

**Company Registration No. 4362181 (England and Wales)**

**ENGLISH WINES GROUP PLC**

**ANNUAL REPORT**

**FOR THE YEAR ENDED  
31 DECEMBER 2006**

# ENGLISH WINES GROUP PLC

## DIRECTORS AND ADVISERS

---

<b>Directors</b>	P. Brett F.D. Thompson R.G. Balfour-Lynn R.A.B. Woodhouse N.W. Wray
<b>Secretary</b>	R.A.B. Woodhouse
<b>Company number</b>	4362181
<b>Registered office</b>	Chapel Down Winery, Small Hythe Road Tenterden Kent TN30 7NG
<b>Registered auditors</b>	Creaseys LLP 12 Lonsdale Gardens Tunbridge Wells Kent TN1 1PA
<b>Bankers</b>	Barclays Bank Plc Horsham Corporate Business Centre 51 Bishopric Horsham West Sussex RH12 1QJ
<b>Registrars</b>	Capita Registrars Northern House, Woodsome Park Fenay Bridge Huddersfield HD8 0LA
<b>Financial advisors</b>	Ruegg and Co Limited 39 Cheval Place Knightsbridge London SW7 1EW
<b>Solicitors</b>	Thomson Snell & Passmore 3 Lonsdale Gardens Tunbridge Wells Kent TN1 1NX

---

# ENGLISH WINES GROUP PLC

## CONTENTS

---

	<b>Page</b>
Chairman's Statement	1 - 2
Directors' report	3 - 5
Independent auditors' report	6 - 7
Consolidated profit and loss account	8
Statement of recognised gains and losses	9
Balance sheets	10
Consolidated cash flow statement	11
Notes to the consolidated cash flow statement	12 - 13
Notes to the financial statements	14 - 30

---

# ENGLISH WINES GROUP PLC

## CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

---

### Introduction

I have pleasure in presenting the company's Annual Report and Financial Statements for the 12 months ending 31st December 2006.

### Results for the year

The Group made a pre-tax loss of £89,579 compared with a loss of £123,497 in the previous year.\*

Overall turnover on a like for like basis has gone up 26% at £2,257,327 due to a 12% increase in the average selling price of premium wines along with the 11% increase in volume of wine sold.

Overall cost of sales on a like for like basis are up 18%. The increase is principally due to the volume increase in wine sold combined with the higher level of duty paid sales. Underlying average cost per bottle is down 3% despite the impact of fuel price increases on raw materials costs.

Underlying administration and marketing expenses are up 5% on a like for like basis at £910,631.\*

Other operating income of £79,174 relates to amounts received from insurers, following the fire in August 2004, for the business income interruption element of the claim being recompense for stock that would have been sold in 2006.

### Operations

We continue to make good progress on our key targets:-

- Pricing continues to move forward resulting in a 12% increase in average selling price of premium wines
- Volumes are in line with expectations and supply
- Overheads continue to be well controlled
- Our winemaker, Owen Elias, won UK Winemaker of the Year 2006
- Press coverage continues to stimulate demand ahead of our ability to supply
- We continue to attract new growers
- We were runners-up to Green and Blacks in the SME category for Marketing Excellence at the recent Marketing Society awards
- Strong support from Conran restaurants, Gordon Ramsay, Gary Rhodes, Selfridges, Fortnum and Mason, Konstam, Roast and other well known premium accounts is driving improved awareness and attitudes.

### Risks and Uncertainties

Harvest failure:

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

Credit risk:

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

# ENGLISH WINES GROUP PLC

## CHAIRMAN'S REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

---

### Outlook

The 2006 harvest was our highest ever and was again of high quality, with very good white and sparkling wine to come. New acreage added since 2005 of 125 acres will become productive in 2008, enabling us to sell more premium wines from 2010 onwards, and adding significantly to profitability. We continue to be approached by existing and new growers seeking to plant more vines for us and it is your Board's view that the medium to long term prospects of the company remain excellent.

