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Company Registration No. 04362181 (England and Wales)

**CHAPEL DOWN GROUP PLC**

**ANNUAL REPORT**

**FOR THE YEAR ENDED  
31 DECEMBER 2012**

TUESDAY



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A28 25/06/2013 #247  
COMPANIES HOUSE

# CHAPEL DOWN GROUP PLC

## DIRECTORS AND ADVISERS

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<b>Directors</b>	P Brett F D Thompson R A B Woodhouse N W Wray
<b>Secretary</b>	R A B Woodhouse
<b>Company number</b>	04362181
<b>Registered office</b>	Chapel Down Winery, Small Hythe Road Tenterden Kent TN30 7NG
<b>Registered auditors</b>	Crowe Clark Whitehill LLP Chartered Accountants & Statutory Auditors 4 Mount Ephraim Road Tunbridge Wells Kent TN1 1EE
<b>Bankers</b>	Barclays Bank Plc Kent Business Centre 17 North Street Ashford Kent BX3 2BB
<b>Registrars</b>	Capita Registrars 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Financial advisers</b>	Rivington Street Corporate Finance Limited 3rd Floor 3 London Wall Buildings London Wall London EC2M 5SY
<b>Solicitors</b>	Thomson Snell & Passmore 3 Lonsdale Gardens Tunbridge Wells Kent TN1 1NX

# CHAPEL DOWN GROUP PLC

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# CHAPEL DOWN GROUP PLC

## CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

### Summary

I have pleasure in presenting the Company's Annual Report and Financial Statements for the 12 months ending 31st December 2012

Turnover up 29% - a record - at £4,845,216 (2011 £3,758,898) due to a 15% increase in volume of wine sold combined with an 8% increase in average selling price (excluding duty and VAT)

Sparkling wine volumes were 35% up

Sales were withheld in the final quarter following a low harvest in 2012 to ensure consistent stocking in key accounts

The "Curious" range of beer saw a 242% increase in turnover

• Gross profit up 21% at £1,999,050 (2011 £1,652,334) Gross profit margin was 41% compared to 44% in the comparative period reflecting the increased sales of the "Curious" range of beers which is at a lower margin compared to wine and higher distribution costs reflecting increased fuel prices

Operating profit up 49% at £548,074 compared with an operating profit of £367,847 in the same period last year

Pre-tax profit up 90% at £413,829 compared with a profit of £218,079 in the comparative period excluding the effect of the FRS20 share option provisions \*

We worked with the official Olympic suppliers of wine - Bibendum - to supply Chapel Down over the Olympic period to Olympic and other venues including Spencer House and City Hall

We continue to develop the highest quality listings for our wines and to supply high profile restaurants including Jamie Oliver, Harvey Nichols and The Royal Opera House

Recent awards, include a coveted Gold Medal for Chapel Down Rose Brut at the International Wine Challenge 2011, The Gore-Brown Trophy for the best English wine 2012 for Bacchus Reserve 2010 and our Curious Brew beer won Gold at the International Beer Challenge 2012

### Chairman's statement

At the time of our half-year results, I was delighted to report that despite an extremely challenging trading environment, your Company continued to thrive. That performance has been sustained, and indeed could have been even better had we not taken the decision to withhold growth in sales of our wines to smooth our stocks as a result of a low 2012 harvest. Our focus has always been to build the Chapel Down brand into a very valuable asset, and we want to retain the excellence and loyalty of the customer base we have built through constancy of supply. Nevertheless, the figures speak for themselves. Turnover up 29%, Gross profit up 21%, Operating Profit up 49% and pre-tax profit up 90%.

2012 was a great showcase for all things British. There's no doubt that English wines were one of the stars and that Chapel Down led from the front. With good harvests, our growth is eminently sustainable. Consumers want our brand. We are well positioned competitively, have an excellent team of very high quality people and exciting growth prospects.

It has been a constant theme in my statements to say that demand for our wines exceeds our ability to supply and in 2012 this has been even more pronounced. We do of course want this to remain the case even as we increase supply and we will continue to invest in our brand to ensure we are best placed to thrive.

## CHAPEL DOWN GROUP PLC

### CHAIRMAN'S REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

Discussions continue with existing and new growers to increase their acreage of vines to fuel the growth in future sales of high quality, high margin wines, whilst over the coming years we anticipate a shake out of weaker brands and businesses. 2012 was a very difficult year for many growers coming on the back of a low yielding 2011 vintage. However, we were able to secure a reasonable quantity of good quality fruit from our more easterly vineyards and our partners in Kent and Essex. Vineyards in Sussex in particular, as well as points further West, were severely affected by the early frosts and the long, cool, wet summer. Indeed, some vineyards did not pick at all. It is a testament to our model of wide geographic supply, and meticulous site selection, that we were able to take in as much good fruit as we did.

We are unashamedly a brand-led business and we aim to build Chapel Down into a very valuable asset. We partner with some of England's great chefs, including Gordon Ramsay and Jamie Oliver as well as the UK's leading retailers such as Majestic, Morrison's, Marks and Spencer, Waitrose and Selfridges to ensure the brand is in the right places to sell and be seen. Chapel Down was served on tables at The Brit Awards, at Taste London and at Jamie Oliver's Festival as well as many other high profile events over the year.

