CHAPEL DOWN

TENTERDEN ENGLAND

Chapel Down Group PLC

Annual Report 2018


CHAPEL DOWN
KIT'S COTY
CHARDONNAY
NORTH DOWNS · KENT
ENGLAND
2015

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CHAIRMAN'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

I am delighted to announce another period of progress in the results for the year ended 31 December 2018.

Key highlights:

– Year on year combined sales up 10% to £13.016m (2017: £11.796m)*/**
  • Chapel Down Wine and Spirits sales up 11% to £8.977m (2017: £8.119m)
  • Beer and Cider sales, in Curious Drinks Limited, up 10% to £4.039m (2017: £3.677m)***
– Wines and Spirits gross profit up 12% at £3.626m (2017: £3.244m)
– Beer and Cider gross profit (in Curious Drinks Limited) up 1% at £1.229m (2017: £1.224m)
– On a like for like basis, EBITDA up 18% to £1,141k (2017: £968k)*/**** as we continue to reinvest in our brands, infrastructure and supply
– A Gold Outstanding medal at The International Wine and Spirits Challenge 2018 Awards for our Kit's Coty Coeur de Cuvee 2013 along with a Gold for our Kit's Coty Blanc de Blancs and Gold medals at The Decanter World Wine Awards for our Kit's Coty Blanc de Blancs and Kit's Coty Coeur de Cuvee 2013 and our still Chardonnay 2013
– Additional 102 acres of new vineyards planted on chalk terroir in Kent
– Brewery build complete and open to the public from 10 May 2019
– In October we completed on the Lease of a further 388 acres of prime viticultural land adjoining our existing vineyards on the North Downs
– In December we completed on the Lease of a 5,000 sqft site in King's Cross, London by the Regent's Canal where we have opened the "Chapel Down Gin Works" an experiential bar, restaurant and Gin Works
– Extraordinary harvest – over double our highest ever harvest and excellent quality

Your Company is focused on building strong differentiated and valuable brands that will deliver a sustainable long term profitable business. Chapel Down operates in attractive growth sectors – English wine, craft spirits and contemporary beers and cider with good growth potential both in the UK and abroad. Chapel Down has created a portfolio of attractive innovative brands with premium positioning supported by well executed marketing, high profile sponsorships, attractive experiential brand homes and an excellent customer base.

2018 has been a busy year preparing the Company for further growth. 388 new acres of prime vineyard land will produce up to 1 million extra bottles of wine per annum. Our gin and vodka have had critical acclaim and we have developed a new experiential brand home on the Regents Canal in the developing Kings Cross area of London. Our brewery building, which is just 38 minutes from St. Pancras, is now complete and our facilities at Tenterden have been given a facelift that has driven an increase in retail sales of 17%. We have an ambitious and experienced management team focussed on our desire to make Chapel Down England's most exciting drinks company. We are on the way, but there is much to be done.

We will continue to make substantial investments over the coming years in planting more vineyards, developing our winery, improving our commercial infrastructure, hiring and training the best talent and creating smart effective marketing to ensure that we build the strongest quality brands and are therefore best placed for future growth and any industry consolidation.

Our assets are supportive of the business: land – and high quality vined land in particular – continues to appreciate, our brand assets are more valuable than ever and our balance sheet is strong. We enjoy the custom and support of our many shareholders who tell the Chapel Down story with energy and enthusiasm. Thank you for your continued faith, excitement, encouragement and support.

* For the years ended 31 December 2016 and 2017 Curious Drinks Limited was accounted for as an associate company in the consolidated financial statements. Following changes during the year in the composition of the board of Curious Drinks Limited and a significant increase in funding from Chapel Down Group Plc, Financial Reporting Standard 102 requires us to report Curious Drinks Limited as a subsidiary in the consolidated accounts of Chapel Down Group Plc from 30 January 2018. However the comparative period remains as if Curious Drinks Limited was an associate. To enable a like for like comparison table 2 in the perfomance review section of the Chief Executive's commentary shows the profit and loss account as if Curious Drinks Limited had remained an associate for the entire year.

** Includes 12 months of Beer and Cider sales for Curious Drinks Limited for both periods.

*** In April 2016 Curious Drinks Ltd raised £1.736m for a 9.79% economic share and a 50.21% share of the voting rights in the business. The sale resulted in Chapel Down Group PLC retaining a 49.79% voting share and a 90.21% economic share of Curious Drinks Ltd.

**** Excludes the effect of the FRS 102 Section 26 share option accounting adjustment of £57k (2017: £75k) which is a non-cash item.

John Dunsmore
Chairman

29 May 2019

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

Chapel Down Group Plc is pleased to announce the company's results for the 12 month period ended 31 December 2018.

The principal activity of the group continues to be the production and sale of alcoholic beverages. A review of the business, which includes a review of key performance indicators appears below. The primary measure of operating performance is Adjusted EBITDA.

Chief Executive's commentary

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

With sales growth of 10% in the group (up 11% on wine and spirits and up 10% on beer and cider), we are able to invest the proceeds to build the business whilst still delivering growth in like for like EBITDA (+18% vs 2017). With eight years of strong compound revenue growth of 22% per annum, Chapel Down is now developing to become a player with serious potential in growth markets. We are seeing good demand for English sparkling wines in sophisticated international markets and we enjoyed our second full year in the USA and growth at present is limited only by our production. Nevertheless, our key market remains the UK and managing and servicing our customers better to ensure we turn awareness and desire for Chapel Down and Curious into profitable sales remains our key challenge.

We were blessed with an extraordinary harvest this year. Our average yields per acre were up some 97% and with the addition of new plantings starting to produce, our heroic vineyard and winemaking team were able to secure well over double the volume of fruit in good condition to enable us to build our stocks and to start to satisfy the excess demand for our wines. With a further five International Gold Medals in 2018, we are surprising and delighting more wine lovers than ever. Our brand home at Tenterden saw sales increase by 17% as visitor numbers improved thanks to excellent weather, improved awareness and better facilities and range at the vineyard.

We enjoyed a very successful first full year for our new gin and vodka which use the skins of our grapes to create a real point of difference in a crowded market. The proposition has received widespread critical acclaim with the liquid picking up Double Gold in the Spirits Masters and the bottle design receiving a prestigious D&AD award. With the addition of a new brand experience home at Kings Cross, we also took another step forward in creating a better brand for today's knowledge-hungry, discerning consumer. The initial reaction has been extremely positive.

Our beer and cider performance has been steady as we continue to invest in our own brewery which opened in May 2019. We continued to manage our growth through a focus on premium accounts - top end restaurants, bars, hotels and premium off-trade such as Mitchells & Butlers and Fullers. We believe that the new brewery will add a significant impact to our brand offering as well as enable us to profit from managing our own brewing.

Along with many other drinks businesses our performance was slightly affected by the collapse of Conviviality, but we are pleased to see the recovery under C&C. We continue to be able to offer our beers, wines and spirits to the widest range of customers in the UK through a strong network of regional wholesalers along with Matthew Clark.

Performance review

The combined business continued to grow in sales and gross profit of both Wine and Spirits and Beer and Cider in 2018:

Table 1	Wines and Spirits			Beer and Cider			Combined businesses		
	FY 2018 £'000	FY 2017 £'000	*%age Variance*	FY 2018 £'000	FY 2017 £'000	*%age Variance*	*FY 2018 £'000*	*FY 2017 £'000*	*%age Variance*
Turnover	8,977*	8,119	*+11%*	4,039	3,677	*+10%*	13,016	11,796	*+10%*
Gross profit	3,626**	3,244	*+12%*	1,229	1,224	*+1%*	4,855	4,468	+9%
Gross profit %age	**40%**	**40%**		**30%**	**33%**		**37%**	**38%**	

* £9,067k less £90k consolidation adjustment
** £3,716k less £90k consolidation adjustment

Performance review (continued)

We have made a conscious decision to continue reinvesting any surplus cash in our people, our systems and our brands. Nonetheless the total business reported like for like EBITDA of £1,141k, up 18% compared with £968k**** in the year to December 2017.

