

Management are responsible for the identification and evaluation of significant risks and for the design and implementation of appropriate internal controls. These risks are assessed on an ongoing basis and may be associated with internal or external factors. Management reports regularly to the Board on the key risks and on the way that these are managed, and also reports to the Board on any significant changes to the company's business and on any risks associated with these changes. There is active Board involvement in assessing the key business risks facing the company and determining the appropriate course of action for managing these risks. The directors have established procedures designed to provide an effective system of internal control, with the following features:

- budgetary control over all departments, measuring performance against pre-determined targets on a monthly basis
- regular forecasting and reviews covering trading performance, assets, liabilities and cash flow
- delegated limits of authority covering key financial commitments including capital expenditure and recruitment
- identification and management of key business risks

The Board, partly through the Audit Committee, has reviewed the effectiveness of the company's system of internal control during the period.

JShaw

John Shaw
Director

29th September 2017

REPORT OF THE AUDIT COMMITTEE ON BEHALF OF THE BOARD

Committee members during the year have continued to be:

John Shaw (Chair)
Bart van Eyk

The ongoing membership of the Committee is two people, which is considered adequate for a company of this size and scale and is in accordance with the terms of reference for the Committee agreed by the Board. Members have considerable experience of financial reporting and of risk management. The Committee is supported by the Head of Finance, who, in keeping with good practice is not formally a member of the Committee. Rachel Johnson, the long standing Head of Finance went on maternity leave in January 2016 and was replaced on an interim basis by Rachel Sudweeks. Rachel Johnson subsequently decided not to return and Rachel Sudweeks was replaced by John Dunlop in July 2016.

The purpose of the Audit Committee is to establish formal and transparent arrangements regarding financial reporting and internal control principles and to maintain an appropriate relationship with the company's auditors. Exceptionally the Committee formally met only once during the year and again in May 2017, which included reviewing the 2016 accounts and audit findings. The Chair of the Committee met regularly with the Head of Finance, and also with the Audit Partner and Audit Manager in December 2016 to review and agree the audit plan for the 2016 audit. One reason for the reduced frequency of Audit Committee meetings (which would typically be three in a year) was that the full Board met much more frequently during 2016 as noted in the report of the Nominations and Remuneration Committee.

The key areas of focus for the Audit Committee and the full Board during the year included:

- Monitoring the integrity of the financial statements, plans and forecasts, with a particular focus on cash flow management and the financing needs of the business to ensure future sustainability
- Reviewing the company's control environment in the light of the key findings from the audit
- Oversight of the key risks of the business and the risk register used by Management
- Working with the external auditors and monitoring the ongoing audit requirements of the company, including providing input to the audit plan
- Monitoring the ongoing legal and banking requirements of the company
- Reviewing foreign exchange hedging arrangements

The audit findings report following the 2016 audit noted that "the overall control environment has been poor during the past year". Management accepted this conclusion and the recommendations to improve the control weaknesses highlighted by the auditors. The Board is satisfied that action has been and will continue to be taken to address both the specific issues highlighted by the audit and the root causes of this deterioration, which included:

- The high level of turnover of Finance personnel during the year, leading to a loss of expertise, a backlog in some areas of transaction processing and a failure to follow some standard control procedures.
- The challenges caused by the poor performance of one of our key suppliers, which not only affected customer service but also resulted in the provision of inaccurate financial and accounting data, which was time consuming to address.
- The strong focus on cash management and the associated workload, which meant that management attention on key controls was not as effective as it could have been.
- The ongoing constraints of the Finance system, which was due to be replaced, but the implementation had to be delayed because of the other priorities touched on above.

In addressing these underlying issues the following action has been taken or is planned:

- The Finance team staffing situation has been stabilised through the appointment of capable people and the provision of additional short term resources to ensure that backlogs were addressed and effective controls re-established.
- The relationship with the key supplier has been terminated and a new supplier appointed.
- The cash management position has been stabilised allowing proper oversight of controls and the reintroduction of a much more structured control environment.
- This much more stable environment means that plans are now being developed to go ahead with the replacement of the legacy Finance system, which had originally been planned for late 2015.

The Audit Committee and the full Board will continue to work with Management to ensure that the control improvements that have been achieved are sustained and that plans for replacing the Finance system are refreshed and implemented on a timely basis.

The Committee has been involved, along with the Board, in considering the information on which the directors determine that the accounts should be prepared on a going concern basis. Given the company's cash position and trading results, this consideration has again been complex and appropriate disclosures have been made in the Strategic Report, the Directors' Report and the statement of Accounting Policies. This information has also been reviewed by the auditors as part of their audit process and the successful outcome of the recent financial restructuring of the company, including securing new investment through a rights issue, has eliminated the existence of any material uncertainty over the company's ability to continue as a going concern, which had resulted in an emphasis of matter in their 2015 Audit Report. The situation remains under constant review by Management and will continue to be the subject of ongoing and frequent review by the Board.