We worked with the official Olympic suppliers of wine, Bibendum, to supply Chapel Down over the Olympic period to Olympic and other venues. We have also started to export our wines and beer and are supplying markets as diverse as Japan, Finland, Hong Kong, Vietnam, Thailand, United Arab Emirates, Holland, Sweden, Finland, Ireland, Canada and France.

Our new partners at our home in Tenterden, The Swan, are delivering great value and great food. If you have not visited our winery and vineyard at Tenterden before, then it's another reason why I would urge you to do so and experience first-hand the passion that is driving the industry forwards. The benefits of holding shares in the Company have been improved and we offer great discounts on wine, beer, food, tours and gifts.

We have a strong balance sheet. The undoubted growth in the value of our brand assets is also supported by strong net tangible assets. The quality of the wines we have in stock (at cost) has never been higher, more valuable or saleable. The property and other hard assets of the business are all sound and well maintained.

Your Board remain confident that with such a strong brand, the prospects for the company are excellent.



Paul Brett

Chairman

Note

\*Excludes the effect of the FRS20 share option accounting adjustment

# CHAPEL DOWN GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their report and financial statements for the year ended 31 December 2012

### Directors

The following directors have held office since 1 January 2012

P Brett  
F D Thompson  
R A B Woodhouse  
N W Wray

### Principal activities and review of the business

The principal activity of the company continues to be that of producing and selling wine. A review of the business, which includes a review of the key performance indicators of the Group appears in the Chairman's statement on pages 1 and 2

### Results and dividends

The consolidated profit and loss account for the year is set out on page 7

The directors do not recommend payment of an ordinary dividend

### Creditor payment policy

The company's current policy concerning the payment of trade creditors is to

- establish the terms of payment with suppliers when agreeing the terms of each transaction,
  - ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts,  
and
  - pay in accordance with the company's contractual and other legal obligations
- the average creditor days at the year end were 39 days

### Financial risk management

The group uses various financial instruments. These include loans, cash and various items such as trade debtors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations

While risks may be considered to have a financial impact, the management of the company's financial resources is key to ensuring sufficient funds are available to meet financial commitments as and when they fall due. The main risk arising from the financial instrument is third party credit risk

#### Harvest risk

The risk of harvest failure is partially mitigated by the wide spread of contracted vineyards across the South East of England

#### Credit risk

The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on new customers and by monitoring payments against contractual terms

### Outlook

The 2012 harvest was challenging and gave us less fruit than we would have wanted. This will stall our growth of still wines and we have reduced our projected sales of sparkling wines. The new acreage added is now producing good quality fruit enabling us to create more premium wines and the progress of our beer sales has been very encouraging

# CHAPEL DOWN GROUP PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

### 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 have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' which requires the reasons for this decision to be explained. 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. In addition, it is the opinion of the Directors that the loans totalling £805,200 which are due for repayment or restructuring by 24th June 2013 will be renewed by Barclays Bank PLC on similar terms to the existing loans. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Auditors

During the year Crowe Clark Whitehill LLP were appointed as Statutory auditors of the company.

In accordance with section 489 of the Companies Act 2006, a resolution proposing that Crowe Clark Whitehill LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

### Statement of Directors' responsibilities

The directors are responsible for preparing the directors report and 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 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 and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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.

### Provision of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

On behalf of the board



F D Thompson  
Director  
22 April 2013

## **CHAPEL DOWN GROUP PLC**

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ENGLISH WINES GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2012**

We have audited the group and parent company financial statements of Chapel Down Group Plc for the year ended 31 December 2012, set out on pages 7 to 25. 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).

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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the statement of directors' responsibilities, 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 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 Ethical Standards for Auditors.

#### **Scope of the Audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profits 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.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.



## CHAPEL DOWN GROUP PLC

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ENGLISH WINES GROUP PLC (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### Matters on which we are required to report by exception

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

*Crane Crowe Clark Whitehill LLP*

Mark Anderson (Senior Statutory Auditor)

*22nd April 2013*

For and on behalf of

Crowe Clark Whitehill LLP  
Statutory Auditors

4 Mount Ephraim Road  
Tunbridge Wells  
Kent  
TN1 1EE

## CHAPEL DOWN GROUP PLC

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Turnover	2	4,845,216	3,758,898
Cost of sales		<u>(2,846,166)</u>	<u>(2,106,564)</u>
Gross profit		1,999,050	1,652,334
Administrative expenses before share based payment	(1,407,275)		(1,240,786)
Share based payment (FRS 20)	<u>(43,701)</u>		<u>(43,701)</u>
Administrative expenses after share based payment		<u>(1,450,976)</u>	<u>(1,284,487)</u>
Operating profit	3	548,074	367,847
Other interest receivable and similar income		451	134
Interest payable and similar charges	4	<u>(178,397)</u>	<u>(193,603)</u>
Profit on ordinary activities before taxation		370,128	174,378
Tax on profit/(loss) on ordinary activities	5	<u>(127,228)</u>	<u>(6,977)</u>
Profit on ordinary activities after taxation		242,900	167,401
Minority interest		3,641	14,043
Retained profit for the year		<u>246,541</u>	<u>181,444</u>
Profit on ordinary activities before taxation - excluding FRS 20 share based payments		<u>413,829</u>	<u>218,079</u>

The profit and loss account has been prepared on the basis that all operations are continuing operations