Gross margins on beer and cider have declined following the forced change of our brewing partner in 2017 which has also limited our scope for short term volume growth whilst developing the brand and managing supply. At 30% gross margin from contracted out brewing, we are satisfied with its performance.

We believe that there is great potential in our brands. They are well positioned, well managed and in attractive growth markets. We will accelerate our investment in planting new vineyards on the finest land and develop our winery and tourism infrastructure in Tenterden and look to improve our capacity and quality. We will benefit from the awareness, excitement, product freshness and duty savings from our new brewery in Ashford and win new friends and customers as we continue to innovate and excite the drinks business with initiatives like our gins and vodka and the Gin Works at Kings Cross.

In addition to 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 are an official CoolBrand. We are also delighted to continue to be official partners of The Boat Races, Royal Ascot, Donmar Warehouse, The London Symphony Orchestra and headline supporters of the Curious Arts Festival.

As highlighted in the notes to the Chairman's Report, from 30 January 2018 Curious Drinks Limited has been accounted for as a subsidiary in the consolidated financial statements. In order to show a like for like comparison of results, below we have demonstrated what the consolidated results would have been had Curious Drinks Limited remained an associate entity for the entire year.

Table 2

	Per statutory financial statements 2018	Remove 11 months results for Curious Drinks Limited 2018	Other consolidation adjustments 2018	Adjusted financial statements to show Curious Drinks Limited as an an associate for 12 months 2018	Per statutory financial statements 2017
	£	£	£	£	£
Turnover	12,863,428	(3,886,595)	90,000	9,066,833	8,119,453
Cost of sales	(8,065,725)	2,715,008	–	(5,350,717)	(4,875,034)
Gross profit	**4,797,703**	**(1,171,587)**	**90,000**	**3,716,116**	**3,244,419**
Administrative expenses before share based payment	(5,574,326)	2,529,758	(32,993)	(3,077,561)	(2,698,528)
Share based payment	(57,161)	–	–	(57,161)	(75,416)
Operating profit	**(833,784)**	**1,358,171**	**57,007**	**581,394**	**470,475**
Share of loss of associate	(47,873)	–	(740,816)	(788,689)	(226,329)
Interest receivable and similar income	63,183	(5,391)	113,751	171,543	27,394
Interest payable and similar expenses	(31,854)	133,910	(113,751)	(11,695)	(18,425)
(Loss)/profit before tax	**(850,328)**	**1,486,690**	**(683,809)**	**(47,447)**	**253,115**
Tax on (loss)/profit	(63,250)	1,193	–	(62,057)	(130,704)
Loss) for the financial year	**(913,578)**	**1,487,883**	**(683,809)**	**(109,504)**	**122,411**
Adjusted EBITDA					
Operating profit	(833,784)	1,358,171	57,007	581,394	470,475
Share based payment	57,161	–	–	57,161	75,416
Depreciation and amortisation	621,227	(151,607)	32,993	502,613	421,843
EBITDA excluding share based payment	**(155,396)**	**1,206,564**	**90,000**	**1,141,168**	**967,734**

Wines and Spirits

Wine and spirits sales grew 11% in the year to £8.977m. We have broad premium distribution in the national retailers including Waitrose, Sainsbury's, M&S and Majestic. We enjoy an enviable presence in premium on trade accounts too, delivered across a number of strong partnerships including Matthew Clark and Bibendum, now revitalised under the ownership of C&C. Beyond the UK, we are developing exciting long term export opportunities, particularly the USA. We are growing too our direct sales through our shop, online sales, events and pop ups where we can bring a Chapel Down experience to consumers via our own team. Sales in the shop were up to £1.72m (+17%).

Our sparkling wines continue to set the standard for the industry, offering outstanding quality and value at every price tier. 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 increase the acreage of our vineyards. 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 consumers' minds. And they find us thanks to the wide availability and constant stream of exciting news about the Company and its brands.

We will continue to invest in creating further high quality supply from the best sites we can find. We have planted a further 102 acres taking the total planted on long term leased land to 274 acres since 2015. We now have 635 acres of vineyard planted from which to source our fruit. In 2018 we were delighted to secure a further 388 acres of prime viticultural land adjoining our existing vineyards on the North Downs. This will be planted over the next 2 years taking our total acreage under vine to in excess of 950 acres which will be fully productive from 2024/25. In an average year it should be producing some 2.4m bottles of wine. 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.

Beer and Cider

Beer and cider sales in Curious Drinks Ltd rose 10% to £4.039m.

We continued to manage our growth through a focus on premium accounts - top end restaurants, bars, hotels and premium off-trade - while we completed the construction of our new brewery. We have national distribution through Majestic and Waitrose in the off-trade and a network of wholesalers including Matthew Clark that enable us to supply Curious beers in draught or bottle to the whole of Great Britain. We are supplying Mitchells & Butlers, Greene King, Ei Group and Fullers as well as several exciting up and coming premium UK on-trade groups looking for something truly original. 2018 also saw us launch our canned Curious Brew in 232 Tesco stores nationally, and at the start of 2019 regionally into Co-op.

We have a unique and distinctive consumer proposition – a winemaker's beer – which is increasingly rare in an exciting and growing albeit highly competitive beer market. This real point of difference will be enhanced by the opening earlier this month of the new brewery and visitor facility in Ashford. It is just 38 minutes from St Pancras and its completion will be a unique stimulus for growth.

The custom-built state of the art brewhouse will enable us to produce more even better fresher Curious beer. We have added to the team bringing in Brewmaster Matthew Anderson to oversee brewing on the site. Matthew joins the team having spent over a decade in brewing roles at AB Inbev bringing significant expertise to the team.

We have developed unique experiential and product partnerships, launching our Curiouser & Curiouser small batch series in collaboration with Wild Beer Co, Brew By Numbers, Fourpure Brewing Co and Beavertown and working as headline partner for the Curious Arts Festival.

Business risks and uncertainties

Brexit has had no significant impact on our business to date. In an area of full employment, we may be affected if we were not able to continue to access EU or other foreign workers for our viticulture and to mitigate that risk we will be looking at trialling the latest mechanical picking technology in 2019. However, 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 grape 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 beer and spirits also further protects our ability to continue to grow. The risk of a poor hop harvest also exists and the group mitigates this risk by buying forward contracts on its key hops.

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

We know we are lucky to work in a great British industry and an exciting business. Our drinks 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 brands 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. Brands that are more interesting. Brands that have a relevant and engaging story to tell. Brands that have a real point of difference. Brands that try harder.

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 and we are planting for the future. We remain appropriately optimistic about continuing growth in sales in 2019.

Beer and cider growth will be accelerated as we build out the brewery and create more interest and engagement around the Curious brand. Recent listings in Tesco and on trade chains are exciting.

Our Chapel Down gins and vodka, which uses the skins of our grapes, are performing well in a growing gin and vodka market that shows no sign of slowing. Already listed nationally in all Majestic stores and now also available in leading accounts such as Le Gavroche, Roux, Le Manoir aux Quat'Saisons, Paris House, The Ned, Hospital Club, Hix, Selfridges and Harvey Nichols. The products have received wide critical acclaim and 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. Its great to see so many of you using your shareholder benefits to get great discounts on our wines, beers 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.

This report was approved by the board on 29 May 2019 and signed on its behalf.

F.D. Thompson
Chief Executive Officer

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Directors' responsibilities statement

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 the group and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

– select suitable accounting policies for the group's financial statements and then apply them consistently;

– make judgments and accounting 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; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The loss for the year, after taxation, amounted to £913,578 *(2017: profit £122,411)*.

