

No. 3727483

**REPORT AND ACCOUNTS**  
**2003**

**BLAVOD**  
BLACK VODKA PLC



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COMPANIES HOUSE

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13/06/03

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**DIRECTORS AND ADVISERS**

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<b>Directors</b>	A.G. Shiach (Non-executive Chairman) R.C.Q. Ambler (Chief Executive) A. Napier D.J. Wheatley W.L. Banks (Non-Executive)
<b>Secretary</b>	D.J. Wheatley
<b>Registered Office</b>	202 Fulham Road London SW10 9PJ
<b>Registrars</b>	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Bankers</b>	Barclays Bank Plc 50 Pall Mall London SW1A 1QA
<b>Nominated Adviser</b>	Brewin Dolphin Securities Limited 48 St Vincent Street Glasgow G2 5TS
<b>Nominated Broker</b>	Bell Lawrie White (a division of Brewin Dolphin Securities Limited) 48 St Vincent Street Glasgow G2 5TS
<b>Auditors</b>	Nexia Audit Limited No 1 Riding House Street London W1A 3AS
<b>Business Advisers</b>	Smith & Williamson Limited No 1 Riding House Street London W1A 3AS
<b>Solicitors</b>	Boodle Hatfield 61 Brook Street London W1K 4BL
<b>Company's Registered Number</b>	3727483

## **CHAIRMAN'S STATEMENT**

I am pleased to report that group turnover in the year increased by 32% and that sales of Blavod improved in almost all of our key regions. Furthermore, gross margins improved significantly as a consequence of production efficiencies.

In Duty Free our excellent rate of growth continued and in the UK a steady advance in sales were supplemented by improved management fees arising from substantially higher sales of Domaines Baron de Rothschild's wines as well as useful contributions from the distribution of Fernet Branca products.

Despite the adverse impact of recession in Brazil, which also affected our competitors, Rest of World sales also showed significant gains. Progress in new markets such as Russia, Poland and former Soviet Union countries more than offset the effect of lower depletions in Brazil and look encouraging for the longer term.

Our importer in the USA, Branca Products Corporation, has announced that it will close its operations at the end of June and this decision contributed to a reduction in exports of Blavod to the USA. However we believe the brand opportunity continues in the USA and we are in advanced discussions to appoint a new importer with the ability to realise the brand's potential in what remains the largest imported vodka market in the world.

The Babco brands, after early promise, did not perform adequately and we have reviewed the strategy for these. Major listings for the Mickey Finn's range have, however, been agreed since the year end and this should lead to a better return in the current financial year.

At the half year interim report I informed you that a production problem in respect of one Babco product had arisen and that we had submitted a claim to our supplier in respect of stocks held. Our claim has now been agreed and we are hopeful of making a full recovery but since this cannot yet be certain we deemed it prudent to make a full provision for our present exposure until the final outcome is clearer.

Apart from this exceptional stock claim provision, marketing and administration expenses were reduced by approximately one third. This is partly due to our constant monitoring of overhead expenditure and the fact that we have moved some of the burden of advertising and promotion cost to our importers in exchange for longer contracts tied to sales volume success.

The benefit of all the above has resulted in a halving of our operating loss. Since our overheads include amortisation of brand assets which have no effect on our cash utilisation, shareholders will see that the company is making real progress towards our initial target of breakeven. Sales for April and May have been satisfactory and we are confident that further progress will be made in the year ahead.

At the forthcoming Annual General Meeting the Board is seeking renewal of your approval for resolutions relating to authority to issue further shares. Whilst, once again, no plans are presently contemplated, the Board seeks the flexibility to take opportunities that may arise by the issue a limited number of shares for cash and for non cash consideration.

David Wheatley retires as Finance Director at this AGM. A founding director and shareholder in the company, David was instrumental in helping to guide the company to flotation and his skill, commitment and diligence have contributed considerably to our achievements. I know that members will join me in wishing him well and thanking him for his excellent service. He has agreed to remain on the Board as a non-executive director where his contribution will continue to be of value.

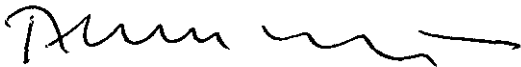
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**CHAIRMAN'S STATEMENT CONTINUED**

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We are pleased to announce that a new Finance Director is to be appointed and will take up his duties in August. He is Mr William Phillips MA, CA, formerly Managing Director of Macallan-Glenlivet plc. Mr Phillips' extensive experience in the drinks trade and his impressive record in brand-building will, we are confident, contribute greatly to our future.

The steady growth of the company is, as always, significantly due to the excellence of our staff and management who, on your behalf, I thank most warmly for their loyalty and hard work in a year of real progress.



Allan Shiach

**DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 31 March 2003.

**Activities**

The company acts as a holding company for the companies in the Blavod Black Vodka Group. The principal activity of the group during the period under review was the marketing and selling of Black Vodka throughout the world and other premium alcoholic drinks in the UK.

**Loss for the year**

The loss attributable to shareholders for the year amounted to £581,000 (2002: £1,155,000).