The company maintains a comprehensive risk register, which was reviewed in detail and updated by the executive team during the year. The outcome of that review was considered by me as Chair of the Audit Committee and key risk issues are reviewed by the Board on an ongoing basis. I am satisfied that the approach taken is appropriate and that the issues with the highest risk rating were the right issues for the organisation to be focussing on, with appropriate actions being progressed to reduce the likelihood of the risks materialising and mitigating the impact if they do. The key risks and the approach to mitigation are set out in the Directors' report.

The Committee is satisfied that the ongoing relationship with the auditors is appropriate and effective and has considered the independence of the auditors in making this judgement.

John Shaw
Chair – Audit Committee

29th September 2017

REPORT OF THE NOMINATIONS AND REMUNERATION COMMITTEE ON BEHALF OF THE BOARD

Committee members during the year have been:

Belinda Gooding

Jeff Halliwell

Lebi Hudson

The CEO as executive director and Head of HR, provide support and information to the Committee, but in keeping with good practice are not formally members. At each meeting the non-executive directors also meet without the executive directors.

The Committee's purpose is to oversee on behalf of the Board formal and transparent arrangements, in the spirit of Cafédirect's Gold Standard, regarding the appointment, development and reward of the Executive Team and the Board (excluding remuneration of non-executive Directors).

The Committee met formally five times in 2016.

NOMINATIONS - KEY ACTIVITIES

Objective:

Together with the Audit Committee, carry out a Board Effectiveness and Chair Effectiveness Review to ensure that all Board members were working effectively and ensure skills, knowledge, experience and mindset were aligned with the strategy.

Outcome:

Given the short period of time the new Board have worked together it was decided delay the reviews until 2017 to allow the new board members time to establish themselves in their appointments.

REMUNERATION - KEY ACTIVITIES

Objective:

Determine and agree with the Board the policy, externally benchmarked, for the remuneration of the CEO and remaining Executive Team members. This sets the framework for considering remuneration for all employees.

Outcome:

The policy was reviewed during 2016. In summary, the company looks for employees who are socially motivated, as well as having the necessary skills and experience to run and grow the business successfully in a very competitive environment. A number of different factors are taken into account when determining remuneration. These include London based salary differentials, charity and FMCG industries and specific experience and skill requirements. As a result, the market range is fairly broad.

Objective:

Determine the remuneration of the Chair of Cafédirect. The Chair of Cafédirect and the executive members of the Board determine the remuneration of all other non-executive directors.

CORPORATE GOVERNANCE

Outcome:

The fees for non-executive directors remain at the 2012 level. Bart van Eyk has continued to waive his fees.

Objective:

Approve the design of any performance-related pay schemes and share incentive plans.

Outcome:

An annual senior executive bonus scheme was put in place (up to 30% of basic salary) based on a gain-sharing philosophy to enhance both financial and Gold Standard performance.

Objective:

Determine the policy and scope for pension arrangements for each executive director and the remaining members of the Executive Team. This sets the framework for considering pension policy for all employees.

Outcome:

The pension policy remains the same, namely to offer an ethically screened fund choice to employees. The company contribution is 9% of basic salary subject to a minimum employee contribution of 1%. Cafédirect continues to use the Group Stakeholder Pension Plan run by Friends Life. However there was a requirement to set up a new default fund, My Future Growth. Arthur J Gallagher continues to provide the financial advisory service and administration of the pension scheme.

Executive Directors

Basic entitlements: Executive directors have service contracts that are subject to notice periods from the company of 6 months. Each executive director is paid a basic salary subject to annual review. In addition, the executive directors are entitled to a share in an annual senior executive bonus. The benefit of private medical insurance is available to all employees, including executive directors.

Pension provision: Executive directors are entitled to join the company's defined contribution pension scheme. The company contributes 9% of basic salary provided the employee contributes at least 1% of their basic salary.

Share Incentive Plan (SIP): There were no awards made during the year (2015: nil).

CHAIR AND NON-EXECUTIVE DIRECTORS' FEES

The remuneration of the Chair and the non-executive directors is at levels intended to attract individuals of an appropriate calibre and commitment.

The Chair and the non-executive directors do not have service contracts. Each non-executive director receives an annual fee plus an additional fee if acting as chair of a Board committee. The Chair and the non-executive directors are not entitled to participate in the company's share incentive plan, nor in any performance pay schemes or pension schemes and would not receive any compensation in the event of early termination.