**Paul Brett**

**Chairman**

### Note

\* FRS 20 accounting standard requires us to restate our profit to attribute a notional cost of non-cash share option agreements to the business. After adopting FRS20, the accounts show a reduction in profit of £76,024 (2005 restated: £12,061) resulting in a Group pre-tax loss of £165,603 (2005 restated: £135,558).

# ENGLISH WINES GROUP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

---

The directors present their report and financial statements for the year ended 31 December 2006.

### Directors

The following directors have held office since 1 January 2006:

P. Brett  
F.D. Thompson  
R.G. Balfour-Lynn  
R.A.B. Woodhouse  
N.W. Wray

### Principal activities and review of the business

The principal activity of the group continued to be that of the producing and selling of wines.

### Results and dividends

The consolidated profit and loss account for the year is set out on page 8 and 9.

The directors do not recommend payment of an ordinary dividend.

### Directors' interests

The directors' interests in the shares of the company and other group companies were as stated below:

	Ordinary shares of 5p each	
	31 December 2006	1 January 2006
P. Brett	8,904,014	8,904,014
F.D. Thompson	14,000	14,000
R.G. Balfour-Lynn	4,850,000	4,850,000
R.A.B. Woodhouse	-	-
N.W. Wray	-	-

	Preference shares of £1 each	
	31 December 2006	1 January 2006
P. Brett	-	-
F.D. Thompson	-	-
R.G. Balfour-Lynn	-	-
R.A.B. Woodhouse	-	-
N.W. Wray	-	-

N. Wray has an interest in 15,000,000 (2005 - 15,000,000) ordinary shares, which are held by Pershing Keen Nominees.

# ENGLISH WINES GROUP PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

---

None of the directors shown above have an interest in the shares of the subsidiary company.

F.D. Thompson has share options for 1,968,450 ordinary shares, which were exercisable in tranches over four years at a price of 12.5p per share. He has share options for a minimum of 2,000,000 ordinary shares, exercisable on or after 1 July 2010 at a price of between 5p and 15p per share, depending on the future share price. This option extends to a further two tranches, also exercisable after 1 July 2010, of 500,000 ordinary shares at 5p, again depending on future share price.

R.A.B. Woodhouse has share options for 1,000,000 ordinary shares, exercisable after 1 July 2010 at a price of 15p per share.

P.Brett has interests in warrants over 666,666 ordinary shares at an exercise price of 15p per share exercisable in the period 11 February 2003 to 11 February 2008.

### **Auditors**

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Creaseys LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

# ENGLISH WINES GROUP PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

---

### Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business;
- the directors of a company must, in determining how amounts are presented in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practice or principles.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

### Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board

F.D. Thompson

**Director**

4 April 2007

# ENGLISH WINES GROUP PLC

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF ENGLISH WINES GROUP PLC

---

We have audited the financial statements of English Wines Group PLC on pages 8 to 30 for the year ended 31 December 2006. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# ENGLISH WINES GROUP PLC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### TO THE SHAREHOLDERS OF ENGLISH WINES GROUP PLC

---

#### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**Creaseys LLP**

4 April 2007

Chartered Accountants

**Registered Auditor**

12 Lonsdale Gardens  
Tunbridge Wells  
Kent  
TN1 1PA

# ENGLISH WINES GROUP PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

		2006	2005
	Notes	£	as restated £
<b>Turnover</b>		2,257,327	1,784,517
Cost of sales		(1,438,595)	(1,217,359)
<b>Gross profit</b>		818,732	567,158
Administrative expenses before share based payment	(910,631)	(864,917)	
Share based payment (FRS20)	(76,024)	(12,061)	
Administrative expenses after share based payment		(986,655)	(876,978)
Other operating income	<b>3</b>	79,174	236,325
<b>Operating loss</b>	<b>3</b>	(88,749)	(73,495)
Other interest receivable and similar income		-	2,149
Interest payable and similar charges	<b>4</b>	(76,854)	(64,212)
<b>Loss on ordinary activities before taxation</b>	<b>3</b>	(165,603)	(135,558)
Tax on loss on ordinary activities	<b>5</b>	-	-
<b>Loss on ordinary activities after taxation</b>		(165,603)	(135,558)
The profit and loss account has been prepared on the basis that all operations are continuing operations.			
<b>Profit / (Loss) per share (pence)</b>	<b>7</b>		
- basic		(0.41)	(0.34)
- diluted		(0.40)	(0.33)

