

# ENGLISH WINES PLC

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



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**ENGLISH WINES PLC**

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**COMPANY INFORMATION**

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<b>Directors</b>	P. Brett F.D. Thompson R.A.B. Woodhouse
<b>Company secretary</b>	R.A.B. Woodhouse
<b>Registered number</b>	03978908
<b>Registered office</b>	Chapel Down Winery Small Hythe Road Tenterden Kent TN30 7NG
<b>Independent auditor</b>	Crowe U.K. LLP Riverside House 40 - 46 High Street Maidstone Kent ME14 - 1JH
<b>Bankers</b>	HSBC Bank Plc West London Corporate Centre 2nd Floor, Space One 1 Beadon Road London W6 0EA
<b>Solicitors</b>	Cripps LLP 22 Mount Ephraim Road Tunbridge Wells Kent TN4 8AS

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## ENGLISH WINES PLC

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## ENGLISH WINES PLC

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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#### Introduction

English Wines Plc is pleased to announce the company's results for the 12 month period ended 31 December 2017.

#### Key highlights

- Year on year sales up 20% to £8.119m (2016 - £6.791m)
- Gross profit up 12% at £3.244m (2016 - £2.888m)
- Gross margin 40% (2016 - 43%)
- Adjusted EBITDA up 28% to £1,027k (2016 - £805k) as we continue to reinvest in our brands, infrastructure and supply
- 50 acres of new vineyards planted on our leased sites in Kent
- A Gold medal at The International Wine and Spirits Challenge 2017 Awards for our Kit's Coty Coeur de Cuvee 2013
- Outstanding initial results from our Spirits' launch

Your company has continued to invest in its brand, its assets and its people to build a healthier, more sustainable and highly innovative drinks company with a really exciting future both at home and abroad.

With sales growth of 20%, we are able to invest the proceeds to build the business whilst still delivering growth in Adjusted EBITDA (+28% vs 2016). We are seeing good demand for English sparkling wines in sophisticated international markets and we enjoyed our first full year in the USA, reaching our target of 10,000 bottles of sparkling wine with ease.

Gross margin was slightly down due to euro exchange rates and increased cost of raw materials, but remains very healthy.

We believe that there is great potential in our brand. It is well positioned, well managed and in an attractive growth market. We will accelerate our investment in planting new vineyards on the finest land, develop our winery and tourism infrastructure and continue to innovate and excite the drinks business with initiatives like our gin and vodka.

In addition to Chapel Down Group Plc being cited as one of the London Stock Exchange's 1000 Companies to Inspire Britain, we are members of the influential Walpole Group of luxury brands and retained our official CoolBrand status. We were also delighted to be official partners of The Boat Races and Royal Ascot for the first time.

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Business review**

Wine sales grew 20% in the year to £8.119m. We have broad premium distribution and a strong base of distribution partners, which include Matthew Clark and Bibendum. We are delighted that the immediate trading situation at Conviviality has been resolved, but we have always been mindful of the need to ensure that we have a variety of partners to reach our customers. We are developing some exciting long term export opportunities, particularly the USA where we hit our first year sales target of 10,000 bottles. We are also growing our direct sales through our own shop, direct online sales, events and pop-ups where we can bring a Chapel Down experience to consumers. Sales in the shop were up to £1.5m (+16%) and our pop-up at Bluewater added £170k to sales and also won "pop-up" of the year at the Industry awards. Our visitor numbers and spend in the shop are both up and the restaurant has also benefited.

Our sparkling wines continue to set the standard for the industry. They are widely available in the on and off trade and supported by headline events and sponsorships such as The Boat Races, Royal Ascot, The Donmar and London Symphony Orchestra. We believe our sparkling portfolio offers outstanding quality and value from £25 to £100. We will manage the sales of these wines to ensure we can build reserve stock to enable us to manage our customers and our growth. With more international accolades and very strong demand from a consumer seeking something more interesting and distinctive than Champagne we are confident in our plans to double the acreage of vineyards supplying us to over 1,000 acres over the next three to four years. The Company estimates that Chapel Down represents over half of the growth in English sparkling wine in the off trade. Our still wines (which are more individual vintage dependent, but much of which can be released in the year following vintage) have also been winning international accolades and wide critical acclaim particularly at the premium end. As a result we continue to see strong demand and excellent sell through.