The directors do not recommend the payment of a final dividend (2002: nil).

**Substantial shareholdings**

At 21 May 2003, the directors were aware of the following shareholdings, other than directors' shareholdings, in excess of 3% of the company's issued share capital:

	Number of shares held	Proportion of share capital
Bero SCA	2,244,326	15.19%
Herrick Investissements SAS	1,423,092	9.63%
Ponthieu Ventures SA	821,236	5.56%
Mark Dorman	696,939	4.72%
I&S UK Smaller Companies	640,000	4.33%
Alan Wheatley	574,400	3.89%
Clydesdale Bank (Head Office) Nominees Limited	460,000	3.11%

In addition, Bero SCA, Herrick Investissements SAS and Alan Wheatley hold 113,947, 100,015 and 88,006 warrants respectively, over the share capital of the company. Each warrant allows the holder to subscribe for 2 ordinary shares at the exercise price of 50p.

Bero SCA and Herrick Investissements SAS also hold 12,106 and 9,970 options respectively to subscribe for 1 ordinary share at a price of 64p.

**Directors and their interests**

The directors of the company during the year and their interests in the ordinary share capital of the company at the year end were as follows:

	At 31 March 2003		At 31 March 2002	
	Ordinary shares of 1p each	Share options	Ordinary shares of 1p each	Share options
A.G. Shiach	232,040	200,000	197,040	200,000
R.C.Q. Ambler	–	500,000	–	500,000
A. Napier	210,000	200,000	210,000	200,000
D.J. Wheatley	40,000	200,000	40,000	200,000
W.L. Banks	–	50,000	–	50,000

M.J. Dorman resigned as a Director on 17 April 2002.

There have been no share options exercised during the year.

D.J. Wheatley holds 16,001 warrants over the share capital of the company. Each warrant allows him to subscribe for 2 ordinary shares at the exercise price of 50p.

## **DIRECTORS' REPORT CONTINUED**

### **Creditor payment policy**

The Group does not follow a code or standard on payment practice. Payment terms are normally agreed with individual suppliers at the time of order placement and are honoured, provided that goods and services are supplied in accordance with the contractual conditions. At the year end, the Group had creditor days of 58 (2002: 68).

### **Corporate governance**

The Directors are aware of the principles underlying the provisions of Section 1 of the Combined Code. The Group has a remuneration committee and an audit committee comprising AG Shiach and WL Banks. The Directors will consider the implementation of further requirements as the Group develops.

### **Auditors**

Since the last Annual Report, Smith & Williamson have transferred their audit business to a limited company, Nexia Audit Limited. A resolution for the re-appointment of Nexia Audit Limited will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and  
signed on behalf of the board



David Wheatley  
Director

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## **STATEMENTS OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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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 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 accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position for the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Nexia Audit**

— Limited —

### **Independent auditors' report to the shareholders of Blavod Black Vodka plc**

We have audited the accounts of Blavod Black Vodka plc for the year ended 31 March 2003 on pages 9 to 21. These accounts have been prepared under the historical cost convention 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and 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 Report and Accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Report and Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Report and Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Report and Accounts, if 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Report and Accounts. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company'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 Report and Accounts 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 Report and Accounts.

### **Opinion**

In our opinion the Report and Accounts give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Nexia Audit Limited  
Chartered Accountants  
Registered Auditors

10 June 2003

No 1 Riding House Street  
London  
W1A 3AS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	1,509	1,145
Cost of sales		<u>(944)</u>	<u>(792)</u>
<b>Gross profit</b>		<b>565</b>	<b>353</b>
Marketing and administrative expenses		(1,032)	(1,605)
Exceptional item – stock claim provision		<u>(149)</u>	<u>–</u>
<i>Total marketing and administrative expenses</i>		<u>(1,181)</u>	<u>(1,605)</u>
<b>Operating loss</b>		<b>(616)</b>	<b>(1,252)</b>
Bank interest receivable		<u>35</u>	<u>97</u>
<b>Loss on ordinary activities before taxation</b>	3	<b>(581)</b>	<b>(1,155)</b>
Taxation	5	<u>–</u>	<u>–</u>
<b>Loss for financial year</b>	13	<b><u>(581)</u></b>	<b><u>(1,155)</u></b>
Loss per share	20	<b>(3.93p)</b>	<b>(7.94p)</b>
Diluted loss per share	20	<b>(3.93p)</b>	<b>(7.87p)</b>

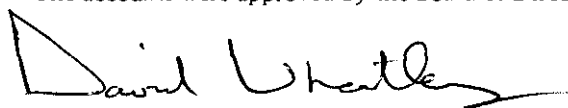
All of the group's operations are classed as continuing. There were no gains or losses in either year other than those included in the above profit and loss account.