# ENGLISH WINES GROUP PLC

## STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2006

---

	2006	2005
	£	as restated £
Loss for the financial year	(165,603)	(135,558)
Prior year adjustment	(34,829)	-
<b>Total gains and losses recognised since last financial statements</b>	<u>(200,432)</u>	<u>(135,558)</u>

### Note of historical cost profits and losses

	2006	2005
	£	as restated £
Reported loss on ordinary activities before taxation	(165,603)	(135,558)
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	12,781	3,158
<b>Historical cost loss on ordinary activities before taxation</b>	<u>(152,822)</u>	<u>(132,400)</u>
<b>Historical cost loss for the year retained after taxation, extraordinary items and dividends</b>	<u>(152,822)</u>	<u>(132,400)</u>

# ENGLISH WINES GROUP PLC

## BALANCE SHEETS

AS AT 31 DECEMBER 2006

		Group		Company	
		2006	2005	2006	2005
		as restated			
Notes	£	£	£	£	£
<b>Fixed assets</b>					
Intangible assets	8	169,508	185,744	169,508	185,744
Tangible assets	9	2,046,648	2,116,316	1,647,048	1,687,996
Investments	10	-	-	50,000	50,000
		<u>2,216,156</u>	<u>2,302,060</u>	<u>1,866,556</u>	<u>1,923,740</u>
<b>Current assets</b>					
Stocks	11	1,662,805	1,630,814	-	-
Debtors	12	224,474	318,452	2,125,969	2,207,493
Cash at bank and in hand		74,025	5,153	366	5,001
		<u>1,961,304</u>	<u>1,954,419</u>	<u>2,126,335</u>	<u>2,212,494</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(866,651)</u>	<u>(808,662)</u>	<u>(47,511)</u>	<u>(33,365)</u>
<b>Net current assets</b>		<u>1,094,653</u>	<u>1,145,757</u>	<u>2,078,824</u>	<u>2,179,129</u>
<b>Total assets less current liabilities</b>		<u>3,310,809</u>	<u>3,447,817</u>	<u>3,945,380</u>	<u>4,102,869</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(809,587)</u>	<u>(857,016)</u>	<u>(776,100)</u>	<u>(802,317)</u>
		<u>2,501,222</u>	<u>2,590,801</u>	<u>3,169,280</u>	<u>3,300,552</u>
<b>Capital and reserves</b>					
Called up share capital	15	2,013,234	2,013,234	2,013,234	2,013,234
Share premium account	16	1,584,352	1,584,352	1,584,352	1,584,352
Revaluation reserve	16	245,922	258,703	9,400	9,400
Other reserves	16	110,853	34,829	-	-
Profit and loss account	16	(1,453,139)	(1,300,317)	(437,706)	(306,434)
<b>Shareholders' funds</b>	17	<u>2,501,222</u>	<u>2,590,801</u>	<u>3,169,280</u>	<u>3,300,552</u>