In the vineyards we continue to improve the quality of the wines we make through the management of our own vineyards and the spread of good practice with our 24 partner vineyards. We apply the most modern viticultural techniques to ensure we get the finest fruit.

In the winery, the fruit is being made into the best possible wine through the expertise of a young winemaking team who use the latest technology and equipment. In a highly competitive market, both vineyard and winery teams are constantly challenged to surprise and delight, and that spirit is reflected in the innovative wines and products that we have created to ensure we remain at the forefront of consumer's minds. And they find us thanks to the wide availability and constant stream of exciting news about the company and its brands.

The recent fundraise in Chapel Down Group Plc has enabled us to secure an exciting future. We will continue to invest in creating further high quality supply from the best sites we can find. We have planted a further 50 acres this Spring taking the total planted on long term leased land to 172 acres since 2015. We now have 533 acres of vineyard planted from which to source our fruit. We will continue to invest in further capacity and equipment to enhance efficiency and quality in the winery over the coming years, improving our systems and processes as well as building a world class brand and team.

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Principal risks and uncertainties**

Brexit has had no significant impact on our business to date. We would be affected, like all agriculturally based businesses, if we were not able to access EU workers for our viticulture. We are lobbying as an industry and are confident that there will be a solution given the strategic and cultural importance of a strong domestic food and drink industry and the growing importance of tourism to our economy. Nevertheless, we believe that maintaining and developing a strong brand and building a team of very high quality people are our best defence and we will continue to invest wisely to ensure we are best placed and risk is minimised.

There is a risk of a poor harvest through extreme weather events which we mitigate through maintaining the highest standards of viticulture, choosing the very best sites and utilising the latest proven advances in technology and agriculture. We source from a wide geographic area to minimise micro-climatic variations that can blight individual sites. The diversification into spirits also further protects our ability to continue to grow.

Competition continues to grow but we continue to invest in our people, brands and distribution to ensure that the business can continue to thrive.

**Outlook for the future**

We are lucky to work in a great business. Our drinks are social glue. They tell a story. They are delicious. They are a reason to get together.

We are passionate about growing that congregation - introducing uniquely delicious products to enlightened consumers everywhere.

We are on a pilgrimage to get drinkers to fall in love with our brand so we can share their most special moments with them.

We think there is little point in just simply trying to be the best. That's simply not good enough any more. We have to be the only people who can do what we do. That excites us and that's what makes our brands stronger.

We think we have something special. Big brands are under attack as never before from products and brands that are more exciting. Brands that are more interesting and interested. Brands that have a relevant and engaging story to tell. Brands that have a real point of difference. Brands that try harder. Brands like Chapel Down.

The launch of Kits Coty premium wines and the consumer and trade interest in Chapel Down will continue to fuel the English wine market, interest in which shows no signs of abating. We remain appropriately optimistic about continuing growth in sales in 2018. We will be securing sites for a further 500 acres of new vineyards over the coming years as the industry grows and we remain its leading brand.

Last year we saw the opportunity to add a winemaker's expertise to the growing gin and vodka industry and created Chapel Down gin and vodka using the skins of our Bacchus and Chardonnay grapes. Immediately listed nationally in all Majestic stores in December, it is now also available in leading on trade accounts such as Le Gavroche, Roux at Landau, Le Manoir aux Quat'Saisons, Roast, Paris House, The Ned, Hospital Club, Hix, Selfridges and Harvey Nichols. Both products have received wide critical acclaim. These beautiful bottles give us an even more powerful portfolio and a further growth opportunity which we will develop this year.

Finally - to all our shareholders, thank-you. It's great to see so many of you using your shareholder benefits to get great discounts on our wines and spirits. The energy, support and excitement that you create is something the whole team appreciate.

**So let's raise a glass. To you. To us. The curious optimists. The believers.**

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ENGLISH WINES PLC

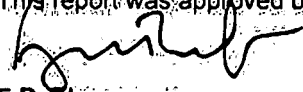
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STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017

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This report was approved by the board on 21<sup>st</sup> June 2018

and signed on its behalf.



F.D. Thompson  
Director

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## ENGLISH WINES PLC

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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The directors present their report and the financial statements for the year ended 31 December 2017.

#### **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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 adequate 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 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.

#### **Results and dividends**

The profit for the year, after taxation, amounted to £290,944 (2016 - £117,170).

#### **Directors**

The directors who served during the year were:

P. Brett  
F.D. Thompson  
R.A.B. Woodhouse



**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**Financial instruments**

The company has various financial instruments such as trade debtors which arise directly from operations. The company does not enter into derivative transactions.