The fees for non-executive directors continued at the same level as 2015.

DIRECTORS' REMUNERATION

For the year ended 31 December 2016:	Fees £	Salary £	Pension contribs £	Total £
Jeff Halliwell (Chair)	10,000	-	-	10,000
Belinda Gooding	6,000	-	-	6,000
Lebi Hudson	6,000	-	-	6,000
John Steel (Chief Executive)	-	126,080	11,347	137,427
John Shaw	6,000	-	-	6,000
Lenin Tocto	5,000	-	-	5,000
Bart van Eyk	-	-	-	-
	33,000	126,080	11,347	170,427

Fees for Lebi Hudson are paid to his employer, the Rungwe Smallholders Tea Association (RSTGA) in Tanzania.

Fees for Lenin Tocto are paid to his employer, Asociacion Provincial de Cafetaleros Solidrios San Ignacio in Peru.

Bart van Eyk has waived his fees.

DIRECTORS' ATTENDANCE AT MEETINGS

For the year ended 31 December 2016:	Full Board Meetings	Remuneration Committee	Audit Committee
Jeff Halliwell (Chair)	12	6	-
Belinda Gooding	12	6	-
Lebi Hudson	9	4	-
John Steel (Chief Executive)	12	-	-
John Shaw	11	-	1
Lenin Tocto	9	-	-
Bart van Eyk	10	-	1

Belinda Gooding
Chair – Nominations and Remuneration Committee

29th September 2017

Opinion on financial statements
We have audited the financial statements on pages 19 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;

Respective responsibilities of directors and auditor
As more fully explained in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

Euan Banks (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
29th September

STATEMENT OF COMPREHENSIVE INCOME (continued)
For the year ended 31 December 2016

Chartered Accountants
25 Farringdon Street, London
EC4A 4AB

	Notes	2016 £	2015 £
TURNOVER	2	12,413,183	12,401,892
Cost of sales	3	(10,369,290)	(9,758,713)
GROSS PROFIT		2,043,893	2,643,179
Administrative expenses	4	(2,916,457)	(3,708,347)
OPERATING LOSS		(872,564)	(1,065,168)
Interest receivable and similar income	5	32	2,634
Interest payable and similar charges	6	(67,319)	(7,872)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	7	(939,851)	(1,070,406)
Taxation	9	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND PROFIT FOR THE FINANCIAL YEAR		(939,851)	(1,070,406)
OTHER COMPREHENSIVE INCOME			
Fair value gains on foreign exchange forward contracts	15	57,740	25,859
Fair value losses reclassified to profit and loss	15	(89,106)	(176,611)
Other comprehensive income		(31,366)	(150,752)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(971,217)	(1,221,158)

Cafédirect plc

STATEMENT OF FINANCIAL POSITION **Company number SC141496**
For the year ended 31 December 2016

	Notes	2016 £	2015 £
FIXED ASSETS			
Intangible assets	10	149,343	137,166
Tangible assets	11	147,968	247,950
		297,311	385,116
CURRENT ASSET			
Stocks	12	2,773,128	3,501,267
Debtors due within one year	13	2,302,341	2,766,038
Cash at bank and in hand		89,805	120,147
		5,165,274	6,387,452
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	14	(2,713,645)	(3,052,411)
NET CURRENT ASSETS		2,451,629	3,335,041
TOTAL ASSETS LESS CURRENT LIABILITIES		2,748,940	3,720,157
NET ASSETS		2,748,940	3,720,157

	Notes	2016 £	2015 £
CAPITAL AND RESERVES			
Called up share capital	17	2,098,389	2,098,389
Share premium account		4,109,856	4,109,856
Hedging reserve		(17,979)	13,387
Profit and loss account		(3,441,326)	(2,501,475)
TOTAL EQUITY		2,748,940	3,720,157

The financial statements on pages 19 to 39 were approved by the board of directors and authorised for issue on 29th September 2017 and are signed on its behalf by:

J Shaw

John Shaw
Director

Cafédirect plc

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Notes	Share capital	Share premium	Hedging reserve	Profit and loss account	Total
		£	£	£	£	£
Balance at 1 January 2015		2,098,389	4,109,856	164,139	(1,431,069)	4,941,315
Loss for the year		-	-	-	(1,070,406)	(1,070,406)
Other comprehensive income, net of tax:-						
Fair value gains on effective hedge	15	-	-	25,859	-	25,859
Fair value gains reclassified to profit and loss	15	-	-	(176,611)	-	(176,611)
Total comprehensive income for the year				(150,752)	(1,070,406)	(1,221,158)
Balance at 31 December 2015		2,098,389	4,109,856	13,387	(2,501,475)	3,720,157
Loss for the year		-	-	-	(939,851)	(939,851)
Other comprehensive income, net of tax:-						
Fair value gains on effective hedge	15	-	-	57,740	-	57,740
Fair value losses reclassified to profit and loss	15	-	-	(89,106)	1	(89,106)
Total comprehensive income for the year				(31,366)	(939,851)	(971,217)
Balance at 31 December 2016		2,098,389	4,109,856	(17,979)	(3,441,326)	2,748,940