Approved by the Board and authorised for issue on 4 April 2007

F.D. Thompson  
Director

R.A.B. Woodhouse  
Director

# ENGLISH WINES GROUP PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	£	2006 £	£	2005 £
<b>Net cash inflow/(outflow) from operating activities</b>		322,927		(144,351)
<b>Returns on investments and servicing of finance</b>				
Interest received	-		2,149	
Interest paid	(76,854)		(64,212)	
		<u>(76,854)</u>		<u>(62,063)</u>
<b>Net cash outflow for returns on investments and servicing of finance</b>		(76,854)		(62,063)
<b>Capital expenditure</b>				
Payments to acquire tangible assets	(26,825)		(425,416)	
		<u>(26,825)</u>		<u>(425,416)</u>
<b>Net cash outflow for capital expenditure</b>		(26,825)		(425,416)
		<u>219,248</u>		<u>(631,830)</u>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		219,248		(631,830)
<b>Financing</b>				
Issue of ordinary share capital	-		12,500	
New long term bank loan	-		344,569	
Other new short term loans	-		6,039	
Repayment of long term bank loan	(26,217)		(67,837)	
Repayment of other short term loans	(73,741)		(105,314)	
Capital element of hire purchase contracts	(21,877)		(26,790)	
		<u>(121,835)</u>		<u>163,167</u>
<b>Net cash (outflow)/inflow from financing</b>		(121,835)		163,167
<b>Increase/(decrease) in cash in the year</b>		<u>97,413</u>		<u>(468,663)</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

1	Reconciliation of operating loss to net cash inflow/(outflow) from operating activities	2006	2005		
		£	£		
	Operating loss	(88,749)	(73,495)		
	Depreciation of tangible assets	94,561	86,879		
	Amortisation of intangible assets	16,236	16,236		
	Loss on disposal of tangible assets	1,932	-		
	Share based payments	76,024	12,061		
	Increase in stocks	(31,991)	(195,853)		
	Decrease in debtors	93,978	194,881		
	Increase/(decrease) in creditors within one year	160,936	(185,060)		
	<b>Net cash inflow/(outflow) from operating activities</b>	<b>322,927</b>	<b>(144,351)</b>		
2	Analysis of net debt	1 January 2006	Cash flow	Other non-cash changes	31 December 2006
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	5,153	68,872	-	74,025
	Bank overdrafts	(28,541)	28,541	-	-
		(23,388)	97,413	-	74,025
	Finance leases	(76,577)	21,877	-	(54,700)
	Debts falling due within one year	(103,591)	73,741	-	(29,850)
	Debts falling due after one year	(802,317)	26,217	-	(776,100)
		(982,485)	121,835	-	(860,650)
	<b>Net debt</b>	<b>(1,005,873)</b>	<b>219,248</b>	<b>-</b>	<b>(786,625)</b>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

---

<b>3 Reconciliation of net cash flow to movement in net debt</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Increase/(decrease) in cash in the year	97,413	(468,663)
Cash outflow/(inflow) from decrease/(increase) in debt	121,835	(150,667)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	219,248	(619,330)
New finance lease	-	(17,500)
	<hr/>	<hr/>
<b>Movement in net debt in the year</b>	219,248	(636,830)
Opening net debt	(1,005,873)	(369,043)
	<hr/>	<hr/>
<b>Closing net debt</b>	<u>(786,625)</u>	<u>(1,005,873)</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2006

---

#### 1 Accounting policies

##### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

##### 1.2 Compliance with accounting standards

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

##### 1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

##### 1.4 Turnover

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

##### 1.5 Intellectual property and goodwill

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

##### 1.6 Tangible fixed assets and depreciation

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

Freehold land and buildings	Straight line over 50 years on the buildings
Plant and machinery	5% Straight line
Fixtures, fittings & equipment	15% Reducing balance
Motor vehicles	25% Reducing balance

##### 1.7 Leasing and hire purchase commitments

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

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

##### 1.8 Investments

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

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

---

### 1 Accounting policies (continued)

#### 1.9 Stock and work in progress

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

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

#### 1.10 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

#### 1.11 Foreign currency translation

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

### 2 Turnover

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

#### Segmental analysis by geographical area

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

	2006	2005
	£	£
<b>Geographical segment</b>		
UK	2,175,128	1,770,373
Other EU	46,458	2,252
Non EU	35,741	11,892
	<hr/>	<hr/>
	2,257,327	1,784,517
	<hr/> <hr/>	<hr/> <hr/>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