The loss for the year, after taxation and minority interests, amounted to £166,512 *(2017: profit £122,411)*. The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year were:

P. Brett (resigned 23 July 2018)
J.D. Brooke
J.M. Dunsmore
M.S. Harvey
F.D. Thompson
R.A.B. Woodhouse
N.W. Wray
G. Bath (appointed 30 January 2018)
S. H. Emeny (appointed 23 July 2018)

Future developments

The future developments of the group are discussed in the 'outlook for the future' section of the Strategic Report.

Financial instruments

The group's principal financial instrument relates to bank loans. The purpose of this financial instrument is to raise finance for the group's operations. The group has various other financial instruments such as trade debtors which arise directly from operations. The group does not enter into derivative transactions.

The main financial risks arising from the group'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 group actively manages its financial risk in order to meet its foreseeable needs in the short and medium term. In December 2017 the group 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 group'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 required 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 group has sufficient resources to continue in operational existence for the foreseeable future. The directors believe this to be the case as the group 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 and the group'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 and the group's auditor is aware of that information.

Post balance sheet events

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

Auditor

The auditor, Crowe U.K. LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board on 29 May 2019 and signed on its behalf.

F.D. Thompson
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHAPEL DOWN GROUP PLC

FOR THE YEAR ENDED 31 DECEMBER 2018

Opinion

We have audited the financial statements of Chapel Down Group plc (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2018, which comprise:

– the group profit and loss account and statement of comprehensive income for the year ended 31 December 2018;

– the group and parent company balance sheets as at 31 December 2018;

– the group statement of cash flows for the year then ended;

– the group and parent company statements of changes in equity for the year then ended; and

– the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group and parent company financial statements 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).

In our opinion:

– the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the period then ended;

– the group and parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

– the financial statements 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 Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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 ISAs (UK) require us to report to you when:

– 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 group's or the parent 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.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the group financial statements as a whole to be £250,000 based on 0.7% of net assets and 0.6% of gross assets. In setting materiality we considered the group's business model. The group is building for the future and those who have invested in the business have not done so based on historic trading performance, but on the potential growth of the brand and the value of assets in the group.

We used a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for the audit of related party transactions and directors' remuneration.

We agreed with the board to report to it all identified errors in excess of £10,000. Errors below that threshold would also be reported to the board if, in our opinion as auditor, reporting was required on qualitative grounds.

Overview of the scope of our audit

The audit scope was established during the planning stage and was based around the key matters set out below. The scope included tests of control to establish the clients systems in use are working effectively and tests of detail selecting transactions via sampling techniques.

The audit field work was completed at the head office and onsite visits to the winery were made to audit the year-end stock counts. The parent company, subsidiary company and associate company were all audited by Crowe U.K. LLP and no component auditors were used.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Stock and Work in Progress	The valuation of stock was considered to be a significant risk because it involves detailed calculations and the application of judgement by the directors. Detailed transactional testing was performed to ensure that stock was valued at the lower of cost and net realisable value. Year end stock counts were attended to verify the existence of stock. Overhead absorption calculations were reviewed in detail to confirm that they were accurately calculated and in line with the requirements of Financial Reporting Standard 102. We also reviewed the consistency of the calculations with the prior year.
Recoverability of Intercompany/Related Party Debt	Included within the company Balance Sheet of Chapel Down Group Plc are significant debtor balances owed by Curious Drinks Limited and English Wines Plc. The recoverability of the balances was considered by reviewing the detailed profit forecasts and challenging management on the assumptions used in the forecasts.
Control of Curious Drinks Limited	This is considered to be a key judgement by the directors and it has a significant impact on the consolidated financial statements. For the years ended 31 December 2016 and 2017 Curious Drinks Limited was accounted for as an associate in the consolidated Balance Sheet as the directors did not consider that Chapel Down Group Plc had control over the entity, but rather significant influence. As discussed in note 28 to the financial statements the opinion changed at the start of 2018 and since this time Curious Drinks Limited has been treated as a subsidiary. The situations of control, as prescribed by Financial Reporting Standard 102, were reviewed to assess whether Curious Drinks Limited should be treated as a subsidiary, associate or joint venture. As part of this review we considered the voting rights of the group, the composition of the Curious Drinks Limited board, the power to appoint the majority of board members, and the influence over the operational activities of Curious Drinks Limited.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHAPEL DOWN GROUP PLC

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our 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 directors' report and strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their 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 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.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 9, 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 group's and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHAPEL DOWN GROUP PLC

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Auditor's 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. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Sisson

for and on behalf of
Crowe U.K. LLP
Statutory Auditor

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

29 May 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Turnover	*4*	**12,863,428**	8,119,453
Cost of sales		**(8,065,725)**	(4,875,034)
Gross profit		**4,797,703**	3,244,419
Administrative expenses		**(5,574,326)**	(2,698,528)
Share based payment		**(57,161)**	(75,416)
Operating (loss)/profit	*5*	**(833,784)**	470,475
Income from participating interests	*16*	**(47,873)**	(226,329)
Interest receivable and similar income	*9*	**63,183**	27,394
Interest payable and expenses	*10*	**(31,854)**	(18,425)
(Loss)/profit before tax		**(850,328)**	253,115
Tax on (loss)/profit	*11*	**(63,250)**	(130,704)
(Loss)/profit for the financial year		**(913,578)**	122,411
Loss for the year attributable to:			
Non-controlling interests		**(747,066)**	–
Owners of the parent company		**(166,512)**	122,411
		(913,578)	122,411
Adjusted performance measures			
Adjusted EBITDA			
Operating (loss)/profit		**(833,784)**	470,475
Share based payment		**57,161**	75,416
Depreciation and amortisation		**621,227**	421,843
EBITDA excluding share based payment		**(155,396)**	967,734
Earnings per share (pence)	*13*		
Basic		**(0.118)**	0.118
Diluted		**(0.118)**	0.109
Basic adjusted performance measure		**(0.078)**	0.190
Diluted adjusted performance measure		**(0.078)**	0.176

There was no other comprehensive income for 2018 *(2017: £Nil)*.

The notes on pages 25 to 44 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

			2018	2017	
	Note	**£**	**£**	£	£
Fixed assets					
Intangible assets	*14*		**126,380**		–
Tangible assets	*15*		**18,515,540**		10,302,885
Investments	*16*		**–**		642,027
			18,641,920		10,944,912
Current assets					
Stocks	*17*	**7,679,702**		4,561,202	
Debtors due within one year	*18*	**3,610,758**	2,783,744		
Debtors due after more than one year	*18*	**–**		1,463,377	
Cash at bank and in hand	*19*	**12,829,910**		19,716,585	
		24,120,370		28,524,908	
Creditors: amounts falling due within one year	*20*	**(7,496,467)**		(3,505,496)	
Net current assets			**16,623,903**		25,019,412
Total assets less current liabilities			**35,265,823**		35,964,324
Creditors: amounts falling due after more than one year	*21*		**(23,815)**		(1,825,859)
Provisions for liabilities					
Deferred tax	*24*	**(224,778)**		(223,572)	
			(224,778)		(223,572)
Net assets			**35,017,230**		33,914,893
Capital and reserves					
Called up share capital	*25*		**7,073,473**		6,905,860
Share premium account	*26*		**25,812,929**		24,513,930
Revaluation reserve	*26*		**1,106,021**		1,144,652
Non-controlling interests			**(254,924)**		–
Profit and loss account	*26*		**1,279,731**		1,350,451
			35,017,230		33,914,893

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 May 2019.

F.D. Thompson
Director

R.A.B. Woodhouse
Director

The notes on pages 25 to 44 form part of these financial statements.