Cafédirect plc

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 £	2015 £
OPERATING ACTIVITIES			
Cash used in operations	18	(596,443)	(884,199)
Interest paid		(67,319)	(7,872)
NET CASH USED IN OPERATING ACTIVITIES		(663,762)	(892,071)
INVESTING ACTIVITIES			
Purchase of intangible assets		(31,911)	(202,317)
Purchase of tangible fixed assets		(35,334)	(149,202)
Interest received		32	2,634
NET CASH USED IN INVESTING ACTIVITIES		(67,213)	(348,885)
FINANCING ACTIVITIES			
NET CASH USED IN FINANCING ACTIVITIES		-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(730,975)	(1,240,956)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(320,624)	920,332
NET DEBT AND CASH EQUIVALENTS AT END OF YEAR	18	(1,051,599)	(320,624)

GENERAL INFORMATION

Cafédirect plc ("the Company") is a public limited company domiciled and incorporated in England and Wales.

The address of the Company's registered office is 4th Floor, 115 George Street, Edinburgh, EH2 4JN. The address of the Company's principal place of business is Industry House, 21 Whiston Road, London E2 8EX

The Company's principal activities are provided in the directors' report.

BASIS OF ACCOUNTING

These financial statements are prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102).

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention, modified to include certain financial instruments at fair value.

Monetary amounts in these financial statements are rounded to the nearest whole £1, except where otherwise indicated.

GOING CONCERN

As detailed in the strategic report, the company incurred a loss after tax for the year of £939,851 and the cash position at the balance sheet date had deteriorated to a net negative balance of £1,051,599. Since the year end the business has continued to restructure to ensure its long term success both for its shareholders and for the benefit of the smallholder growers and their communities, as noted above. To assist in this process The Board of Directors appointed Triodos Corporate Finance to advise on a capital restructure of the business. In September 2017 the company has successfully delivered £900,000 through a Rights Issue to existing and new shareholders, which will enable continued brand investment and growth of the business. The funds from the Rights Issue were substantially received (£890,000) in September 2017. Also in September 2017 the company has confirmed the restructuring of the existing short term loan facility with Triodos Bank, converting this into a £1.3 million, 8 year Loan Facility plus a £0.4 million, 5 year Stock Finance facility. The above structural changes along with stronger trading performance in the first eight months of 2017 provide a solid and sustainable platform for the future growth of the business.

Having reviewed the plans and associated forecasts, the additional equity investment; long term loan facility and the current trading conditions, the directors confirm that they have a reasonable expectation that the company has adequate resources to continue meeting its liabilities as they fall due for the foreseeable future. Accordingly, the going concern basis has been adopted in the preparation of the accounts.

FUNCTIONAL AND PRESENTATIONAL CURRENCIES

The financial statements are presented in sterling which is also the functional currency of the Company.

Transactions in currencies other than the functional currency (foreign currencies) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

TURNOVER

Turnover is recognised at the fair value of the consideration received or receivable for sale of goods and services to external customers in the ordinary nature of the business. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates. Turnover is shown net of Value Added Tax.

Turnover is recognised when goods have been delivered to the customer.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

OTHER INCOME

Interest income
Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

INTANGIBLE FIXED ASSETS

Intangible assets purchased other than in a business combination are recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably.

Intangible assets arising on a business combination are recognised, except where the asset arises from legal or contractual rights, and there is no history or evidence of exchange transactions for the same or similar assets and estimating the asset's fair value would depend on immeasurable variables.

Intangible assets are initially recognised at cost (which for intangible assets acquired in a business combination is the fair value at acquisition date) and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised to profit or loss on a straight-line basis over their useful lives, as follows:-

Purchased computer software	5 years

Amortisation is revised prospectively for any significant change in useful life or residual value.

On disposal, the difference between the net disposal proceeds and the carrying amount of the intangible asset is recognised in profit or loss.