### 3 Operating loss

	2006	2005
	£	£
Operating loss is stated after charging:		
Depreciation of intangible assets	16,236	16,236
Depreciation of tangible assets	94,561	86,879
Loss on disposal of tangible assets	1,932	-
Loss on foreign exchange transactions	855	-
Operating lease rentals	30,299	25,645
Auditors' remuneration (company £3,825; 2005: £3,650)	8,600	9,475
Remuneration of auditors for non-audit work	2,400	9,545
and after crediting:		
Insurance claims receivable	(79,174)	(236,325)
Profit on foreign exchange transactions	-	(245)
	<u>                    </u>	<u>                    </u>

The other operating income relates to monies received from the group's insurers as part of the business interruption element of the insurance claim, a result of the fire at the group's premises in 2004, being recompense for the stock that would have been sold in the year.

### 4 Interest payable

	2006	2005
	£	£
On bank loans and overdrafts	72,754	59,435
Hire purchase interest	4,100	4,777
	<u>                    </u>	<u>                    </u>
	<u>76,854</u>	<u>64,212</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

---

5	Taxation	2006 £	2005 £
	<b>Current tax charge</b>	-	-
		<u>          </u>	<u>          </u>
	<b>Factors affecting the tax charge for the year</b>		
	Loss on ordinary activities before taxation	(165,603)	(135,558)
		<u>          </u>	<u>          </u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	(49,681)	(40,667)
		<u>          </u>	<u>          </u>
	Effects of:		
	Non deductible expenses	24,709	4,727
	Depreciation add back	33,240	30,933
	Tax losses utilised	(28,681)	(8,261)
	Unutilised losses carried forward	19,834	13,268
	Loss on disposal of assets	579	-
		<u>          </u>	<u>          </u>
		49,681	40,667
		<u>          </u>	<u>          </u>
	<b>Current tax charge</b>	-	-
		<u>          </u>	<u>          </u>
		<u>          </u>	<u>          </u>
	<b>6 Loss for the financial year</b>		
	As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:		
		<b>2006</b>	<b>2005</b>
		£	£
	Holding company's loss for the financial year	(131,272)	(107,168)
		<u>          </u>	<u>          </u>
		<u>          </u>	<u>          </u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

---

#### 7 Earnings per share

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

	Profit / (Loss) after tax		Weighted average number of shares		Earnings per share	
	2006 £	2005 £	2006	2005	2006 pence	2005 pence
Basic earnings	(165,603)	(135,558)	40,264,667	40,202,167	(0.41)	(0.34)
Outstanding share options	-	-	994,742	994,742	0.01	0.01
Diluted earnings	<u>(165,603)</u>	<u>(135,558)</u>	<u>41,259,409</u>	<u>41,196,909</u>	<u>(0.40)</u>	<u>(0.33)</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

---

#### 8 Intangible fixed assets

##### Group

	Intellectual property and goodwill £
<b>Cost</b>	
At 1 January 2006 & at 31 December 2006	243,594
<b>Amortisation</b>	
At 1 January 2006	57,850
Charge for the year	16,236
At 31 December 2006	74,086
<b>Net book value</b>	
At 31 December 2006	169,508
At 31 December 2005	185,744

Goodwill was revalued in 2002 on a fair value basis. The historical cost of goodwill is £216,094 (2005 : £216,094). The provision for amortisation based on historical cost would have been £64,463 (2005 : £50,060) and the charge for the year would have been £14,403.

#### Intangible fixed assets (continued)

##### Company

	Intellectual property and goodwill £
<b>Cost</b>	
At 1 January 2006 & at 31 December 2006	243,594
<b>Amortisation</b>	
At 1 January 2006	57,850
Charge for the year	16,236
At 31 December 2006	74,086
<b>Net book value</b>	
At 31 December 2006	169,508
At 31 December 2005	185,744