Profit per share (pence)	7		
- basic		0 54	0 37
- diluted		0 52	0 36

## CHAPEL DOWN GROUP PLC

### STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

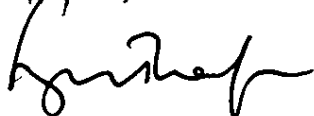
	2012 £	2011 £
Profit for the financial year	246,541	181,444
<b>Total gains and losses recognised since last financial statements</b>	<b><u>246,541</u></b>	<b><u>181,444</u></b>
<b>Note of historical cost profits and losses</b>		
	2012 £	2011 £
Reported profit on ordinary activities before taxation	370,128	174,378
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>38,631</u>	<u>38,631</u>
<b>Historical cost profit on ordinary activities before taxation</b>	<b><u>408,759</u></b>	<b><u>213,009</u></b>
<b>Historical cost profit for the year retained after taxation, extraordinary items and dividends</b>	<b><u>408,759</u></b>	<b><u>213,009</u></b>

**CHAPEL DOWN GROUP PLC**  
**COMPANY REGISTRATION NO. 04362181 (ENGLAND AND WALES)**

**BALANCE SHEETS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	Group		Company	
		2012 £	2011 £	2012 £	2011 £
<b>Fixed assets</b>					
Intangible assets	8	72,077	88,317	72,077	88,317
Tangible assets	9	5,004,334	4,996,245	4,148,915	4,223,196
Investments	10	-	-	120,000	120,000
		<u>5,076,411</u>	<u>5,084,562</u>	<u>4,340,992</u>	<u>4,431,513</u>
<b>Current assets</b>					
Stocks	11	2,893,894	2,956,081	-	-
Debtors	12	648,368	658,052	3,489,966	3,433,042
Cash at bank and in hand		757,199	835,391	6,069	127,079
		<u>4,299,461</u>	<u>4,449,524</u>	<u>3,496,035</u>	<u>3,560,121</u>
<b>Creditors amounts falling due within one year</b>	13	<u>(1,780,192)</u>	<u>(1,260,444)</u>	<u>(910,117)</u>	<u>(111,855)</u>
<b>Net current assets</b>		<u>2,519,269</u>	<u>3,189,080</u>	<u>2,585,918</u>	<u>3,448,266</u>
<b>Total assets less current liabilities</b>		<u>7,595,680</u>	<u>8,273,642</u>	<u>6,926,910</u>	<u>7,879,779</u>
<b>Creditors amounts falling due after more than one year</b>	14	<u>(2,141,915)</u>	<u>(3,106,478)</u>	<u>(2,120,479)</u>	<u>(3,055,243)</u>
		<u>5,453,765</u>	<u>5,167,164</u>	<u>4,806,431</u>	<u>4,824,536</u>
<b>Capital and reserves</b>					
Called up share capital	16	2,240,948	2,240,948	2,240,948	2,240,948
Share premium account	17	2,000,094	2,000,094	2,000,094	2,000,094
Revaluation reserve	17	1,337,807	1,376,438	1,174,277	1,204,581
Other reserves	17	462,695	418,994	-	-
Minority interest	17	12,316	15,957	-	-
Profit and loss account	17	(600,095)	(885,267)	(608,888)	(621,087)
<b>Shareholders' funds</b>	18	<u>5,453,765</u>	<u>5,167,164</u>	<u>4,806,431</u>	<u>4,824,536</u>

Approved by the Board and authorised for issue on 22 April 2013



F D Thompson  
 Director



R A B Woodhouse  
 Director

## CHAPEL DOWN GROUP PLC

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Cash Flow Notes	2012 £	2011 £
<b>Net cash inflow from operating activities</b>	1	497,463	268,104
<b>Returns on investments and servicing of finance</b>			
Interest received	451	134	
Interest paid	<u>(178,397)</u>	<u>(193,603)</u>	
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(177,946)</b>	<b>(193,469)</b>
Taxation		(117)	-
<b>Capital expenditure</b>			
Payments to acquire tangible assets	<u>(230,084)</u>	<u>(293,311)</u>	
<b>Net cash outflow for capital expenditure</b>		<b>(230,084)</b>	<b>(293,311)</b>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<b>89,316</b>	<b>(218,676)</b>
<b>Financing</b>			
Issue of ordinary share capital	<u>-</u>	<u>364,456</u>	
		-	364,456
New long term loans	-	456,126	
Increase in deferred income	3,844	1,811	
Repayment of long term bank loan	(163,157)	(155,263)	
Repayment of short term bank loan	<u>(8,194)</u>	<u>15,952</u>	
<b>Net cash inflow/(outflow) from financing</b>	2	<b>(167,508)</b>	<b>318,626</b>
<b>Increase/(decrease) in cash in year</b>	2	<b>(78,192)</b>	<b>464,406</b>