The main financial risks arising from the company's activities are credit risk, and liquidity risk.

These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

Liquidity risk

The company actively manages its financial risk in order to meet its foreseeable needs in the short and medium term. In December 2017 the parent company, Chapel Down Group Plc, completed a fundraising of £18.53m through the issue of new shares and launched an open offer to existing shareholders raising a further £1.47m. These funds will be used to invest in the growth of the business.

Credit risk

The company's principal financial assets are cash and trade debtors. The directors consider there to be minimal credit risk in respect of the company's cash balances as they are all held in reputable financial institutions. The directors manage credit risk in respect of trade debtors by reviewing outstanding balances and performing credit checks on new customers.

**Going concern**

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The directors believe that the company has sufficient resources to continue in operational existence for the foreseeable future. The directors believe this to be the case as the company has positive reserves and cash balances. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**Post balance sheet events**

There have been no significant events affecting the company since the year end.

**Auditor**

The auditor, Crowe U.K. LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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ENGLISH WINES PLC

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DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017

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This report was approved by the board on 21<sup>st</sup> June 2018

and signed on its behalf.



R.A.B. Woodhouse  
Director

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## ENGLISH WINES PLC

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGLISH WINES PLC

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#### Opinion

We have audited the financial statements of English Wines Plc (the 'company') for the year ended 31 December 2017, which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGLISH WINES PLC (CONTINUED)**

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**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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
- 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 material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

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## ENGLISH WINES PLC

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENGLISH WINES PLC (CONTINUED)

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#### Responsibilities of directors

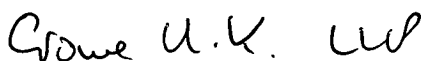
As explained more fully in the Directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's report.



Keith Newman (Senior statutory auditor)

for and on behalf of

**Crowe U.K. LLP**

Statutory Auditor

Riverside House  
40 - 46 High Street  
Maidstone  
Kent  
ME14 - 1JH  
Date:

ENGLISH WINES PLC

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Turnover	4	8,119,453	6,791,014
Cost of sales		(4,875,034)	(3,903,342)
<b>Gross profit</b>		<b>3,244,419</b>	<b>2,887,672</b>
Administrative expenses		(2,397,401)	(2,226,115)
Share based payment		(75,416)	(74,868)
<b>Operating profit</b>	5	<b>771,602</b>	<b>586,689</b>
Interest payable and similar expenses	9	(412,413)	(398,786)
<b>Profit before tax</b>		<b>359,189</b>	<b>187,903</b>
Tax on profit	10	(68,245)	(70,733)
<b>Profit for the financial year</b>		<b>290,944</b>	<b>117,170</b>
<b>Adjusted pre tax profit</b>			
Profit on ordinary activities before taxation		359,189	187,903
Share based payment		75,416	74,868
<b>Profit on ordinary activities before taxation - excluding share based payment</b>		<b>434,605</b>	<b>262,771</b>
<b>Adjusted EBITDA</b>			
Operating profit/ (loss)		771,602	586,689
Share based payment		75,416	74,868
Depreciation		179,722	143,808
<b>EBITDA excluding share based payments</b>		<b>1,026,740</b>	<b>805,365</b>

The notes on pages 16 to 31 form part of these financial statements.

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ENGLISH WINES PLC

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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017

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	Note	2017 £	2016 £
Profit for the financial year		290,944	117,170
<b>Other comprehensive income</b>			
Deferred tax movement relating to share options		-	65,251
<b>Total comprehensive income for the year</b>		<b>290,944</b>	<b>182,421</b>

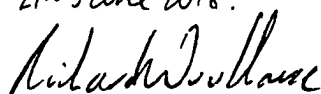
The notes on pages 16 to 31 form part of these financial statements.