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 9 Tangible fixed assets

##### Group

	Freehold land and buildings	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
<b>Cost or valuation</b>					
At 1 January 2006	1,224,308	928,887	169,568	23,046	2,345,809
Additions	7,975	2,800	16,050	-	26,825
Disposals	-	-	-	(9,265)	(9,265)
At 31 December 2006	1,232,283	931,687	185,618	13,781	2,363,369
<b>Depreciation</b>					
At 1 January 2006	33,374	150,503	30,153	15,463	229,493
On disposals	-	-	-	(7,333)	(7,333)
Charge for the year	20,400	46,139	26,228	1,794	94,561
At 31 December 2006	53,774	196,642	56,381	9,924	316,721
<b>Net book value</b>					
At 31 December 2006	1,178,509	735,045	129,237	3,857	2,046,648
At 31 December 2005	1,190,934	778,384	139,415	7,583	2,116,316

The freehold land and buildings were valued by Strutt & Parker, Chartered Surveyors on 28 November 2003 on the basis of open market value and were carried out in accordance with RICS appraisal and valuation standards. The historical cost of freehold land and buildings is £1,052,283 (2005: £1,044,308). The plant and machinery was valued by Edward Symmons and Partners, Surveyors on 26 February 2002. The historical cost of the plant and machinery is £910,325 (2005: £907,525). The provision for depreciation based on historical cost would have been freehold land and buildings £45,604 (2005 : £27,294), plant and machinery £191,302 (2005 : £146,231). The depreciation charge for the year based on historical cost would have been freehold land and buildings £18,310 and plant and machinery £45,071. The directors consider that the value of the property as shown in the financial statements is held at market value.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 9 Tangible fixed assets

(continued)

Included above are assets held under finance leases or hire purchase contracts as follows:

	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
<b>Net book values</b>				
At 31 December 2006	104,892	-	-	104,892
At 31 December 2005	147,363	-	5,143	152,506
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Depreciation charge for the year</b>				
31 December 2006	5,964	-	-	5,964
31 December 2005	7,779	-	1,714	9,493
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Tangible fixed assets (continued)

##### Company

	Freehold land and buildings	Plant and machinery	Total
	£	£	£
<b>Cost or valuation</b>			
At 1 January 2006	1,187,710	635,500	1,823,210
Additions	7,975	-	7,975
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2006	1,195,685	635,500	1,831,185
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Depreciation</b>			
At 1 January 2006	26,055	109,159	135,214
Charge for the year	17,147	31,776	48,923
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2006	43,202	140,935	184,137
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net book value</b>			
At 31 December 2006	1,152,483	494,565	1,647,048
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2005	1,161,655	526,341	1,687,996
	<u>          </u>	<u>          </u>	<u>          </u>

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

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 10 Fixed asset investments

##### Company

**Shares in  
group  
undertakings  
£**

##### Cost or valuation

At 1 January 2006 & at 31 December 2006

50,000

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

##### Holdings of more than 20%

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

Company	Country of registration or incorporation	Shares held	
		Class	%
<b>Subsidiary undertakings</b>			
English Wines PLC	England and Wales	Ordinary	100

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

	Principal activity
English Wines PLC	Manufacture and sale of wine

#### 11 Stocks and work in progress

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Work in progress	1,579,149	1,545,161	-	-
Finished goods and goods for resale	83,656	85,653	-	-
	<u>1,662,805</u>	<u>1,630,814</u>	<u>-</u>	<u>-</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

### 12 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	204,143	181,520	-	-
Amounts owed by group undertakings	-	-	2,125,969	2,207,493
Other debtors	1,989	122,000	-	-
Prepayments and accrued income	18,342	14,932	-	-
	<u>224,474</u>	<u>318,452</u>	<u>2,125,969</u>	<u>2,207,493</u>

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

	2006	2005	2006	2005
	£	£	£	£
Amounts owed by group undertakings	<u>-</u>	<u>-</u>	<u>2,125,969</u>	<u>2,207,493</u>

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

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans and overdrafts	29,850	132,132	29,850	29,715
Net obligations under finance lease and hire purchase contracts	21,213	21,878	-	-
Trade creditors	357,413	254,397	-	-
Taxes and social security costs	295,330	326,647	-	-
Other creditors	133,896	62,608	13,836	-
Accruals and deferred income	28,949	11,000	3,825	3,650
	<u>866,651</u>	<u>808,662</u>	<u>47,511</u>	<u>33,365</u>