# CHAPEL DOWN GROUP PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

<b>1</b>	<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			<b>2012</b>	<b>2011</b>
				£	£
	Operating profit			548,074	367,847
	Depreciation of tangible assets			221,995	185,829
	Loss on disposal of assets			-	56,754
	Amortisation of intangible assets			16,240	16,240
	Share based payments			43,701	43,701
	Decrease/(Increase) in stocks			62,187	(320,034)
	Increase in debtors			(15,417)	(293,039)
	(Decrease)/Increase in creditors within one year			(379,317)	210,806
	<b>Net cash inflow from operating activities</b>			<b>497,463</b>	<b>268,104</b>
<b>2</b>	<b>Analysis of net debt</b>	<b>1 January 2012</b>	<b>Cash flow</b>	<b>Other non-cash changes</b>	<b>31 December 2012</b>
		£	£	£	£
	Net cash				
	Cash at bank and in hand	835,391	(78,192)	-	757,199
		<u>835,391</u>	<u>(78,192)</u>	<u>-</u>	<u>757,199</u>
	Finance leases	-	-	-	-
	Debts falling due within one year	(125,157)	(797,056)	-	(922,213)
	Debts falling due after one year	(3,106,478)	964,563	-	(2,141,915)
		<u>(3,231,635)</u>	<u>167,507</u>	<u>-</u>	<u>(3,064,128)</u>
	<b>Net debt</b>	<b>(2,396,244)</b>	<b>89,315</b>	<b>-</b>	<b>(2,306,929)</b>
<b>3</b>	<b>Reconciliation of net cash flow to movement in net debt</b>			<b>2012</b>	<b>2011</b>
				£	£
	(Decrease)/increase in cash in the year			(78,192)	464,406
	Cash (inflow)/outflow from (increase)/decrease in debt			167,507	(318,626)
	<b>Movement in net debt in the year</b>			<b>89,315</b>	<b>145,780</b>
	Opening net debt			(2,396,244)	(2,542,024)
	<b>Closing net debt</b>			<b>(2,306,929)</b>	<b>(2,396,244)</b>

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 1 Accounting policies

##### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings and in accordance with applicable accounting standards

##### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) which have been applied consistently (except as otherwise stated)

##### 1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2012. The results of subsidiaries sold or acquired are included in the profit and loss account up to or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation

##### 1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts  
Revenue for trade sales is recognised at point of despatch and retail sales at point of customer purchase

##### 1.5 Intellectual property and goodwill

Acquired goodwill is written off in equal instalments over 15 years its estimated useful economic life

##### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life as follows

Freehold land and buildings	Straight line over 50 years on the buildings and 20 years on Kils Coty Vineyard
Plant and machinery	Between 5% - 20% straight line
Furniture, fittings and equipment	15% reducing balance
Computer equipment	Straight line over 3 years
Motor vehicles	25% reducing balance

Freehold land and buildings are revalued in accordance with FRS 15 which requires a full valuation every five years and an interim valuation every third year

##### 1.7 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

##### 1.8 Investments

Fixed asset investments are stated at cost less provision for permanent diminution in value

##### 1.9 Stock and work in progress

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 the wine stock. The directors consider that this method is most appropriate for the nature of the company's activities

##### 1.10 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

##### 1.11 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account

##### 1.12 Convertible loan stock

On 1st July 2009 the company issued convertible loan notes amounting to £1,100,000 which include the option to convert to equity. Under FRS 25 the directors are required to fair value the liability and any excess over the amount issued is treated as equity. The directors have carried out a valuation and as the difference is insignificant no adjustment has been made in the financial statements. These notes incur an interest rate of 8% and are repayable or convertible between June 2012 and June 2014. The conversion exercise price is 10p

##### 1.13 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 have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' which requires the reasons for this decision to be explained. 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. In addition it is the opinion of the Directors that the loans totalling £805,200 which are due for repayment or restructuring by 24th June 2013 will be renewed by Barclays Bank PLC on similar terms to the existing loans. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 2 Turnover

The total turnover of the group for the year has been derived from its principal activity

##### Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below

	2012	2011
	£	£
<b>Geographical segment</b>		
UK	4,812,610	3,744,876
Other EU	21,647	259
Non EU	10,959	13,763
	<u>4,845,216</u>	<u>3,758,898</u>

#### 3 Operating profit/(loss)

	2012	2011
	£	£
Operating profit is stated after charging		
Depreciation of intangible assets	16,240	16,240
Depreciation of tangible assets	221,995	185,829
Loss on foreign exchange transactions	(3,816)	(10)
Operating lease rentals	63,882	53,544
Fees payable to the company's auditor for the audit of the company's annual accounts	4,990	5,000
Fees payable to the company's auditor for the audit of the company's annual accounts prior year adjustment	(250)	-
Fees payable to the company's auditor for other services		
- The audit of the company's subsidiaries	14,465	12,500
- Other services pursuant to legislation	3,240	5,472
- Tax services	4,090	3,950
	<u>4,090</u>	<u>3,950</u>

#### 4 Interest payable

	2012	2011
	£	£
On bank loans and overdrafts	178,397	193,603
<b>Interest Paid</b>	<u>178,397</u>	<u>193,603</u>

At 31 December 2012 the group and company held a 5 year interest swap that reduced the company's exposure to variability in cash-flows resulting from movements in base rate. This interest rate swap expires on 23 February 2014. During the period to 31 December 2012 no amount was recognised for the loss or gain to date on the effective hedge as the directors do not consider the amount to be significant.



## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 5 Taxation

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
<b>Current tax</b>				
UK corporation tax charge on profit for year	17,158	-	369	-
Adjustments in respect of prior years	117	-	-	-
	<u>17,275</u>	<u>-</u>	<u>369</u>	<u>-</u>
<b>Deferred tax</b>				
Origination and reversal of timing differences	115,573	43,747	28,778	9,086
Adjustments in respect of prior periods	1,758	(35,744)	-	(28,477)
Effect of change in deferred tax rate	<u>(7,378)</u>	<u>(1,026)</u>	<u>(699)</u>	<u>(648)</u>
<b>Total deferred tax</b>	<u>109,953</u>	<u>6,977</u>	<u>28,079</u>	<u>(20,039)</u>
<b>Tax on profit on ordinary activity</b>	<u>127,228</u>	<u>6,977</u>	<u>28,448</u>	<u>(20,039)</u>
<b>Factors affecting the tax charge for the year</b>				
The tax assessed for the year is higher than the standard rate of corporation tax in the UK 24.5% (2011 26.5%)				
The differences are explained below				
<b>Profit per accounts</b>	<u>370,128</u>	<u>174,378</u>	<u>10,343</u>	<u>(29,645)</u>
Tax on profit on ordinary activities at standard CT rate of 24.5% (2011 26.5%)	90,682	46,211	2,534	(7,856)
<b>Effects of</b>				
Capital allowances in excess of depreciation	(14,627)	(45,465)	(4,139)	(8,918)
Ineligible depreciation and amortisation	28,137	27,166	26,120	25,186
Expenses not deductible for tax purposes	15,672	20,468	-	3,907
(Utilisation of tax losses)/unused losses	(98,845)	(48,380)	(24,063)	(12,319)
Marginal relief	(3,861)	-	(83)	-
Adjustments to tax charge in respect of previous year	117	-	-	-
<b>Current tax charge</b>	<u>17,275</u>	<u>-</u>	<u>369</u>	<u>-</u>

Estimated tax losses for the parent company to carry forward are £14,347. The losses can be set against future profits arising from the same trade.

#### 6 Loss for the financial period

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:

	2012	2011
	£	£
Holding company's loss for the financial period	<u>(18,105)</u>	<u>(9,606)</u>

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 7 Earnings per share

The calculation of basic earnings per share is based on the profit after tax and on a weighted average number of ordinary shares in issue during the period. The diluted earnings per share allows for the full exercise of outstanding share purchase options and warrants and adjusted earnings.

	Profit/(loss) after tax		Weighted average number of shares		Earnings per share	
	2012 £	2011 £	2012	2011	2012 pence	2011 pence
Basic earnings	242,900	167,401	44,818,946	44,818,946	0.54	0.37
Outstanding share options	-	-	1,994,742	1,994,742	-	-
Diluted earnings	<u>242,900</u>	<u>167,401</u>	<u>46,813,688</u>	<u>46,813,688</u>	<u>0.52</u>	<u>0.36</u>

# CHAPEL DOWN GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

8	<b>Intangible fixed assets Group</b>	<b>Intellectual property and goodwill £</b>
	<b>Cost</b>	
	At 1 January 2012 and at 31 December 2012	<u>243,594</u>
	<b>Amortisation</b>	
	At 1 January 2012	155,277
	Charge for the year	16,240
	<b>At 31 December 2012</b>	<u>171,517</u>
	<b>Net book value</b>	
	At 31 December 2012	<u>72,077</u>
	At 31 December 2011	<u>88,317</u>

Goodwill was valued in 2002 on a fair value basis. The historical cost of goodwill is £216,094 (2011: £216,094). The provision for amortisation based on historical cost would have been £132,785 (2011: £132,785) and the charge for the year would have been £13,666.

	<b>Company</b>	<b>Intellectual property and goodwill £</b>
	<b>Cost</b>	
	At 1 January 2012 and at 31 December 2012	<u>243,594</u>
	<b>Amortisation</b>	
	At 1 January 2012	155,277
	Charge for the year	16,240
	<b>At 31 December 2012</b>	<u>171,517</u>
	<b>Net book value</b>	
	At 31 December 2012	<u>72,077</u>
	At 31 December 2011	<u>88,317</u>

# CHAPEL DOWN GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

### 9 Tangible fixed assets Group

	Freehold land and buildings	Plant and machinery
	£	£
<b>Cost or valuation</b>		
At 1 January 2012	4,271,374	1,450,845
Additions	115,303	97,051
Disposals	-	-
<b>At 31 December 2012</b>	<b>4,386,677</b>	<b>1,547,896</b>
<b>Depreciation</b>		
At 1 January 2012	332,420	485,513
Charge for the year	98,605	99,741
Eliminated on disposal	-	-
<b>At 31 December 2012</b>	<b>431,025</b>	<b>585,254</b>
<b>Net book value</b>		
<b>At 31 December 2012</b>	<b>3,955,652</b>	<b>962,642</b>
<b>At 31 December 2011</b>	<b>3,938,954</b>	<b>965,332</b>

	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£
<b>Cost or valuation</b>			
At 1 January 2012	239,433	13,781	5,975,434
Additions	17,730	-	230,084
Disposals	(508)	-	(508)
<b>At 31 December 2012</b>	<b>256,655</b>	<b>13,781</b>	<b>6,205,010</b>
<b>Depreciation</b>			
At 1 January 2012	148,391	12,865	979,189
Charge for the year	23,420	229	221,995
Eliminated on disposal	(508)	-	(508)
<b>At 31 December 2012</b>	<b>171,303</b>	<b>13,094</b>	<b>1,200,676</b>
<b>Net book value</b>			
<b>At 31 December 2012</b>	<b>85,352</b>	<b>687</b>	<b>5,004,334</b>
<b>At 31 December 2011</b>	<b>91,042</b>	<b>916</b>	<b>4,996,245</b>

A valuation was carried out by Savills Plc on the 17 April 2012 on the basis of open market value in accordance with RICS appraisal and valuation standards. An additional valuation of the two vineyard sites was carried out by the directors. No adjustment has been made to the financial statements because in the opinion of the directors the current market valuation is not significantly different to the carrying value as at 31 December 2011 and 2012. The historical cost of freehold land and buildings is £2,787,059 (2011 £2,787,059). The plant and machinery was valued by Edward Symmons and Partners, Surveyors on 26 February 2002. The historical cost of the plant and machinery is £1,420,751 (2011 £1,420,751). Accumulated depreciation based on the historical cost would have been freehold land and buildings £199,799 (2011 £199,799) and plant and machinery £464,791 (2011 £464,791). The depreciation charge for the year based on historical cost would have been freehold land and buildings £52,517 plant and machinery £70,632. Assets costing £655,098 and with accumulated depreciation £50,724 are held for use under operating leases.