TANGIBLE FIXED ASSETS
Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Depreciation is provided on all tangible fixed assets, other than freehold land and investment properties, at rates calculated to write off the cost or valuation of each asset to its estimated residual value on a straight line basis over its expected useful life, as follows:-

Short leasehold improvement	Over the life of the lease
Fixtures, fittings and equipment	Over three years on a straight line basis
Computer equipment (purchased before 31 Dec 2012)	Over three years on a straight line basis
Computer equipment (purchased after 31 Dec 2012)	Over five years on a straight line basis

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

IMPAIRMENTS OF FIXED ASSETS

An assessment is made at each reporting date of whether there are indications that a fixed asset may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the Company estimates the recoverable amount of the asset or, for goodwill, the recoverable amount of the cash-generating unit to which the goodwill belongs.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. Impairments of revalued assets are treated as a revaluation loss. All other impairment losses are recognised in profit and loss.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in profit or loss or, for revalued assets, as a revaluation gain. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

STOCKS

Stocks are valued at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the weighted average cost basis and for finished goods and work in progress, includes direct labour costs and overheads appropriate to the stage of manufacture.

At each reporting date, the Company assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss.

Reversals of impairment losses are also recognised in profit or loss.

TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated 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 that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on income or expenses from subsidiaries, associates, branches and interests in jointly controlled entities, that will be assessed to or allow for tax in a future period except where the Company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

For non-depreciable assets measured using the revaluation model and investment properties measured at fair value (except investment property with a limited useful life held by the Company to consume substantially all of its economic benefits), deferred tax is measured using the tax rates and allowances that apply to the sale of the asset or property.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

LEASES

All leases are operating leases and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Rent free periods or other incentives received for entering into an operating lease are accounted for as a reduction to the expense and are recognised, on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused entitlement is recognised in the period in which the employee’s services are received.

The best estimate of the expenditure required to settle an obligation for termination benefits is recognised immediately as an expense when the Company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

RETIREMENT BENEFITS

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

FINANCIAL INSTRUMENTS

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Trade debtors

Trade debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangement with a trade debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

A provision for impairment of trade debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit or loss.

Financial liabilities and equity

Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments

Financial instruments classified as equity instruments are recorded at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

Bank overdrafts

Bank overdrafts are presented within creditors: amounts falling due within one year.

Trade creditors

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value, at each reporting date. Fair value gains and losses are recognised in profit or loss unless hedge accounting is applied and the hedge is a cash flow hedge.

To qualify for hedge accounting, the Company documents the hedged item, the hedging instrument and the hedging relationship between them, and the causes of hedge ineffectiveness (such as different maturities, nominal amounts or variable rates, and counterparty credit risk).

The Company elects to adopt hedge accounting for forward exchange contracts where:

- the forward exchange contract is a qualifying hedging instrument;
- the hedging relationship between the forward exchange contract and the exchange rate risk on the hedged item is consistent with the risk management objectives for undertaking hedges; and
- the change in the fair value of the forward exchange contract is expected to move inversely to the change in the expected cash flows of the hedged item.

Cash flow hedge - hedge of exchange rate risk

Where a forward exchange contract qualifies for hedge accounting, it is accounted for as a cash flow hedge. The cumulative change in the fair value of the forward exchange contract is recognised in other comprehensive income up to the amount of the cumulative fair value movement on the variable rate debt that is attributable to the exchange rate risk. Any excess fair value gains or losses on the forward exchange contract not recognised in other comprehensive income are recognised in profit or loss. The gains and losses recognised in other comprehensive income are recorded as a separate component of equity (the cash flow hedge reserve).

Net cash settlements on the forward exchange contracts are recognised in profit or loss in the period(s) when the net cash settlements accrue. The cash flow hedge reserve is reclassified to profit or loss when the variable rate interest is recognised in profit or loss.

Commitments to receive a loan are measured at cost less impairment.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

PROVISIONS

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

Restructuring

Provisions for restructuring costs are recognised when the Company has a legal obligation or a constructive obligation arising from a detailed formal plan for the restructuring which has been notified to affected parties.

DIVIDENDS

Dividends are recognised as liabilities once they are no longer at the discretion of the Company.

1. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accruals

Accruals are estimated for promotional discounts in relation to the supermarket sector which have not yet been invoiced. These accruals are held for three years. This length of time is considered adequate based on experience of historic claims.

Depreciation

Estimations have been made for the expected useful lives of intangible and tangible fixed assets. The detail is disclosed in the accounting policies on page 24 and 25.

Critical areas of judgement

A review of the carrying value of assets related to ecommerce development has been made. Revised assumptions for forecast growth and costs have resulted in the recognition of an impairment loss in the prior year, which is shown in Note 4.