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	*15*		**11,286,937**		8,573,531
Investments	*16*		**1,780,839**		623,833
			13,067,776		9,197,364
Current assets					
Debtors due after more than one year	*18*	**11,254,150**		6,611,950	
Debtors within one year	*18*	**94,023**		386,816	
Cash at bank and in hand	*19*	**10,019,294**		18,976,583	
		21,367,467		25,975,349	
Creditors: amounts falling due within one year	*20*	**(86,915)**		(839,513)	
Net current assets			**21,280,552**		25,135,836
Total assets less current liabilities			**34,348,328**		34,333,200
Creditors: amounts falling due after more than one year			–		(1,804,980)
Provisions for liabilities					
Deferred taxation	*24*	**(185,692)**		(149,124)	
			(185,692)		(149,124)
Net assets			**34,162,636**		32,379,096
Capital and reserves					
Called up share capital	*25*		**7,073,473**		6,905,860
Share premium account	*26*		**25,812,929**		24,513,930
Revaluation reserve	*26*		**992,453**		1,022,757
Profit and loss account brought forward		**(63,451)**		(197,765)	
Profit for the year		**316,928**		104,010	
Transfer of excess depreciation charge relating to revaluation of tangible assets		**30,304**		30,304	
Profit and loss account carried forward			**283,781**		(63,451)
			34,162,636		32,379,096

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 May 2019.

F.D. Thompson
Director

R.A.B. Woodhouse
Director

The notes on pages 25 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Non-controlling interests £	Total equity £
At 1 January 2018	**6,905,860**	**24,513,930**	**1,144,652**	**1,350,451**	**–**	**33,914,893**
Comprehensive income for the year						
Loss for the year	–	–	–	**(166,512)**	**(747,066)**	**(913,578)**
Total comprehensive income for the year	**–**	**–**	**–**	**(166,512)**	**(747,066)**	**(913,578)**
Shares issued during the year	**167,613**	**1,298,999**	–	–	–	**1,466,612**
Transfer of excess depreciation charge relating to revaluation of tangible assets	–	–	**(38,631)**	**38,631**	–	–
Share based payment expense	–	–	–	**57,161**	–	**57,161**
Acquired on acquisition of Curious Drinks Limited (Note 28)	–	–	–	–	**492,142**	**492,142**
At 31 December 2018	**7,073,473**	**25,812,929**	**1,106,021**	**1,279,731**	**(254,924)**	**35,017,230**

The notes on pages 25 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total equity £
At 1 January 2017	5,051,510	8,554,912	1,183,283	1,113,993	15,903,698
Comprehensive income for the year					
Profit for the year	–	–	–	122,411	122,411
Total comprehensive income for the year	–	–	–	122,411	122,411
Shares issued during the year	1,854,350	15,959,018	–	–	17,813,368
Transfer of excess depreciation charge relating to revaluation of tangible assets	–	–	(38,631)	38,631	–
Share based payment expense	–	–	–	75,416	75,416
At 31 December 2017	6,905,860	24,513,930	1,144,652	1,350,451	33,914,893

The notes on pages 25 to 44 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total equity £
At 1 January 2018	**6,905,860**	**24,513,930**	**1,022,757**	**(63,451)**	**32,379,096**
Comprehensive income for the year					
Profit for the year	–	–	–	**316,928**	**316,928**
Total comprehensive income for the year	–	–	–	**316,928**	**316,928**
Shares issued during the year	**167,613**	**1,298,999**	–	–	**1,466,612**
Transfer of excess depreciation charge relating to revaluation of tangible assets	–	–	**(30,304)**	**30,304**	–
At 31 December 2018	**7,073,473**	**25,812,929**	**992,453**	**283,781**	**34,162,636**

The notes on pages 25 to 44 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total equity £
At 1 January 2017	5,051,510	8,554,912	1,053,061	(197,765)	14,461,718
Comprehensive income for the year					
Profit for the year	–	–	–	104,010	104,010
Total comprehensive income for the year	–	–	–	104,010	104,010
Shares issued during the year	1,854,350	15,959,018	–	–	17,813,368
Transfer of excess depreciation charge relating to revaluation of tangible assets	–	–	(30,304)	30,304	–
At 31 December 2017	6,905,860	24,513,930	1,022,757	(63,451)	32,379,096

The notes on pages 25 to 44 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £	2017 £
Cash flows from operating activities		
(Loss)/profit for the financial year	**(913,578)**	122,411
Adjustments for:		
Amortisation of intangible assets	**16,948**	46,221
Depreciation of tangible fixed assets	**604,279**	375,622
Share of operating loss in associate	**47,873**	226,329
Share based payments	**57,161**	75,416
Interest payable	**31,854**	18,425
Interest receivable	**(63,183)**	(27,394)
Taxation charge	**63,250**	130,704
(Increase) in stocks	**(2,502,658)**	(100,394)
(Increase) in debtors	**(934,529)**	(278,702)
Increase in creditors	**483,044**	913,222
Corporation tax (paid)	**(26,014)**	(12,055)
Net cash generated from operating activities	**(3,135,553)**	1,489,805
Cash flows from investing activities		
Purchase of intangible assets	**(37,200)**	–
Purchase of tangible fixed assets	**(8,366,485)**	(2,791,022)
Cash acquired on consolidation of Curious Drinks Limited	**1,554,559**	–
Interest received	**60,072**	155
Interest received from associate undertaking	**3,111**	27,239
Net cash from investing activities	**(6,785,943)**	(2,763,628)
Cash flows from financing activities		
Issue of shares	**1,466,612**	17,813,368
New secured bank loans	**3,570,000**	2,000,000
Repayment of bank loans	**(1,969,937)**	(30,063)
Interest paid	**(31,854)**	(18,425)
Net cash used in financing activities	**3,034,821**	19,764,880
Net (decrease)/increase in cash and cash equivalents	**(6,886,675)**	18,491,057
Cash and cash equivalents at beginning of year	**19,716,585**	1,225,528
Cash and cash equivalents at the end of year	**12,829,910**	19,716,585
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	**12,829,910**	19,716,585
	12,829,910	19,716,585

The notes on pages 25 to 44 form part of these financial statements.

CONSOLIDATED ANALYSIS OF NET DEBT

FOR THE YEAR ENDED 31 DECEMBER 2018

	At 1 January 2018 £	Cash flows £	Acquisition of subsidiaries £	At 31 December 2018 £
Cash at bank and in hand	**19,716,585**	**(8,441,234)**	**1,554,559**	**12,829,910**
Debt due after 1 year	**(1,804,980)**	**1,804,980**	**–**	**–**
Debt due within 1 year	**(164,957)**	**(3,405,043)**	**–**	**(3,570,000)**
	17,746,648	**(10,041,297)**	**1,554,559**	**9,259,910**

The notes on pages 25 to 44 form part of these financial statements.

1 General information

The principal activity of the company is that of a holding company. The principal activity of the group 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: 04362181).

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 company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements.

The group has elected to apply all amendments to FRS 102, as set out in the triennial review published in December 2017, prior to the mandatory adoption for accounting periods beginning on or after 1 January 2019.

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

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the company and its own subsidiaries ("the group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated profit and loss account from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Associates and joint ventures

An entity is treated as a joint venture where the group is a party to a contractual agreement with one or more parties from outside the group to undertake an economic activity that is subject to joint control.

An entity is treated as an associated undertaking where the group exercises significant influence in that it has the power to participate in the operating and financial policy decisions.

In the consolidated accounts, interests in associated undertakings are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investors share of the profit or loss, other comprehensive income and equity of the associate. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the group. In the consolidated balance sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

Any premium on acquisition is dealt with in accordance with the goodwill policy.

2 Accounting policies (continued)

2.4 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 group has sufficient resources to continue in operational existence for the foreseeable future. The directors believe this to be the case as the group has positive reserves and cash balances. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.5 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.