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

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

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans	776,100	802,317	776,100	802,317
Net obligations under finance leases and hire purchase agreements	33,487	54,699	-	-
	<u>809,587</u>	<u>857,016</u>	<u>776,100</u>	<u>802,317</u>

#### Analysis of loans

Not wholly repayable within five years by instalments:

Commercial mortgage	805,950	832,032	805,950	832,032
Wholly repayable within five years	-	73,876	-	-

	<u>805,950</u>	<u>905,908</u>	<u>805,950</u>	<u>832,032</u>
Included in current liabilities	(29,850)	(103,591)	(29,850)	(29,715)
	<u>776,100</u>	<u>802,317</u>	<u>776,100</u>	<u>802,317</u>
Instalments not due within five years	<u>537,300</u>	<u>564,593</u>	<u>537,300</u>	<u>564,593</u>

#### Loan maturity analysis

In more than one year but not more than two years	59,700	59,431	59,700	59,431
In more than two years but not more than five years	179,100	178,293	179,100	178,293
In more than five years	<u>537,300</u>	<u>564,593</u>	<u>537,300</u>	<u>564,593</u>

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

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 14 Creditors : amounts falling due after more than one year (continued)

	Group 2006 £	2005 £	Company 2006 £	2005 £
<b>Net obligations under finance leases and hire purchase contracts</b>				
Repayable within one year	25,114	25,978	-	-
Repayable between one and five years	39,649	64,762	-	-
	<u>64,763</u>	<u>90,740</u>	<u>-</u>	<u>-</u>
Finance charges and interest allocated to future accounting periods	(10,063)	(14,163)	-	-
	<u>54,700</u>	<u>76,577</u>	<u>-</u>	<u>-</u>
Included in liabilities falling due within one year	(21,213)	(21,878)	-	-
	<u>33,487</u>	<u>54,699</u>	<u>-</u>	<u>-</u>

#### 15 Share capital

	2006 £	2005 £
<b>Authorised</b>		
200,000,000 Ordinary Shares of 5p each	10,000,000	10,000,000
400,000 Preference shares of £1 each	400,000	400,000
	<u>10,400,000</u>	<u>10,400,000</u>
<b>Allotted, called up and fully paid</b>		
40,264,667 Ordinary Shares of 5p each	2,013,234	2,013,234
	<u>2,013,234</u>	<u>2,013,234</u>

1,968,450 unissued ordinary shares of 5p each are covered by a share option agreement and these are exercisable at 12.5p per share. A further 6,239,997 unissued ordinary shares of 5p each are covered by various share option agreements and these are exercisable at between 5p and 15p per share after 1 July 2010.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 16 Statement of movements on reserves

##### Group

	Share premium account £	Revaluation reserve £	Other reserves (see below) £	Profit and loss account £
Balance at 1 January 2006	1,584,352	258,703	-	(1,265,488)
Prior year adjustment	-	-	34,829	(34,829)
Balance at 1 January 2006 as restated	1,584,352	258,703	34,829	(1,300,317)
Loss for the year	-	-	-	(165,603)
Transfer from revaluation reserve to profit and loss account	-	(12,781)	-	12,781
Movement during the year	-	-	76,024	-
Balance at 31 December 2006	<u>1,584,352</u>	<u>245,922</u>	<u>110,853</u>	<u>(1,453,139)</u>

##### Other reserves

##### Reserves arising from share based payments

Balance at 1 January 2006	34,829
Other reserve movement	76,024
Balance at 31 December 2006	<u>110,853</u>

##### Company

	Share premium account £	Revaluation reserve £	Profit and loss account £
Balance at 1 January 2006	1,584,352	9,400	(306,434)
Retained loss for the year	-	-	(131,272)
Balance at 31 December 2006	<u>1,584,352</u>	<u>9,400</u>	<u>(437,706)</u>