2. TURNOVER

An analysis of the Company's turnover by class of business is as follows:

Class of Business	2016 £	2015 £
Continuing operations:		
Coffee	11,257,782	11,176,719
Tea	544027	715,975
Hot chocolate	380,205	395,802
Ancillaries	231,169	113,396
	12,413,183	12,401,892

An analysis of the geographical location of the Company's turnover is as follows:

Geographical segments:	2016 £	2015 £
Continuing operations:		
UK	10,762,539	11,428,935
Overseas sales	1,650,644	972,957
	12,413,183	12,401,892

3. COST OF SALES INCLUDING PREMIUMS PAID TO PRODUCERS ORGANISATIONS

	2016 £	2015 £
Opening stock at start of year	3,501,267	3,107,195
Purchases	9,277,151	9,719,362
Premiums	364,000	433,423
Closing stock as at end of year	(2,773,128)	(3,501,267)
	10,369,290	9,758,713

4. ADMINISTRATION EXPENSES

	2016 £	2015 £
Staff costs and other personnel costs	1,623,407	1,584,270
Marketing costs	291,721	941,599
Property-related costs	155,947	152,554
Depreciation & Amortisation	155,050	135,628
Impairment loss	0	87,839
Export development costs	51,023	72,297
Legal and compliance costs	167,428	141,428
Restructuring costs	79,510	127,278
IT and office costs	101,856	98,967
Other administrative expenses	102,115	178,087
Donations	188,400	188,400
	2,916,457	3,708,347

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £	2015 £
Interest on bank deposits	32	2,634

6. INTERESTS PAYABLE AND SIMILAR CHARGES

	2016	2015
	£	£
Interest arising on:		
Other loans	67,319	7,872

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2016	2015
	£	£
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets (note 11)	135,316	113,944
Amortisation of intangible fixed assets (note 10)	19,734	13,333
Amortisation of goodwill	-	8,351
Impairment loss	-	87,839
Exchange losses	(57,140)	(137,032)
Operating lease rentals (note 19)	154,905	107,494
Stock:		
- amounts expensed to cost of sales	6,861,386	7,259,694
- impairment losses recognised in costs of sales	-	19,170

Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are as follows;

	2016	2015
	£	£
Audit services - statutory audit of the company	46,325	29,500
Other services:-		
Taxation compliance services	5,319	3,500
All other non-audit services	4,600	11,180
	56,244	44,180

8. EMPLOYEES

	2016 No.	2015 No.
The average monthly number of persons (including directors) employed by the Company during the year was:		
Sales and marketing	14	15
Operations and administration	14	18
	28	33

	2016 £	2015 £
Staff costs for the above persons:		
Wages and salaries	1,073,475	1,218,204
Social security costs	91,300	107,237
Other pension costs and current service cost (note 20)	89,094	88,768
	1,253,869	1,414,209

DIRECTORS

In respect of the directors of Cafédirect plc:

	2016 £	2015 £
Emoluments	159,080	156,101
Amounts paid to defined contribution pension schemes	11,347	11,070
	170,427	167,171
The number of directors to whom retirement benefits are accruing under defined contribution schemes was:	1	1

Directors emoluments disclosed above include the following payments in respect of the highest paid director:

	2016 £	2015 £
Remuneration	126,080	123,000
Amounts paid to defined contribution pension schemes	11,347	11,070
	137,427	134,070

9. TAXATION

	2016	2015
Current tax	£	£
UK corporation tax at 20% (2015: 20.25%)	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	-
Effect of decreased tax rate on opening liability	-	-
Total deferred tax	-	-
Total tax on profit on ordinary activities	-	-

Factors affecting the tax charge for the year.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (20%). The differences are explained below:

	2016	2015
	£	£
Company loss on ordinary activities before tax	(939,850)	(1,070,406)
Company profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%).	(187,970)	(216,757)
Effects of:		
Expenses that are not deductible in determining taxable profit	7,434	223
Unutilised charitable donations	37,680	38,151
Depreciation in excess of capital allowances	26,193	(51,590)
Tax losses not recognised as a deferred tax asset	116,663	229,973
Tax expense	-	-

At 31 December 2016, the company had estimated tax trading losses of £3,570,555 (2015: £3,038,167) which, subject to the agreement of the HM Revenue & Customs, are available to carry forward against future profits of the same trade. No deferred tax asset has been recognised on these losses as timings of future profits are uncertain.

10. INTANGIBLE ASSETS

	Purchased Computer Software £
Cost:	
1 January 2016	427,312
Additions	
– separately acquired	31,911
Disposals	(220,214)
31 December 2016	239,009
Amortisation and impairment:	
1 January 2016	290,146
Amortisation charged in the year	19,734
Disposals	(220,214)
31 December 2016	89,666
Carrying amount:	
31 December 2016	149,343
31 December 2015	137,166

The amortisation charge for the year are recognised within administrative expenses.