**ENGLISH WINES PLC**  
**REGISTERED NUMBER: 03978908**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

	Note	2017 £	2016 £
<b>Fixed assets</b>			
Tangible assets	11	1,729,355	1,695,787
		<u>1,729,355</u>	<u>1,695,787</u>
<b>Current assets</b>			
Stocks	12	4,561,202	4,460,808
Debtors: amounts falling due after more than one year	13	342,344	177,974
Debtors: amounts falling due within one year	13	2,396,924	2,325,540
Cash at bank and in hand	14	740,002	596,136
		<u>8,040,472</u>	<u>7,560,458</u>
Creditors: amounts falling due within one year	15	(2,665,984)	(2,362,177)
<b>Net current assets</b>		<u>5,374,488</u>	<u>5,198,281</u>
<b>Total assets less current liabilities</b>		<u>7,103,843</u>	<u>6,894,068</u>
Creditors: amounts falling due after more than one year	16	(5,511,796)	(5,693,979)
<b>Provisions for liabilities</b>			
Deferred tax	17	(81,061)	(55,463)
		<u>(81,061)</u>	<u>(55,463)</u>
<b>Net assets</b>		<u>1,510,986</u>	<u>1,144,626</u>
<b>Capital and reserves</b>			
Called up share capital	18	50,000	50,000
Profit and loss account	19	1,460,986	1,094,626
		<u>1,510,986</u>	<u>1,144,626</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 21<sup>st</sup> June 2018.



**R.A.B. Woodhouse**  
Director

The notes on pages 16 to 31 form part of these financial statements.



ENGLISH WINES PLC

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2017	50,000	1,094,626	1,144,626
<b>Comprehensive income for the year</b>			
Profit for the year	-	290,944	290,944
<b>Total comprehensive income for the year</b>	-	290,944	290,944
Share based payment	-	75,416	75,416
<b>At 31 December 2017</b>	<b>50,000</b>	<b>1,460,986</b>	<b>1,510,986</b>

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2016	50,000	837,337	887,337
<b>Comprehensive income for the year</b>			
Profit for the year	-	117,170	117,170
Deferred tax charge on share options	-	65,251	65,251
<b>Total comprehensive income for the year</b>	-	182,421	182,421
Share based payment	-	74,868	74,868
<b>At 31 December 2016</b>	<b>50,000</b>	<b>1,094,626</b>	<b>1,144,626</b>

The notes on pages 16 to 31 form part of these financial statements.

ENGLISH WINES PLC

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £	2016 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	290,944	117,170
<b>Adjustments for:</b>		
Depreciation of tangible assets	179,722	143,808
Loss on disposal of tangible assets	-	15,012
Share based payment	75,416	74,868
Interest paid	412,413	398,786
Taxation charge	68,245	70,733
(Increase) in stocks	(100,394)	(53,986)
(Increase) in debtors	(71,384)	(297,558)
Increase in creditors	260,623	151,380
<b>Net cash generated from operating activities</b>	<b>1,115,585</b>	<b>620,213</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(283,432)	(503,119)
<b>Net cash from investing activities</b>	<b>(283,432)</b>	<b>(503,119)</b>
<b>Cash flows from financing activities</b>		
Decrease/(increase) in long term loans	(275,874)	459,453
Interest payable	412,413	398,786
<b>Net cash used in financing activities</b>	<b>(688,287)</b>	<b>60,667</b>
<b>Net increase in cash and cash equivalents</b>	<b>143,866</b>	<b>177,761</b>
Cash and cash equivalents at beginning of year	596,136	418,375
<b>Cash and cash equivalents at the end of year</b>	<b>740,002</b>	<b>596,136</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	740,002	596,136
	<b>740,002</b>	<b>596,136</b>

The notes on pages 16 to 31 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**1. General information**

The principal activity of the company is the production and sale of alcoholic beverages.

The company is a public limited company, which is incorporated and registered in England and Wales (Registered number: 03978908).

The address of the registered office is Chapel Down Winery, Small Hythe Road, Tenterden, Kent, TN30 7NG.

**2. Accounting policies**

**2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

**2.2 Financial reporting standard 102 - reduced disclosure exemptions**

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Chapel Down Group Plc as at 31 December 2017 and these financial statements may be obtained from Companies House.

**2.3 Going concern**

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The directors believe that the company has sufficient resources to continue in operational existence for the foreseeable future. The directors believe this to be the case as the company has positive reserves and cash balances. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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**2. Accounting policies (continued)**

**2.4 Turnover**

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

Revenue for trade sales is recognised at the point of despatch and retail sales at the point of customer purchase.

**2.5 Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the methods below:

Depreciation is provided on the following basis:

Freehold property	- 10 years straight line
Plant & machinery	- 20 years straight line
Motor vehicles	- 25% reducing balance
Fixtures & fittings	- 15% reducing balance
Computer equipment	- 3 years straight line

**2.6 Stocks**

Stock and work in progress are valued at the lower of cost and net realisable value.