The prior year adjustment arose as a result of the first introduction of FRS20. Employee share options were valued and the prior year adjustment is the amount which should have been written off prior to 31 December 2005. The 2005 profit and loss account has been amended to include £12,061 in administration salaries, which is the charge for 2005.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

17 Reconciliation of movements in shareholders' funds	2006	2005
Group	£	£
Loss for the financial year	(165,603)	(135,558)
Proceeds from issue of shares	-	12,500
Movements on other reserves	76,024	12,061
	<hr/>	<hr/>
Net depletion in shareholders' funds	(89,579)	(110,997)
Opening shareholders' funds	2,590,801	2,701,798
	<hr/>	<hr/>
Closing shareholders' funds	<u>2,501,222</u>	<u>2,590,801</u>
	<hr/>	<hr/>
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>Company</b>		
Loss for the financial year	(131,272)	(107,168)
Proceeds from issue of shares	-	12,500
	<hr/>	<hr/>
Net depletion in shareholders' funds	(131,272)	(94,668)
Opening shareholders' funds	3,300,552	3,395,220
	<hr/>	<hr/>
Closing shareholders' funds	<u>3,169,280</u>	<u>3,300,552</u>
	<hr/>	<hr/>

### 18 Financial commitments

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Between two and five years	-	-	8,278	11,573
In over five years	15,000	15,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>15,000</u>	<u>15,000</u>	<u>8,278</u>	<u>11,573</u>
	<hr/>	<hr/>	<hr/>	<hr/>

The company had no annual operating commitments under non-cancellable operating leases at the balance sheet date.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

---

<b>19 Directors' emoluments</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Emoluments for qualifying services	154,500	148,333

### 20 Employees

#### Number of employees

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

	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
Administration	4	6
Production	9	10
Directors	5	5
Retail	8	6
	<u>26</u>	<u>27</u>

#### Employment costs

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Wages and salaries	602,737	604,976
Social security costs	60,240	63,859
	<u>662,977</u>	<u>668,835</u>

Share based payments	<u>76,024</u>	<u>12,061</u>
----------------------	---------------	---------------

Employment costs include £76,024 (2005: £12,061) relating to the effect of adopting the FRS20 accounting standard. This standard requires us to attribute a notional cost of non-cash share option agreements to the business.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2006

#### 21 Share options

During the period ended 31 December 2006, the company and group had three share based payment arrangements, which are described below.

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

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

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

The estimated fair value of the 1,968,450 share options granted in 2003 is 2.3p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 12.5p, exercise price of 12.5p, expected volatility of 12%, no expected dividends, contractual life of 3.7 years and a risk free interest rate of 4.3%. The options were granted before the shares were listed on OFEX and so volatility has been based on share price movements from listing, in April 2003, to 31 December 2005.

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

The estimated fair value of each of the 3,986,663 share options granted in 2006 is 3.5p. This was calculated by applying the Black Scholes option pricing model. The model inputs were the share price at grant date of 15p, exercise price of 15p, expected volatility of 12%, no expected dividends, contractual life of 4.4 years and a risk free interest rate of 5.5%.

# ENGLISH WINES GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

### 21 Share options

(continued)

Further details of the three share option plans are as follows:

	2003		2006 Variable price		2006 Fixed price	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of year	1,968,450	12.5p	-	-	-	-
Granted	-	-	3,000,000	9.0p	3,986,663	15.0p
Forfeited	-	-	-	-	(746,666)	15.0p
Outstanding at end of year	1,968,450	12.5p	3,000,000	9.0p	3,239,997	15.0p
Exercisable at end of year	1,968,450	12.5p	0	9.0p	0	15.0p

The options outstanding at 31 December 2006 had exercise prices of 15p, 12.5p and 5-15p, and a weighted average remaining contractual life of 0.5 years.

	Total	2003	2006 Variable price	2006 Fixed price
Expense arising from share based payment transactions:share option plans	76,024	10,012	42,227	23,785