Revenue for guided tours is recognised on the date at which the tour takes place.

2.6 Goodwill

Acquired goodwill is written off in equal instalments over 10 years, its estimated useful economic life.

Goodwill arising on consolidation is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities acquired. Goodwill is amortised to the profit and loss account over its estimated economic life of 10 years.

2.7 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 land and buildings	Straight line over 50 years on the buildings and 20 years on Kits Coty Vineyard
Short-term leasehold property	10 years straight line
Plant and machinery	Between 5%-20% straight line
Motor vehicles	25% reducing balance
Fixtures and fittings	15% reducing balance
Office equipment	5 years straight line
Computer equipment	3 years straight line
Biological assets	20 years

Land included within Freehold land and buildings is not depreciated.

Assets under construction are not depreciated.

The group owns biological assets in the form of grape vines which are cultivated on land owned and/or leased by the group. The cost of bringing the vines to maturity for the first 3 years of the vines life are capitalised. These costs include attributable overheads as well as capital items that would otherwise have the same economic life as the biological assets.

2 Accounting policies (continued)

2.7 Tangible fixed assets (continued)

The biological assets are depreciated over 20 years once all the attributable costs from year 1 to 3 have been capitalised with the depreciation of the asset beginning in year 3 after the vines are planted in year 1. The method used to depreciate these assets takes into account that the 3rd and 4th year bringing a biological asset to maturity will offer restricted harvest before the asset will be matured in year 5. In year 3 the asset is depreciated by a third of the annual depreciation rate. In year 4 the asset is depreciated by two thirds and from year 5 the asset is depreciated by the full rate for the remaining for 19 years.

2.8 Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

2.9 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.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the profit and loss account.

2.10 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.

Certain intercompany loans attract interest at rates that the directors consider to be below market rate. These loans are discounted to their present value using an appropriate discount rate. The impact of the discounting is taken to investments. The discounting is released to the profit and loss account over the term of the loans.

2.11 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 consolidated 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 group's cash management.

2.12 Financial instruments

The group 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 consolidated profit and loss account.

2.13 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 Accounting policies (continued)

2.14 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.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

2.15 Finance costs

Finance costs are charged to the consolidated 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.

2.16 Share based payments

The group issues equity-settled share-based payments to certain employees of the group. 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 group'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.

2.17 Operating leases

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.18 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the consolidated 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 group in independently administered funds.

2.19 Interest income

Interest income is recognised in the consolidated profit and loss account using the effective interest method.

2 Accounting policies (continued)

2.20 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential ordinary shares.

2.21 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated statement of comprehensive income, 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 and the group operate and generate 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;

- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and

- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.22 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

The group 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.

Control of Curious Drinks Limited – For the years ended 31 December 2016 and 2017 Curious Drinks Limited was accounted for as an associate in the consolidated balance sheet as the directors did not consider that Chapel Down Group Plc had control over the entity, but rather significant influence. As discussed in note 28 to the financial statements, the opinion changed on 30 January 2018 and since this time Curious Drinks Limited has been treated as a subsidiary, as required under FRS 102. This is considered to be a key judgement by the directors, as it has a significant impact on the consolidated financial statements. In making this judgement the directors considered the voting rights of the group, the financing provided by Chapel Down Group Plc to Curious Drinks Limited, the composition of the Curious Drinks Limited board, the power to appoint the majority of board members, and the influence over the operational activities of Curious Drinks Limited.

Consolidation of Curious Drinks Limited – From 30 January 2018 Curious Drinks Limited has been treated as a subsidiary of Chapel Down Group Plc. In consolidating the results of Curious Drinks Limited the directors have made a number of significant judgements. These have been documented in note 28 to the financial statements.

Balance owed from related parties/group entities – The directors annually assess the carrying value of intercompany and related party debt to assess whether a provision needs to be entered against amounts which may not be recoverable.

Discounting loans owed from group entities – Interest is charged on the loan to Curious Drinks Limited at a rate of 2.5%. The directors have assessed that this rate is below the market rate, therefore have discounted the loan to its present value in accordance with the requirements of FRS 102. In making this adjustment the directors have deemed the market rate of interest to be 7%.

Investments – the directors annually assess the carrying value of investments to assess whether an impairment is required.

4 Turnover

The whole of the turnover is attributable to the principal activity of the group, the production and sale of alcoholic beverages.

All of the reported revenue and operational results for the period derive from the group's external customers. All non-current assets are held within the United Kingdom. The group is not reliant on any one customer and no customer accounts for more than 10% of the total revenues.

Analysis of turnover by country of destination:

	2018	2017
	£	£
United Kingdom	**12,764,967**	8,054,324
Rest of Europe	**12,773**	9,227
Rest of the world	**85,688**	55,902
	12,863,428	8,119,453

5 Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	**604,279**	375,622
Amortisation of goodwill	**13,228**	46,221
Amortisation of intangible assets, excluding goodwill	**3,720**	–
Exchange differences	**3,926**	1,113
Land operating leases	**92,790**	39,500
Other operating leases	**48,297**	46,517

6 Auditor's remuneration

	2018 £	2017 £
Fees payable to the group's auditor and in respect of:		
Audit of the financial statements	**30,000**	23,200
Taxation compliance services	**10,000**	8,500
Other services relating to taxation	**9,645**	1,600
Other services	**4,200**	2,750
	53,845	36,050

7 Employees

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

	2018 £	2017 £
Wages and salaries	**2,388,861**	1,909,156
Social security costs	**262,288**	181,239
Cost of defined contribution scheme	**44,147**	16,438
	2,695,296	2,106,833

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

	2018 No.	2017 No.
Administration	**24**	18
Production	**25**	19
Retail	**24**	20
Directors	**4**	3
	77	60

Employment costs include share based payments of £57,161 *(2017: £75,416)* relating to the effect of section 26 of FRS 102. This standard requires the directors to attribute a notional cost of non-cash share option agreements to the business over the vesting period of the shares.

8 Directors' remuneration

	2018 £	2017 £
Directors' emoluments	**613,752**	471,736
Company contributions to defined contribution pension schemes	**9,710**	3,500
	623,462	475,236

During the year retirement benefits were accruing to 4 directors *(2017: 3)* in respect of defined contribution pension schemes.

The highest paid director received remuneration of £193,289 *(2017: £222,778)*.

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £3,060 *(2017: £1,500)*.

During the year one director exercised 294,263 shares options and the total exercise price paid to the company was £36,639 *(2017: £Nil)*. No directors were issued share options during the year *(2017: Nil)*.

9 Interest receivable

	2018 £	2017 £
Interest received from associate undertakings	**3,111**	27,239
Bank and other interest receivable	**60,072**	155
	63,183	27,394

10 Interest payable and similar expenses

	2018 £	2017 £
Bank loan interest payable	**31,854**	18,425

11 Taxation

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	**94,637**	57,064
Adjustments in respect of previous periods	**(33,786)**	(42,842)
Total current tax	**60,851**	14,222
Deferred tax		
Origination and reversal of timing differences	**25,480**	77,636
Adjustments in respect of prior periods	**12,938**	38,846
Effect of change of tax rate on opening balance	**(36,019)**	–
Total deferred tax	**2,399**	116,482
Taxation on profit on ordinary activities	**63,250**	130,704

11 **Taxation (continued)**

Factors affecting tax charge for the year

The tax assessed for the year is higher than *(2017: higher than)* the standard rate of corporation tax in the UK of 19.00% *(2017: 19.25%)*. The differences are explained below:

	2018 £	2017 £
(Loss)/profit on ordinary activities before tax	**(850,328)**	253,115
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% *(2017: 19.25%)*	**(161,563)**	48,706
Effects of:		
Ineligible depreciation and amortisation	**35,632**	29,373
Expenses not deductible for tax purposes	**22,923**	5,683
Adjustments to tax charge in respect of prior years	**(20,848)**	(3,996)
Adjust deferred tax to average corporation tax rate	**(39,019)**	10,941
Deferred tax on losses not recognised	**239,615**	43,568
Tax relief on exercise of share options	**836**	(3,571)
Deferred tax on share options previously not recognised	**(14,326)**	–
Total tax charge for the year	**63,250**	130,704

Factors that may affect future tax charges

Curious Drinks Limited has £2,260,402 of tax losses to carry forward. £354,977 of the losses can only be carried forward to set against future profits of the same trade. £1,905,425 of the losses can be set against any future total profits. A deferred tax asset of £335,609 has not been recognised in respect of the tax losses as the directors do not believe that they can be utilised in the short term.