Direct costs of the winery plus attributable overheads are used to value stock. The directors consider that this method is most appropriate for the nature of the company's activities.

**2.7 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

**2.8 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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**2. Accounting policies (continued)**

**2.9 Financial instruments**

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

**2.10 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**2.11 Foreign currency translation**

**Functional and presentation currency**

The company's functional and presentational currency is GBP.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

**2.12 Finance costs**

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

**2.13 Share based payments**

The company's parent company issues equity-settled share-based payments to certain employees of the company. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effects of non market based vesting conditions.

Fair value is measured by use of a Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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**2. Accounting policies (continued)**

**2.14 Operating leases**

Rents payable under operating leases are charged to the profit and loss on a straight line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the group recognises annual rent expense equal to amounts owed to the lessor. The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

**2.15 Pensions**

**Defined contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

**2.16 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and loss account, except that a charge attributable to an item of income and expense recognised as *other comprehensive income* or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

**3. Judgments in applying accounting policies and key sources of estimation uncertainty**

The company makes judgements, estimates and assumptions that affect the application of policies and the carrying values of assets and liabilities, income and expenses. The resulting accounting estimates calculated using these judgements will, by definition, seldom equal the related actual results but are based on the experience of the directors and the expectation of future events. The estimates are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The principal areas where judgement is exercised are as follows:

Stock - the directors regularly assess the quality and age of stock and will make necessary provisions against amounts which may not be recoverable.

Tangible fixed assets - the directors annually assess both the carrying value and the expected useful life of these assets which is judged to be up to 5 years, based on their experience.

**4. Turnover**

The total turnover for the company for the year has been derived from its principal activity, the production and sale of alcoholic beverages.

Analysis of turnover by country of destination:

	2017 £	2016 £
United Kingdom	8,054,324	6,720,216
Rest of Europe	9,227	20,568
Rest of the world	55,902	50,230
	<u>8,119,453</u>	<u>6,791,014</u>

**5. Operating profit**

The operating profit is stated after charging:

	2017 £	2016 £
Depreciation of tangible fixed assets	179,722	143,808
Exchange differences	1,113	1,028
Land and buildings operating lease rentals	39,500	24,000
Other operating lease rentals	46,517	46,686

ENGLISH WINES PLC

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

6. Auditor's remuneration

	2017 £	2016 £
<b>Fees payable to the company's auditor in respect of:</b>		
Audit of the financial statements	16,000	16,560
Taxation compliance services	3,500	3,384
Preparation of the financial statements	1,250	-
All other services	1,600	288
	<u>22,350</u>	<u>20,232</u>

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £	2016 £
Wages and salaries	1,911,958	1,467,003
Social security costs	181,239	149,585
Cost of defined contribution scheme	16,438	13,985
	<u>2,109,635</u>	<u>1,630,573</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Administration	18	15
Production	19	18
Directors	3	3
Retail	20	16
	<u>60</u>	<u>52</u>

Employment costs include share based payments of £75,416 (2016 - £74,868) relating to the effect of section 26 of FRS 102 accounting standard. This standard requires the directors to attribute a notional costs of non-cash share option agreements to the business over the vesting period of the shares.



ENGLISH WINES PLC

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

8. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	407,237	282,405
Company contributions to defined contribution pension schemes	3,640	2,500
	<u>410,877</u>	<u>284,905</u>

During the year retirement benefits were accruing to 2 directors (2016 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £222,778 (2016 - £164,440).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £1,500 (2016 - £1,500).

9. Interest payable and similar charges

	2017 £	2016 £
Interest payable on loans due to group undertakings	<u>412,413</u>	<u>398,786</u>

10. Taxation

	2017 £	2016 £
<b>Corporation tax</b>		
Current tax on profits for the year	40,164	-
<b>Total current tax</b>	<u>40,164</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	44,283	58,452
Changes to tax rates	(16,202)	12,281
<b>Total deferred tax</b>	<u>28,081</u>	<u>70,733</u>
<b>Taxation on profit on ordinary activities</b>	<u>68,245</u>	<u>70,733</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