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 9 Tangible fixed assets (continued)

Company	Freehold land and buildings	Plant and machinery	Total
	£	£	£
<b>Cost or valuation</b>			
At 1 January 2012	4,186,350	635,500	4,821,850
Additions	47,867	-	47,867
Disposals	-	-	-
<b>At 31 December 2012</b>	<b>4,234,217</b>	<b>635,500</b>	<b>4,869,717</b>
<b>Depreciation</b>			
At 1 January 2012	298,839	299,815	598,654
Charge for the year	90,372	31,776	122,148
	-	-	-
<b>At 31 December 2012</b>	<b>389,211</b>	<b>331,591</b>	<b>720,802</b>
<b>Net book value</b>			
At 31 December 2012	<b>3,845,006</b>	<b>303,909</b>	<b>4,148,915</b>
At 31 December 2011	<b>3,887,511</b>	<b>335,685</b>	<b>4,223,196</b>

The freehold land and buildings and plant and machinery were transferred to the company from its subsidiary English Wines Plc in 2002. Disclosure of the cost of the property is shown in the group fixed assets summary.

#### 10 Fixed asset investments Company

	Shares in group undertakings £
<b>Cost or valuation</b>	
At 1 January 2012	120,000
At 31 December 2012	<b>120,000</b>

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

Company	Country of registration or incorporation	Shares held	
		Class	%
<b>Subsidiary undertakings</b>			
English Wines Plc	England and Wales	Ordinary	100
Cunous Drinks Limited	England and Wales	Ordinary	70

The principal activity of these undertakings for the last relevant financial year was as follows

	Principal activity
English Wines Plc	Manufacture and sale of wine
Cunous Drinks Limited	Sale of beer

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 11 Stocks and work in progress

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Work in progress	2,416,084	2,689,473	-	-
Finished goods and goods for resale	477,810	266,608	-	-
	<u>2,893,894</u>	<u>2,956,081</u>	<u>-</u>	<u>-</u>

#### 12 Debtors

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Trade debtors	562,346	587,911	-	-
Amounts owed by group undertakings	-	-	3,489,966	3,413,003
Other debtors	41,038	4,360	-	-
Prepayments and accrued income	44,984	40,680	-	-
Deferred tax (refer to note 15)	-	25,101	-	20,039
	<u>648,368</u>	<u>658,052</u>	<u>3,489,966</u>	<u>3,433,042</u>

Amounts falling due after more than one year and included in the debtors above are

	2012	2011	2012	2011
	£	£	£	£
Amounts owed by group undertakings	<u>-</u>	<u>-</u>	<u>3,489,966</u>	<u>3,413,003</u>

#### 13 Creditors amounts falling due within one year

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Bank loans and overdrafts	922,213	125,157	888,570	80,132
Trade creditors	279,632	360,153	-	-
Taxes and social security costs	266,708	189,048	8,409	-
Other creditors	252,189	534,935	6,702	26,323
Accruals and deferred income	59,450	51,151	6,436	5,400
	<u>1,780,192</u>	<u>1,260,444</u>	<u>910,117</u>	<u>111,855</u>

The bank loans and overdraft are secured by a charge over the assets of the company and by way of a cross guarantee given by English Wines Plc. A debenture has been given in favour of Chapel Down Group Plc over the assets of the company. This debenture ranks secondary behind security given to Barclays Bank Plc.

# CHAPEL DOWN GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

### 14 Creditors amounts falling due after more than one year

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Bank loans	1,020,479	1,988,886	1,020,479	1,955,243
Loan notes	1,100,000	1,100,000	1,100,000	1,100,000
Accruals and deferred income	21,436	17,592	-	-
	<u>2,141,915</u>	<u>3,106,478</u>	<u>2,120,479</u>	<u>3,055,243</u>
<b>Analysis of loans</b>				
Not wholly repayable within five years by instalments				
Commercial mortgage	665,637	808,727	665,637	808,727
Shareholder loans	1,100,000	1,100,000	1,100,000	1,100,000
Wholly repayable within five years	<u>1,277,055</u>	<u>1,305,316</u>	<u>1,243,412</u>	<u>1,226,648</u>
	<u>3,042,692</u>	<u>3,214,043</u>	<u>3,009,049</u>	<u>3,135,375</u>
Included in current liabilities	<u>(922,213)</u>	<u>(125,157)</u>	<u>(888,570)</u>	<u>(80,132)</u>
	<u>2,120,479</u>	<u>3,088,886</u>	<u>2,120,479</u>	<u>3,055,243</u>
<b>Instalments not due within five years</b>	<u>665,637</u>	<u>808,727</u>	<u>665,637</u>	<u>808,727</u>
<b>Loan maturity analysis</b>				
In more than one year but not more than two years	85,422	115,797	85,422	82,154
In more than two years but not more than five years	269,420	1,064,362	269,420	1,064,362
In more than five years	<u>665,637</u>	<u>808,727</u>	<u>665,637</u>	<u>808,727</u>

The bank loans and overdraft are secured by a charge over the assets of the company and by way of a cross guarantee given by English Wines Plc. A debenture has been given in favour of Chapel Down Group Plc over the assets of the company. This debenture ranks secondary behind security given to Barclays Bank Plc.