12 **Parent company profit for the year**

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit after tax of the parent company for the year was £316,928 *(2017: £104,010)*.

13 **Earnings per share**

The calculation of basic earnings per share is based on the earnings after tax and on a weighted average number of ordinary shares in issue in the period. The diluted earnings per share allows for the effects of all dilutive potential ordinary shares.

	Profit after tax 2018* £	2017 £	Weighted average number of shares 2018	2017	Loss per share 2018 pence	Profit per share 2017 pence
Basic earnings	**(166,512)**	122,411	**140,925,310**	104,091,365	**(0.118)**	0.118
Effect of dilutive share options	**–**	–	**8,116,863**	8,319,936	**–**	–
Diluted earnings**	**(166,512)**	122,411	**149,042,173**	112,411,301	**(0.118)**	0.109

13 **Earnings per share (continued)**

Adjusted earnings per share

	Profit after tax 2018 £	2017 £	Weighted average number of shares 2018	2017	Loss per share 2018 pence	Profit per share 2017 pence
Basic earnings	**(166,512)**	122,411	**140,925,310**	104,091,365	**(0.118)**	0.118
Add back share based payment	**57,161**	75,416	**–**	–	**–**	–
Adjusted earnings	**(109,351)**	197,827	**140,925,310**	104,091,365	**(0.078)**	0.190
Effect of dilutive share options	**–**	–	**8,116,863**	8,319,936	**–**	–
Diluted earnings**	**(109,351)**	197,827	**149,042,173**	112,411,301	**(0.078)**	0.176

* Profit after tax attributable to the equity holdings of the parent company.

** The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of all outstanding share options. The potential ordinary shares are considered anti-dilutive as they decrease the loss per share. Therefore, the diluted loss per share is the same as the basic loss per share in 2018.

14 **Intangible assets**

Group and Company	**Website £**	**Goodwill £**	**Total £**
Cost			
Additions	37,200	–	37,200
Goodwill recognised on consolidation of Curious Drinks Limited (note 28)	–	102,276	102,276
At 31 December 2018	**37,200**	**102,276**	**139,476**
Amortisation			
Charge for the year	3,720	9,376	13,096
At 31 December 2018	**3,720**	**9,376**	**13,096**
Net book value			
At 31 December 2018	**33,480**	**92,900**	**126,380**
At 31 December 2017	–	–	–

15 **Tangible fixed assets**

Group	Freehold land and buildings £	Short term leasehold properties £	Plant and machinery £	Motor vehicles £
Cost or valuation				
At 1 January 2018	6,177,048	219,995	2,514,502	13,781
Additions	1,495,972	–	909,703	21,597
Acquired on consolidation of Curious Drinks Limited (note 28)	–	–	450,449	–
At 31 December 2018	**7,673,020**	**219,995**	**3,874,654**	**35,378**
Depreciation				
At 1 January 2018	992,812	26,534	1,006,747	13,618
Charge for the year on owned assets	125,481	21,999	285,853	3,639
At 31 December 2018	**1,118,293**	**48,533**	**1,292,600**	**17,257**
Net book value				
At 31 December 2018	**6,554,727**	**171,462**	**2,582,054**	**18,121**
At 31 December 2017	5,184,236	193,461	1,507,755	163

Group	Fixtures, fittings and equipment £	Assets under construction £	Biological assets – vines £	Total £
Cost or valuation				
At 1 January 2018	636,215	–	3,216,904	12,778,445
Additions	43,804	4,427,316	1,468,093	8,366,485
Acquired on consolidation of Curious Drinks Limited (note 28)	–	–	–	450,449
At 31 December 2018	**680,019**	**4,427,316**	**4,684,997**	**21,595,379**
Depreciation				
At 1 January 2018	378,909	–	56,940	2,475,560
Charge for the year on owned assets	79,848	–	87,459	604,279
At 31 December 2018	**458,757**	**–**	**144,399**	**3,079,839**
Net book value				
At 31 December 2018	**221,262**	**4,427,316**	**4,540,598**	**18,515,540**
At 31 December 2017	257,306	–	3,159,964	10,302,885

15 Tangible fixed assets (continued)

Company	Freehold land and buildings £	Short term leasehold properties £	Plant and machinery £	Biological assets – vines £	Total £
Cost or valuation					
At 1 January 2018	5,929,851	219,995	635,500	3,216,904	10,002,250
Additions	1,490,682	–	–	1,468,093	2,958,775
At 31 December 2018	**7,420,533**	**219,995**	**635,500**	**4,684,997**	**12,961,025**
Depreciation					
At 1 January 2018	854,785	26,534	490,460	56,940	1,428,719
Charge for the year on owned assets	104,134	21,999	31,777	87,459	245,369
At 31 December 2018	**958,919**	**48,533**	**522,237**	**144,399**	**1,674,088**
Net book value					
At 31 December 2018	**6,461,614**	**171,462**	**113,263**	**4,540,598**	**11,286,937**
At 31 December 2017	5,075,066	193,461	145,040	3,159,964	8,573,531

16 Fixed asset investments

Group	Share of net assets £	Goodwill £	Total investment in associates £
Cost or valuation			
At 1 January 2018	364,706	277,321	642,027
Eliminated on consolidation of Curious Drinks Limited (note 28)	(316,833)	(273,469)	(590,302)
Amortisation of goodwill	–	(3,852)	(3,852)
Share of profit/(loss)	(47,873)	–	(47,873)
At 31 December 2018	**–**	**–**	**–**

As disclosed in note 28 to the financial statements, Curious Drinks Limited has been treated as a subsidiary from 30 January 2018. The investment in associate has therefore been eliminated in the consolidated balance sheet.

Company	Investment in subsidiary companies £	Investment in associates £	Total £
Cost or valuation			
At 1 January 2018	50,000	573,833	623,833
Capital contribution (note 18)	1,157,006	–	1,157,006
Reclassification of investment in Curious Drinks Limited (note 28)	573,833	(573,833)	–
At 31 December 2018	**1,780,839**	**–**	**1,780,839**

As disclosed in note 28 to the financial statements, Curious Drinks Limited has been treated as a subsidiary from 30 January 2018. The investment in associate has therefore been reclassified in the company balance sheet.

16 **Fixed asset investments (continued)**

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding
English Wines Plc	Ordinary	100%
Curious Drinks Limited	A Shares	49.79%
	B shares	100%
Chapel Down Group Limited (dormant)	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(Loss) £
English Wines Plc	1,976,625	404,478
Curious Drinks Limited	649,292	(1,584,031)
Chapel Down Group Limited (dormant)	1	–

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

17 **Stocks**

	Group	
	2018	2017
	£	£
Raw materials and consumables	**498,108**	–
Work in progress	**6,130,324**	3,805,411
Finished goods and goods for resale	**1,051,270**	755,791
	7,679,702	4,561,202

18 **Debtors**

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Due after more than one year				
Amounts owed by group undertakings	**–**	–	**11,254,150**	5,490,917
Amounts owed by associate undertakings	**–**	1,463,377	**–**	1,121,033
	–	1,463,377	**11,254,150**	6,611,950

18 Debtors (continued)

Included within amounts owed by group undertakings is a loan of £6,826,592 due from English Wines Plc. The loan to English Wines Plc attracts interest at a rate of 7% per annum. The loan is not repayable before 1 January 2020.