10. Taxation (continued)

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	<b>359,189</b>	<b>187,902</b>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%)	<b>69,132</b>	<b>37,580</b>
<b>Effects of:</b>		
Ineligible depreciation and amortisation	<b>1,797</b>	<b>4,043</b>
Expenses not deductible for tax purposes	<b>5,683</b>	<b>19,905</b>
Adjustments to tax charge in respect of prior years	<b>(16,202)</b>	<b>12,281</b>
Adjust closing deferred tax to average rate 19.25% (2016: 20%)	<b>11,406</b>	<b>(3,076)</b>
Tax relief on exercise of share options	<b>(3,571)</b>	<b>-</b>
<b>Total tax charge for the year</b>	<b>68,245</b>	<b>70,733</b>

ENGLISH WINES PLC

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

11. Tangible fixed assets

	Freehold property £	Plant & machinery £	Motor vehicles £	Fixtures & fittings £	Total £
<b>Cost or valuation</b>					
At 1 January 2017	315,319	1,677,551	13,781	539,573	2,546,224
Additions	2,020	192,751	-	88,661	283,432
Transferred to group undertakings	(70,142)	-	-	-	(70,142)
At 31 December 2017	247,197	1,870,302	13,781	628,234	2,759,514
<b>Depreciation</b>					
At 1 January 2017	117,034	419,455	13,563	300,385	850,437
Charge for the year on owned assets	20,992	88,132	55	70,543	179,722
At 31 December 2017	138,026	507,587	13,618	370,928	1,030,159
<b>Net book value</b>					
At 31 December 2017	109,171	1,362,715	163	257,306	1,729,355
At 31 December 2016	198,285	1,258,096	218	239,188	1,695,787

12. Stocks

	2017 £	2016 £
Work in progress	3,805,411	3,774,137
Finished goods and goods for resale	755,791	686,671
	4,561,202	4,460,808

Stock recognised in cost of sales during the year as an expense was £4,875,034 (2016 - £3,903,342).

ENGLISH WINES PLC

NOTES TO THE FINANCIAL STATEMENTS  
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13. Debtors

	2017 £	2016 £
<b>Due after more than one year</b>		
Amounts owed from Curious Drinks Limited	342,344	177,974
	2017 £	2016 £
<b>Due within one year</b>		
Trade debtors	2,122,509	2,153,749
Other debtors	168,922	93,733
Prepayments and accrued income	105,493	78,058
	2,396,924	2,325,540

14. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	740,002	596,136

15. Creditors: Amounts falling due within one year

	2017 £	2016 £
Trade creditors	1,611,379	1,313,286
Corporation tax	42,647	-
Other taxation and social security	209,023	396,195
Other creditors	688,201	555,844
Accruals and deferred income	114,734	96,852
	2,665,984	2,362,177

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**ENGLISH WINES PLC**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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**16. Creditors: Amounts falling due after more than one year**

	2017 £	2016 £
Amounts owed to group undertakings	5,490,917	5,672,563
Accruals and deferred income	20,879	21,416
	<u>5,511,796</u>	<u>5,693,979</u>

The interest rate charged on the intercompany loan with Chapel Down Group Plc is 7%. There is no fixed repayment term.

**17. Deferred taxation**

	2017 £	2016 £
At beginning of year	(55,463)	(49,981)
Charged to profit or loss	(25,598)	(70,733)
Charged to other comprehensive income	-	65,251
<b>At end of year</b>	<u>(81,061)</u>	<u>(55,463)</u>

The provision for deferred taxation is made up as follows:

	2017 £	2016 £
Accelerated capital allowances	(193,843)	(231,268)
Losses	-	78,025
Share options	100,263	97,780
Short term timing differences	12,519	-
	<u>(81,061)</u>	<u>(55,463)</u>

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ENGLISH WINES PLC

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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**18. Share capital**

	2017 £	2016 £
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

**19. Reserves**

**Profit & loss account**

This reserve is the accumulation of the profits and losses since incorporation net of any dividends paid to shareholders.

ENGLISH WINES PLC

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

20. Share Options

	2003 Fixed Price	2006 Variable Price	2006 Fixed Price	2009 Fixed Price
Number of share options	1,968,450	3,000,000	3,239,997	3,000,000
Vesting period (years)	3.7	4.4	4.4	3.6
Outstanding at start of year	788,124	2,200,000	8,526	1,491,800
Weighted average price at start of year	12.5p	9p	15p	10p
Exercised	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of year	788,124	2,200,000	8,526	1,491,800
Weighted average price at end of year	12.5p	9p	15p	10p

	2013 Fixed Price	2016 Fixed Price	2017 Fixed Price
Number of share options	4,688,888	430,000	200,000
Vesting period (years)	4.6	4.0	3.0
Outstanding at start of year	4,688,888	430,000	-
Weighted average price at start of year	17p	33p	-
Exercised	(27,000)	-	-
Granted	-	-	200,000
Forfeited	-	-	-
Outstanding at end of year	4,661,888	430,000	200,000
Weighted average price at end of year	17p	33p	81p

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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The vesting conditions of all of the schemes require service of the same length as the vesting period.