11. TANGIBLE FIXED ASSETS

	Short leasehold improvements £	Computer equipment £	Fixtures, Fittings & Equipment £	Total £
Cost or valuation:				
1 January 2016	148,672	141,825	438,821	729,318
Additions	-	-	35,334	35,334
Disposals	(148,672)	(85,869)	(101,154)	(335,695)
31 December 2016	-	55,956	373,001	428,957
Depreciation and impairment:				
1 January 2016	147,229	111,021	223,118	481,368
Depreciation charged in the year	1,443	12,221	121,652	135,316
Disposals	(148,672)	(85,869)	(101,154)	(335,695)
31 December 2016	-	37,373	243,616	280,989
Carrying amount:				
31 December 2016	-	18,563	129,385	147,968
31 December 2015	1,443	30,804	215,703	247,950

Fixtures, Fittings & Equipment includes foodservice equipment for rental at Cost of £272,814 (2015: 262,877) with a net book value of £95,440 (2015: £150,275). This equipment is leased to customers under operating leases as noted in Note 19.

12. STOCKS

	2016	2015
	£	£
Raw materials and consumables	1,355,571	2,109,029
Work in progress	510,266	438,699
Finished goods and goods for resale	907,291	953,539
	2,773,128	3,501,267

13. DEBTORS

	2016	2015
	£	£
Amounts falling due within one year:		
Trade debtors	2,107,999	2,437,924
Foreign currency forward contracts (note 15)	-	13,387
Other debtors	158,279	246,630
Prepayments and accrued income	36,063	68,097
	2,302,341	2,766,038

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£	£
Bank overdrafts	1,141,404	440,771
Trade creditors	441,779	1,638,466
Other taxation and social security costs	34,498	39,034
Other creditors	40,596	89,264
Foreign currency forward contracts (note 15)	17,979	-
Accruals and deferred income	1,037,389	844,876
	2,713,645	3,052,411

15. FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments at 31 December were:

	2016	2015
	£	£
Financial assets:		
Debt instruments measured at amortised cost	2,154,349	2,514,526
Instruments measured at fair value through profit or loss	-	13,387
Total	2,154,349	2,527,913
Financial liabilities:		
Measured at amortised cost	1,420,750	2,454,094
Instruments measured at fair value through profit or loss	17,797	-
Total	1,438,547	2,454,094

Foreign Exchange Forward Contracts

The Company uses foreign currency forward contracts to manage the foreign change risk of future transactions and cash flows.

The contracts are valued based on available market data. The value of a contract is the difference between the contract amount translated at the contract rate and the contract amount translated at the forward rate at the reporting date for a contract maturing on the same date.

The Company uses foreign exchange forward contracts to manage exposure to changes in foreign currency exchange rates. The contracts are placed to cover the forecast requirements for the following 6 months of stock purchases. Therefore the cash flows are expected to occur in the 6 months following the balance sheet date and are expected to affect the profit or loss in the year following the balance sheet date.

Fair value gains of £57,740 (2015: £25,859) on foreign exchange forward contracts are deferred in other comprehensive income and will be released to profit or loss at the maturity of contract. £89,106 (2015: £176,611) was released in the year ended 31 December 2016.

At the year end, the total carrying amount of outstanding foreign exchange forward contracts that the Company has committed to are as follows:

	2016	2015
	£	£
Euros	(25,821)	-
US Dollars	7,842	13,387
	(17,979)	13,387

16. PROVISIONS FOR LIABILITIES

	Deferred Taxation	Total
	£	£
1 January 2016	-	-
Utilised in the year	-	-
31 December	-	-

Provision for deferred tax has been made as follows:	2016	2015
	£	£
Deferred tax liabilities	22,710	55,653
Deferred tax assets	(22,710)	(55,653)

The major deferred tax liabilities and assets recognised by the Company are:

Deferred tax liabilities:	2016	2015
	£	£
Accelerated capital allowances	22,710	55,653

Deferred tax assets:	2016	2015
	£	£
Other timing differences	4,919	1,973
Losses and other deductions	17,791	53,680
	22,710	55,653

17. SHARE CAPITAL & RESERVES

SHARE CAPITAL

	8,393,557 ordinary shares and 1 guardian share of 25p each
Allotted, issued and fully paid:	
As at 1 January 2016 and 31 December 2016	2,098,389

Ordinary share rights
The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

Guardians' share
In addition to the above allotted and called up Ordinary share capital there is one Guardians' share of 25p which is fully paid. The Guardians' share, held by the Guardian Share Company Limited (Company No. 4863720), differs from the Ordinary shares in that it gives the owners (the "Guardians") certain additional rights. The Guardians' rights comprise: (i) they have the right to appoint a director to the Cafédirect Board; (ii) their consent is required to make any changes to the key principles of Cafédirect's Gold Standard, or to the company's objects as set out in its Articles of Association; and (iii) they have a right of consultation before any changes can be made to the wording of the full Gold Standard. If such consultation does not result in unanimous consent, the proposals must be put to the members of Cafédirect as a special resolution at a general meeting.