Included within amounts owed by group undertakings is a loan of £4,427,558 due from Curious Drinks Limited. The loan to Curious Drinks attracts interest at a rate of 2.5% per annum. The loan is not repayable before 31 March 2021. In line with the rate charged to English Wines Plc the loan has been discounted to its present value using a discount rate of 4.5% giving a market rate of interest of 7%. This resulted in a capital contribution of £1,157,006 as shown in note 16.

As disclosed in note 28 to the financial statements, Curious Drinks Limited was previously treated as an associate undertaking. From 30 January 2018 Curious Drinks Limited has been treated as a subsidiary undertaking. All amounts due from Curious Drinks Limited have therefore been reclassified as amounts owed by group undertakings in the company balance sheet, and eliminated in full in the consolidated balance sheet.

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Due within one year				
Trade debtors	**2,077,098**	2,122,509	**–**	–
Other debtors	**1,121,222**	555,738	**94,023**	386,816
Prepayments and accrued income	**412,438**	105,497	**–**	–
	3,610,758	2,783,744	**94,023**	386,816

19 Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Cash at bank and in hand	**12,829,910**	19,716,585	**10,019,294**	18,976,583

20 Creditors: Amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Bank loans	**3,570,000**	164,957	**–**	164,957
Trade creditors	**2,437,445**	1,611,379	**–**	–
Corporation tax	**91,214**	56,377	**46,609**	13,730
Other taxation and social security	**188,728**	209,023	**–**	–
Other creditors	**866,721**	1,337,823	**27,456**	649,623
Accruals and deferred income	**342,359**	125,937	**12,850**	11,203
	7,496,467	3,505,496	**86,915**	839,513

21 Creditors: Amounts falling due after more than one year

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Bank loans	**–**	1,804,980	**–**	1,804,980
Accruals and deferred income	**23,815**	20,879	**–**	–
	23,815	1,825,859	**–**	1,804,980

22 Loans

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Amounts falling due within one year				
Bank loans	**3,570,000**	164,957	**–**	164,957
Amounts falling due 1-2 years				
Bank loans	**–**	163,205	**–**	163,205
Amounts falling due 2-5 years				
Bank loans	**–**	489,616	**–**	489,616
Amounts falling due after more than 5 years				
Bank loans	**–**	1,152,159	**–**	1,152,159
	3,570,000	1,969,937	**–**	1,969,937

In 2017 a £2,000,000 bank loan was drawndown with HSBC Bank Plc. The loan was repayable over a period of 15 years, in quarterly instalments of £40,801. The loan attracted interest at 2.25% over the Bank of England base rate and was secured by a fixed and floating charge over the assets of the group. During the year the loan was repaid in full.

During the year a £3,570,000 loan was drawn down with HSBC Bank Plc. The loan is repayable within 12 months and attracts interest at 2.25% over the Bank of England base rate. The loan is secured by a fixed and floating charge over the assets of Curious Drinks Limited and a first legal charge over the freehold land in Ashford owned by Chapel Down Group Plc.

There is a subordinate agreement in place between HSBC Bank Plc, Curious Drinks Limited and subordination creditors, Chapel Down Group Plc and English Wines Plc. Subordination creditors rank behind HSBC Bank Plc.

23 Financial instruments

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Financial assets				
Financial assets measured at fair value through profit or loss	**15,127,878**	23,858,209	**21,367,467**	25,975,349
Financial liabilities				
Financial liabilities at amortised cost	**(7,141,829)**	(5,065,957)	**(40,306)**	(2,630,763)

Financial assets measured at fair value through profit or loss comprise amounts owed by associate and group undertakings, trade debtors (excluding VAT), accrued income and cash at bank and in hand.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors, other creditors and accruals.

24 Deferred taxation

Group	2018 £	2017 £
At beginning of year	**(223,572)**	(107,090)
Charged to profit or loss	**(2,399)**	(116,482)
Acquired on consolidation of Curious Drinks Limited (note 28)	**1,193**	–
At end of year	**(224,778)**	(223,572)

Company	2018 £	2017 £
At beginning of year	**(149,124)**	(58,240)
Charged to profit or loss	**(36,568)**	(90,884)
At end of year	**(185,692)**	(149,124)

The provision for deferred taxation is made up as follows:

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Accelerated capital allowances	**(396,153)**	(336,354)	**(185,692)**	(149,124)
Tax losses carried forward	**37,266**	12,519	**–**	–
Share options	**122,799**	100,263	**–**	–
Short term timing differences	**11,310**	–	**–**	–
	(224,778)	(223,572)	**(185,692)**	(149,124)

25 Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
141,425,211 *(2017: 138,080,960)* Ordinary shares of £0.050000 each	**7,071,261**	6,904,048
14,322,158 *(2017: 14,320,000)* A1 shares of £0.000100 each	**1,432**	1,432
3,800,000 *(2017: 3,800,000)* A2 shares of £0.000100 each	**380**	380
4,000,000 *(2017: Nil)* A3 shares of £0.000100 each	**400**	–
	7,073,473	6,905,860

Ordinary shares have full voting rights with 1 vote per share, they are entitled to dividends when proposed and are due capital distribution on a company exit event.

The A1 and A2 shares have no voting rights and no specific dividend rights unless a special dividend is declared. The A1 and A2 shares only participate in value on a company exit event if the company is worth more than £33.9m at the exit date.

The A3 shares have no voting rights and no specific dividend rights unless a special dividend is declared. The A3 shares only participate in value on a company exit event if the company is worth more than £126m at the exit date.

During the year 2,940,000 ordinary shares were issued at 50p per share, contributing 45p per share to share premium.

During the year 144,263 ordinary share options were exercised by an employee of the group at 15p per share, contributing 10p per share to share premium.

25 Share capital (continued)

During the year 110,000 ordinary share options were exercised by an employee of the group at 17p per share, contributing 12p per share to share premium.

During the year 150,000 ordinary share options were exercised by an employee of the group at 10p per share, contributing 5p per share to share premium.

During the year 4,000,000 A3 shares were issued at par value.

At the year end there were 11,612,075 *(2017: 10,180,338)* ordinary share options outstanding.

26 Reserves

Share premium account

The share premium reserve represents the premium paid by shareholders over the nominal value of the shares purchased.

Revaluation reserve

This reserve represents the revaluation gain on freehold land and buildings, net of deferred tax adjustments.

Profit and loss account

This reserve holds the accumulation of profits and losses including any dividends paid to shareholders.

27 Share based payments

	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	2,600,000	468,526	1,491,800
Weighted average exercise price at the start of the year	12.5p	9p	15p	10p
Exercised	–	–	(144,263)	(150,000)
Granted	–	–	–	–
Forfeited	–	–	–	–
Outstanding at year end	788,124	2,600,000	324,263	1,341,800
Weighted average exercise price at the end of the year	12.5p	9p	15p	10p

	2013 Fixed Price	2016 Variable Price	2017 Fixed Price	2018 Fixed Price
Number of share options	4,688,888	430,000	200,000	840,000
Vesting period (years)	4.6	4.0	3.0	3.0
Outstanding at start of year	4,661,888	430,000	200,000	–
Weighted average exercise price at the start of the year	17p	33p	81p	–
Exercised	(110,000)	–	–	–
Granted	–	–	–	840,000
Forfeited	–	–	–	–
Outstanding at year end	4,551,888	430,000	200,000	840,000
Weighted average exercise price at the end of the year	17p	33p	81p	84p

27 Share based payments (continued)

	2018 Fixed Price
Number of share options	536,000
Vesting period (years)	4
Outstanding at start of year	–
Weighted average exercise price at the start of the year	–
Exercised	–
Granted	536,000
Forfeited	–
Outstanding at year end	536,000
Weighted average exercise price at the end of the year	89

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

Between 2003 and 2016 16,327,335 share options were granted. The fair value was calculated by applying the Black Scholes option pricing model. The range of model inputs were the share price at grant date (12.5p to 33.75p), exercise price (9p to 33p), expected volatility (2% to 35%), vesting period (3.6 to 4.6 years) and a risk free rate (0.5% to 5.5%). No dividends were expected.