The bank loans are due to be repaid over varying periods between April 2013 and June 2022. The loans are at commercial rates linked to the Bank of England base rate. The shareholders loan of £1,100,000 incurs an interest rate of 8% and is repayable or convertible between June 2012 and June 2014.

### 15 Deferred taxation

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
The movements in deferred tax are as follows				
At 1 January 2012	(25,101)	(32,078)	(20,039)	-
(Released)/charged during year	109,952	6,977	28,079	(20,039)
At 31 December 2012	<u>84,851</u>	<u>(25,101)</u>	<u>8,040</u>	<u>(20,039)</u>

The deferred tax (asset)/liability is made up as follows

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Accelerated capital allowances	88,150	81,837	11,339	8,101
Losses	(3,299)	(106,938)	(3,299)	(28,140)
	<u>84,851</u>	<u>(25,101)</u>	<u>8,040</u>	<u>(20,039)</u>

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

<b>16 Share capital</b>	<b>2012</b>	<b>2011</b>
	£	£
<b>Allotted, called up and fully paid</b>		
44,818,946 Ordinary shares of 5p each	<u>2 240 948</u>	<u>2 240,948</u>
	<u><b>2,240,948</b></u>	<u><b>2,240,948</b></u>

1,968,450 unissued ordinary shares of 5p each are covered by a share option agreement and these are exercisable at 12 5p per share. A further 6 239,997 unissued ordinary shares of 5p each are covered by various share option agreements and these are exercisable at between 5p and 15p per share after 1 July 2011.

A further 3,000,000 unissued ordinary shares of 5p each are covered by various share option agreements and these are exercisable at 10p per share after 1 July 2013.

In addition, 11,000,000 unissued ordinary shares of 5p each are covered by a convertible loan note issued on 1st July 2009 which is exercisable between 1st July 2012 and 1st July 2014 at an exercise price of 10p.

#### Company

<b>Share capital</b>	<b>2012</b>	<b>2011</b>
	£	£
<b>Allotted, called up and fully paid</b>		
44,818,946 Ordinary shares of 5p each	<u>2 240,948</u>	<u>2,240,948</u>
	<u><b>2,240,948</b></u>	<u><b>2,240,948</b></u>

#### **17 Statement of movements on reserves Group**

	Share premium account	Revaluation reserve	Other reserves (see below)	Minority Interest	Profit and loss account
	£	£	£	£	£
Balance at 1 January 2012	2,000,094	1,376,438	418,994	15,957	(885,267)
Profit for the year	-	-	-	-	246,541
Transfer from revaluation reserve to profit and loss account	-	(38,631)	-	-	38 631
Minority interest	-	-	-	(3,641)	-
Movement during the year	-	-	43,701	-	-
<b>Balance at 31 December 2012</b>	<u><b>2,000,094</b></u>	<u><b>1,337,807</b></u>	<u><b>462,695</b></u>	<u><b>12,316</b></u>	<u><b>(600,095)</b></u>

#### **Other reserves**

##### **Reserves arising from share based payments**

Balance at 1 January 2012	418,994
Other reserve movement	<u>43,701</u>
<b>Balance at 31 December 2012</b>	<u><b>462,695</b></u>

#### **Company**

	Share premium account	Revaluation reserve	Profit and loss account
	£	£	£
Balance at 1 January 2012	2,000,094	1 204,581	(621,087)
Loss for the year	-	-	(18,105)
Transfer from revaluation reserve to profit and loss account	-	<u>(30,304)</u>	<u>30,304</u>
<b>Balance at 31 December 2012</b>	<u><b>2,000,094</b></u>	<u><b>1,174,277</b></u>	<u><b>(608,888)</b></u>



## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

<b>18</b>	<b>Reconciliation of movements in shareholders' funds</b>	<b>2012</b>	<b>2011</b>
	<b>Group</b>	<b>£</b>	<b>£</b>
	Profit for the financial year	246,541	181,444
	Other recognised gains and losses	-	-
	Proceeds from issue of shares	-	364,456
	Minority interest	(3,641)	(14,043)
	Movements on other reserves	43,701	43,701
		<u>286,601</u>	<u>575,558</u>
	<b>Net increase in shareholders' funds</b>	<b>286,601</b>	<b>575,558</b>
	Opening shareholders' funds	5,167,164	4,591,606
		<u>5,453,765</u>	<u>5,167,164</u>
	<b>Closing shareholders' funds</b>	<b>5,453,765</b>	<b>5,167,164</b>
		<b>2012</b>	<b>2011</b>
	<b>Company</b>	<b>£</b>	<b>£</b>
	(Loss) for the financial year	(18,105)	(9,606)
	Other recognised gains and losses	-	-
	Proceeds from issue of shares	-	334,456
		<u>(18,105)</u>	<u>324,850</u>
	<b>Net (depletion)/increase in shareholders' funds</b>	<b>(18,105)</b>	<b>324,850</b>
	Opening shareholders' funds	4,824,536	4,499,686
		<u>4,806,431</u>	<u>4,824,536</u>
	<b>Closing shareholders' funds</b>	<b>4,806,431</b>	<b>4,824,536</b>