There are three members of the Guardian Share Company Limited, Oxfam Activities Limited, Cafédirect Producers Limited and Oikocredit Ecumenical Development Co-Operative Society, U.A.

RESERVES

Reserves of the Company represent the following:

Share Premium
Consideration received for shares issued above their nominal value net of transaction costs.

Hedging Reserve (note 15)
Gains and losses arising on foreign exchange forward contracts which have been designated as hedges for hedge accounting purposes.

Retained earnings
Cumulative profit and loss net of distributions to owners.

18. RECONCILIATION OF PROFIT AFTER TAX TO NET CASH GENERATED (USED IN)/FROM OPERATIONS

	2016	2015
	£	£
Loss after tax	(939,850)	(1,070,406)
Adjustments for:		
Depreciation of tangible fixed assets	135,316	113,944
Amortisation of intangible assets	19,374	21,684
Impairment loss	-	87,839
Interest receivable	(32)	(2,634)
Interest payable	67,319	7,872
Taxation	-	-
Operating cash flows before movements in working capital	(717,513)	(841,701)
Decrease / (Increase) in stock	728,139	(394,072)
(Increase) in trade and other debtors	432,331	(189,057)
(Decrease) / Increase in trade and other creditors	(1,039,400)	540,631
Cash used in operations	(596,443)	(884,199)

Analysis of net debt:	1 January 2016	Cash flow	31 December 2016
	£	£	£
Cash at bank and in hand	120,147	(30,342)	89,805
Bank overdrafts	(440,771)	(700,633)	(1,141,404)
Net debt	(320,624)	(730,975)	(1,051,599)

19. COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments under non-cancellable operating leases for plant and machinery are as follows:

	2016	2015
Amounts due:	£	£
Within one year	80,582	50,307
Between one and five years	90,780	74,727
After five years	-	-
	171,362	125,034

The Company as Lessor

At the year end, the Company had contracted with customers under non-cancellable operating leases relating to hot drinks preparation equipment, for the following future minimum lease payments as follows:

	2016	2015
Amounts due:	£	£
Within one year	101,561	119,662
Between one and five years	92,999	194,560
After five years	-	-
	194,560	314,222

The equipment is rented usually on 3 year terms and rental income is payable monthly. The equipment remains the property of Cafédirect plc.

20. RETIREMENT BENEFITS

The Company operates a defined contribution pension scheme for all qualifying employees in the United Kingdom. The assets of the scheme are held separately from those of the Company in an independently administered fund. The contributions payable by the Company charged to profit or loss amounted to £89,094 (2015: £88,768). Contributions totalling £8,937 (2015: £10,959) were payable to the fund at the year end and are included in creditors.

21. OTHER FINANCIAL COMMITMENTS

At 31 December 2016 the company was committed to purchase £1,453,913 (2015: £63,083) of coffee beans and £nil (2015: £nil) of tea.

22. RELATED PARTY TRANSACTIONS

Transactions between the Company and its related parties are disclosed below:

	2016 £	2015 £
Sales of goods in year	288,428	297,874
Services provided to the company	-	-
Services provided by the company	38,100	44,400
Charitable donations	188,400	188,218
Amounts owed by related parties at year end	71,936	19,382
Amounts owed to related parties at year end	17,183	-

The related parties in 2016 comprise the company's remaining founder shareholder, namely Oxfam Activities Ltd, as well as Cafédirect Producers Ltd, its wholly owned subsidiary Cafédirect Producers' Foundation and Oikocredit Ecumenical Development Co-Operative Society, U.A. All transactions with related parties are on arms' length terms.

Sales of goods to related parties were made at the Company's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased.

The amounts outstanding are unsecured, non-interest bearing and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year (2015: £nil) in respect of bad debts from related parties.

23. REMUNERATION OF KEY MANAGEMENT PERSONNEL

The total remuneration of the directors and employees who are considered to be the key management personnel of the Company, was £614,762 (2015: £572,540).

24. POST BALANCE SHEET EVENTS

Since the year end the Company has acquired the London Tea Company, successfully delivered a £900,000 Rights Issue and restructured its bank facilities. Details of these activities are included in the Strategic Report on page 3 of these accounts.