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 estimated fair value of the 840,000 share options granted in 2018 is 10.7p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 84p, exercise price of 84p, expected volatility of 17.73%, no expected dividends, vesting period of 3 years and a risk free rate 0.75%.

The estimated fair value of the 536,000 share options granted in 2018 is 3.3p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 75p, exercise price of 88.5p, expected volatility of 17.73%, no expected dividends, vesting period of up to 3.6 years and a risk free rate 0.75%.

The current year expense resulting from the share options is £57,161 *(2017: £75,416)*.

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

28 Control of Curious Drinks Limited

For the years ended 31 December 2016 and 2017 Curious Drinks Limited was accounted for as an associate in the consolidated financial statements as the directors did not consider that Chapel Down Group Plc had control or dominant influence over the entity, but rather significant influence.

On 30 January 2018 Gareth Bath was appointed as a statutory director of both Chapel Down Group Plc and Curious Drinks Limited. The appointment of Gareth Bath means that the three executive directors of Curious Drinks Limited are also all shareholders and directors of Chapel Down Group Plc. The remaining two directors of Curious Drinks Limited are both non-executive directors. In theory this majority on the board potentially gives Chapel Down Group Plc the power to exercise dominant influence over Curious Drinks Limited as it is able to cast the majority of votes at a meeting of the board of directors.

28 Control of Curious Drinks Limited (continued)

This prompted the directors to review the situations of control, as prescribed by Financial Reporting Standard 102, in order to assess whether Curious Drinks Limited should be treated as a subsidiary, associate or joint venture. As part of this review they considered a range of factors, in particular, the financing provided by Chapel Down Group Plc to Curious Drinks Limited but also the voting rights of the group, the composition of the Curious Drinks Limited board, the power to appoint the majority of board members, and the influence over the operational activities of Curious Drinks Limited. Overall it was concluded that, in theory, Chapel Down Group plc had the power to exercise dominant influence from 30 January 2018. Curious Drinks Limited has therefore been treated as a subsidiary in the consolidated accounts from 30 January 2018, the date on which Gareth Bath was appointed to the board of both Chapel Down Group Plc and Curious Drinks Limited.

The consolidation of Curious Drinks Limited gives rise to certain accounting decisions, the most significant is whether Chapel Down Group Plc should account for its economic interest in Curious Drinks Limited (90.2%) or its interest in the voting rights (49.79%). In making this judgement, the directors have considered the rights of the two classes of shares in Curious Drinks Limited. The holders of the B shares carry no voting rights and are not entitled to participate in the profits of the company or receive dividends. They are entitled to participate in the aggregate proceeds of an exit (sale of Curious Drinks Limited or a listing of Curious Drinks Limited shares) and shall rank pari passu with the A shareholders for such purpose.

Based on an analysis of the current position of Curious Drinks Limited the directors consider it appropriate to recognise the non-controlling interest at a rate of 50.2%.

The consolidation of any subsidiary for the first time requires the directors to assess the fair value of the assets and liabilities acquired. The directors do not consider that the fair value of the net assets of Curious Drinks Limited at 30 January 2018 was materially different to the book value of assets. Accordingly, no fair value adjustments have been made.

	Book value £	Fair value £
Tangible	450,449	450,449
	450,449	450,449
Stocks	615,842	615,842
Debtors	122,322	122,322
Cash at bank and in hand	1,554,559	1,554,559
Total assets	2,743,172	2,743,172
Creditors due within one year	(70,979)	(70,979)
Creditors due after more than one year	(1,692,025)	(1,692,025)
Total identifiable net assets	980,168	980,168
Chapel Down Group Plc's share of net assets		(488,026)
Non-controlling interest recognised on consolidation		492,142

Goodwill on acquisition

	£
Carrying value of investment in Curious Drinks Limited at 30 January 2018	590,302
Less: Chapel Down Group Plc share of net assets	(488,026)
Goodwill recognised on consolidation	102,276

29 Contingent liabilities

At 31 December 2018 there was a guarantee is place in favour of Her Majesty's Revenue and Customs for £270,000 *(2017: £270,000)*.

30 Pension commitments

The group 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 group to the fund and amounted to £30,267 *(2017: £16,442)*. Contributions totaling £526 *(2017: £98*) were payable to the fund at the balance sheet date and are included in creditors.

31 Commitments under operating leases

At 31 December 2018 the group and the company had future minimum lease payments under non- cancellable operating leases as follows:

	Group	
	2018	2017
	£	£
Not later than 1 year	**106,036**	85,503
Later than 1 year and not later than 5 years	**83,669**	85,506
	189,705	171,009

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Land and buildings				
Not later than 1 year	**272,450**	276,990	**221,950**	237,490
Later than 1 year and not later than 5 years	**676,227**	708,300	**561,977**	652,758
Later than 5 years	**1,944,198**	2,066,368	**1,944,198**	2,066,368
	2,892,875	3,051,658	**2,728,125**	2,956,616

32 Capital commitments

At 31 December 2018 the group had capital commitments totalling £4,480,345 *(2017: £Nil)*.

33 Related party transactions

The company has taken advantage of the exemption in section 33 of FRS 102 from the requirement to disclose transactions with wholly owned subsidiaries on the grounds that consolidated financial statements are prepared by the parent company.

During the year Curious Drinks Limited, a non-wholly owned subsidiary of Chapel Down Group Plc, was charged interest of £49,841 *(2017: £27,239)* and rent of £90,000 *(2017: £nil)*. The company also paid costs on behalf of Curious Drinks Limited totalling £1,417,124 *(2017: £144,880)*. At 31 December 2018 £4,427,558 *(2017: £1,121,033)* was owed to the company by Curious Drinks Limited.

Fees of £183,057 *(2017: £177,366)* and expenses of £2,550 *(2017: £3,331)* were payable to related parties in respect of investment monitoring, consultancy fees and non-executive director services. At the year-end a balance of £17,500 *(2017: £29,429)* was outstanding.

During the year a director subscribed to 4,000,000 A3 shares for total consideration of £400.

34 Controlling party

The directors consider that there is not one ultimate controlling party.

OUR DIRECTORS AND ADVISERS

Directors	G Bath J D Brooke J M Dunsmore S H Emeny M S Harvey F D Thompson R A B Woodhouse N W Wray
Secretary	R A B Woodhouse
Company Number	04362181 (England and Wales)
Registered Office	Chapel Down Winery Small Hythe Tenterden Kent TN30 7NG
Registered Auditors	Crowe U.K. LLP Chartered Accountants & Statutory Auditors Riverside House 40-46 High Street Maidstone Kent ME14 1JH
Bankers	HSBC Bank PLC West London Corporate Centre 2nd Floor, Space One 1 Beadon Road London W6 0EA
Registrars	Link Asset Services 34 Beckenham Road Beckenham Kent BR3 4TU
Financial Advisers	finnCap 60 New Broad Street London EC2M 1JJ
Solicitors	Cripps LLP 22 Mount Ephraim Road Tunbridge Wells Kent TN4 8AS

"There is no point in
just trying to be the best.
You need to be the only people
who can do what you do."

CHAPEL DOWN

TENTERDEN ENGLAND

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