The estimated fair value of the 1,968,450 share options granted in 2003 is 2.3p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 12.5p, exercise price of 12.5p, expected volatility of 12%, no expected dividends, vesting period of 3.7 years and a risk free rate 4.3%. The options were granted before the shares were listed and so volatility has been based on share price movements from listing in April 2003 to December 2005.

The estimated fair value of the 3,000,000 share options granted in 2006 is 7.3p. This was calculated by applying the Black Scholes option pricing model to the two extremes of the variable option and averaging the result. The model inputs were the share price at grant date of 15p, exercise prices of 15p and 5p, expected volatility of 12%, no expected dividends, vesting period of 4.4 years and a risk free rate 5.5%.

The estimated fair value of the 3,239,997 share options granted in 2006 is 3.5p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 15p, exercise price of 15p, expected volatility of 12%, no expected dividends, vesting period of 4.4 years and a risk free rate 5.5%.

The estimated fair value of the 3,000,000 share options granted in 2009 is 5.2p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 15p, exercise price of 10p, expected volatility of 9%, no expected dividends, vesting period of 3.6 years and a risk free rate 0.5%.

The estimated fair value of the 4,688,888 share options granted in 2013 is 7.3p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 20.5p, exercise price of 17p, expected volatility of 35%, no expected dividends, vesting period of 4.6 years and a risk free rate 0.5%.

The estimated fair value of the 430,000 share options granted in 2016 is 6.2p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 33.75p, exercise price of 33p, expected volatility of 2%, no expected dividends, vesting period of 4 years and a risk free rate 0.5%.

The estimated fair value of the 200,000 share options granted in 2017 is 6.2p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 80.4p, exercise price of 81p, expected volatility of 11%, no expected dividends, vesting period of 3 years and a risk free rate 0.5%.

The current year expense resulting from the share options is £75,416 (2016 - £74,868).

The directors believe that the Black Scholes option pricing model is the most appropriate method for calculating the share option charges under Section 26 FRS 102.



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**21. Pension commitments**

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £16,442 (2016 - £13,985). Contributions totaling £98 (2016 - £nil) were payable to the fund at the balance sheet date and are included in creditors.

**22. Commitments under operating leases**

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
<b>Land and buildings</b>		
Not later than 1 year	39,500	24,000
Later than 1 year and not later than 5 years	55,542	-
	<u>95,042</u>	<u>24,000</u>
	2017 £	2016 £
<b>Other</b>		
Not later than 1 year	85,503	84,642
Later than 1 year and not later than 5 years	85,506	78,540
	<u>171,009</u>	<u>163,182</u>

**23. Related party transactions**

The company has taken advantage of the exemption in section 33 of FRS 102 from the requirement to disclose transactions with Chapel Down Group Plc on the grounds that 100% of the voting rights in the company are controlled within the group and consolidated financial statements are prepared by the parent company.

During the year Curious Drinks Limited, an associate of Chapel Down Group PLC, was transferred income of £3,679,233 (2016 - £3,547,967) and recharged costs, including a management charge, of £4,057,878 (2016 - £3,865,427). Costs paid by Curious Drinks Limited on behalf of English Wines were £214,274 (2016 - £nil). At 31 December 2017 £342,344 (2016 - £177,974) was owed to the company by Curious Drinks Limited.

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## ENGLISH WINES PLC

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### 24. Financial Commitment

The company has provided an unlimited guarantee for the borrowing's of Chapel Down Group Plc and Curious Drinks Limited. This guarantee is supported by a fixed and floating charge over the assets of the company. At 31 December 2017 Chapel Down Group Plc owed HSBC Bank Plc £1,986,611 (2016 - *£nil*). No amounts were owed to HSBC Bank Plc from Curious Drinks Limited at the balance sheet date (2016 - *£nil*).

#### 25. Controlling party

The parent company, Chapel Down Group Plc holds 100% of the share capital of the company and is incorporated in England and Wales. The accounts of Chapel Down Group Plc can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

There is no ultimate controlling party.