### 19 Financial commitments

At 31 December 2012 the group had annual commitments under non-cancellable operating leases as follow

	Land and buildings		Other	
	2012	2011	2012	2011
	£	£	£	£
Expiry date				
Within one year	14,000	14,000	21,685	-
Between two and five years	14,000	14,000	18,540	36,807
	<u>28,000</u>	<u>28,000</u>	<u>40,224</u>	<u>36,807</u>

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

<b>20</b>	<b>Directors' emoluments</b>	<b>2012</b>	<b>2011</b>
		£	£
	Emoluments for qualifying services	<u>230,910</u>	<u>220,883</u>

2 Directors are entitled to receive shares under long term incentive schemes

The highest paid director received remuneration of £144,996 (2011 - £138,222) and was entitled to receive shares under long term incentive schemes

#### **21** Employees

##### **Number of employees**

The average monthly number of employees (including directors) during the year was

	<b>2012</b>	<b>2011</b>
	Number	Number
Administration	8	6
Production	14	12
Directors	2	2
Retail	<u>12</u>	<u>12</u>
	<u><b>36</b></u>	<u><b>32</b></u>

<b>Employment costs</b>	<b>2012</b>	<b>2011</b>
	£	£
Wages and salaries	801,155	696,369
Social security costs	<u>81,274</u>	<u>70,985</u>
	<u><b>882,429</b></u>	<u><b>767,354</b></u>
Share based payments	<u><b>43,701</b></u>	<u><b>43,701</b></u>

Employment costs include £43,701 (2011 £43,701) relating to the effect of adopting the FRS20 accounting standard. This standard requires us to attribute a notional cost of non-cash share option agreements to the business.

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 22 Share options

During the period ended 31 December 2012, the company and the group had four share based payment arrangements, which are described below

	2003	2006	2006	2009
Date of grant	11 February 2003	Variable price 27 January 2006	Fixed price 27 January 2006	Fixed price 11 December 2009
Number granted	1,968,450	3,000,000	3,986,663	3,000,000
Contractual life	3.7 years	4.4 years	4.4 years	3.6 years
Vesting conditions	Service ranging from 9 months to 3 years 9 months *	4.4 years' service **	4.4 years' service	3.6 years' service

\* 80% of the shares required service ranging from 9 months to 3 years 9 months

\*\* 4.4 years' service A minimum of 2,000,000 options are exercisable at a price of between 5p and 15p per share, depending on the future share price This option extends to a further two tranches of 500,000 ordinary shares at 5p, again depending on future share price

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, contractual life of 3.7 years and a risk free interest rate of 4.3% The options were granted before the shares were listed on PLUS and so volatility has been based on share price movements from listing, in April 2003, to 31 December 2005

The estimated fair value of each 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, contractual life of 4.4 years and a risk free interest rate of 5.5%

The estimated fair value of each of the 3,986,663 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, contractual life of 4.4 years and a risk free interest rate of 5.5%

The estimated fair value of each 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, contractual life of 3.6 years and a risk free interest rate of 0.50%

## CHAPEL DOWN GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

#### 22 Share options

Further details of the four share option plans are as follows

	2003		2006 Variable price		2006 Fixed price		2009 Fixed price	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of year	1,968,450	12 5p	3,000,000	9 0p	3,239,997	15 0p	3,000,000	10 0p
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	(920,000)	15 0p	-	-
Outstanding at end of year	1,968,450	12 5p	3,000,000	9 0p	2,319,997	15 0p	3,000,000	10 0p
Exercisable at end of year	1,968,450	12 5p	3,000,000	9 0p	2,319,997	15 0p	3,000,000	10 0p

The options outstanding at 31 December 2012 had exercise prices of 10p, 15p, 12 5p and 5-15p and a weighted average remaining contractual life of 1 year (2011 1 year)

	Total	2003	2006 Variable Price	2006 Fixed Price	2009 Fixed Price
Expense arising from share based payment transactions share option plans					
2012	43,701	-	24,595	(26,990)	46,096
2011	43,701	-	24,595	(26,990)	46,096

#### 23 Ultimate Controlling Party

The Directors consider that there is no one ultimate controlling party

#### 24 Related party transactions

During the year English Wines Plc made sales of £238 (2011 £14,439) to Hush Heath Estate in respect of contract winemaking services. Hush Heath is owned by Richard Balfour-Lynn, one of the major shareholders of Chapel Down Group Plc

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with English Wines Plc on the grounds that consolidated financial statements are prepared by the parent company

For operational efficiency all the sales and direct purchases relating to the "Cunous" range of beers are processed through English Wines PLC a 100% subsidiary of Chapel Down Group PLC which in turn owns 70% of Cunous Drinks Limited (Company No 04456158). The sales and purchases are then transferred to Cunous Drinks Limited via an intercompany charge from Chapel Down Group PLC. In addition, Chapel Down Group PLC recharges Cunous Drinks Limited a proportion of the overheads incurred by English Wines PLC. The total amount owing by Cunous Drinks Limited at 31 December 2012 was £248,720 (2011 £85,133)

#### 25 Capital commitments

At 31 December 2012 the company had a commitment of £39,450 for the purchase of vines in 2013