**CONSOLIDATED BALANCE SHEET**

As at 31 March 2003

	Notes	2003 £'000	2002 £'000
<b>Fixed Assets</b>			
Intangible assets	6	1,196	1,344
Tangible assets	8	<u>20</u>	<u>33</u>
		1,216	1,377
<b>Current assets</b>			
Stock	9	73	286
Debtors	10	249	430
Cash at bank		<u>1,022</u>	<u>1,236</u>
		1,344	1,952
<b>Creditors: amounts falling due within one year</b>	11	<u>(329)</u>	<u>(517)</u>
<b>Net current assets</b>		<u>1,015</u>	<u>1,435</u>
<b>Net assets</b>		<u>2,231</u>	<u>2,812</u>
<b>Capital and reserves</b>			
Called up share capital	12	148	148
Share premium account	13	5,967	5,967
Profit and loss account	13	<u>(3,884)</u>	<u>(3,303)</u>
<b>Shareholders' funds equity</b>	14	<u>2,231</u>	<u>2,812</u>

The accounts were approved by the Board of Directors on 10 June 2003 and were signed on their behalf by



David Wheatley  
Director

**BALANCE SHEET**

As at 31 March 2003

	Notes	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Intangible assets	6	360	464
Investments	7	<u>4,783</u>	<u>4,540</u>
		5,143	5,004
<b>Current assets</b>			
Debtors	10	12	14
Cash at bank		<u>822</u>	<u>1,066</u>
Net current assets		<u>834</u>	<u>1,080</u>
Net assets		<u><u>5,977</u></u>	<u><u>6,084</u></u>
<b>Capital and reserves</b>			
Called up share capital	12	148	148
Share premium account	13	5,967	5,967
Profit and loss account	13	<u>(138)</u>	<u>(31)</u>
Shareholders' funds	14	<u><u>5,977</u></u>	<u><u>6,084</u></u>

The accounts were approved by the Board of Directors on 10 June 2003 and were signed on their behalf by



David Wheatley  
Director

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Cash outflow from operating activities	17	<u>(241)</u>	<u>(1,529)</u>
Returns on investments and servicing of finance			
Interest received		<u>35</u>	<u>97</u>
Net cash inflow from returns on investments and servicing of finance		<u>35</u>	<u>97</u>
Capital expenditure			
Purchase of tangible fixed assets		-	(33)
Expenditure relating to the registration of trademarks		(8)	(15)
Purchase of distribution rights		<u>-</u>	<u>(325)</u>
Net cash outflow for capital expenditure		<u>(8)</u>	<u>(373)</u>
Cash outflow before financing		<u>(214)</u>	<u>(1,805)</u>
Decrease in cash in the year	18	<u><u>(214)</u></u>	<u><u>(1,805)</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2003

### **1 Accounting policies**

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies adopted is set out below.

#### *Basis of accounting*

The financial statements have been prepared under the historical cost convention.

#### *Basis of consolidation*

The group financial statements consolidate the financial statements of the company and its subsidiaries which are all prepared to 31 March 2003. In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account dealing with the results of the company has not been presented.

#### *Investments*

Investments are stated at cost or nominal value of shares issued less any provision for impairment in value.

#### *Intangible fixed assets other than goodwill*

Acquired brands and other intangible assets which are controlled through custody or legal rights and could be sold separately from the rest of the business are stated at cost. Cost represents the fair value of the consideration given.

The Group's policy is to write off intangible fixed assets over their estimated life. An annual review is carried out by the directors to consider whether any brand has suffered an impairment in value. The principal acquired brand is "Black Vodka" which is being written off over 20 years. Other distribution rights acquired are written off over 5 years.

#### *Goodwill*

Purchased goodwill represents the difference between the cost of purchase and the fair value of the net assets acquired. The group's and the company's policy is to write off purchased goodwill over its estimated life of 20 years. Where the directors consider that any impairment to the value of goodwill has occurred, such impairment is recognised immediately.

#### *Depreciation*

Depreciation is provided to write off the cost less estimated residual value of all fixed assets over their expected useful lives. It is calculated on the original cost of the assets at the following rates:

Computer equipment	33% on a straight line basis
Fixtures and fittings	33% on a straight line basis
Office equipment	20% on a straight line basis

#### *Turnover*

Turnover represents the net invoice value of goods sold and services rendered during the period including excise duties, but excluding VAT.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost is calculated as the cost of purchase of bottled products including delivery charges and duty where appropriate on a first in, first out basis. Net realisable value is based on estimated selling price less further costs to completion and disposal.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Accounting policies – continued

#### *Foreign currencies*

All transactions denominated in foreign currency are translated at the rate of exchange ruling at the time of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the closing rate.

#### *Operating leases*

Operating lease rentals are charged to the profit and loss account in the period in which they are incurred.

#### *Pension costs*

Pension contributions to personal pension schemes are charged to the profit and loss account as incurred. There is no group pension scheme.

#### *Deferred taxation*

Deferred tax is provided for on a full provision basis on all timing differences, which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of gains on sale of assets where those gains have been rolled over into replacement assets. Deferred tax assets are recognised to the extent that they are recoverable, this is, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Any assets and liabilities recognised have not been discounted.

### 2 Turnover

Turnover relates to the group's principal activity.

	Turnover by destination	
	2003 £'000	2002 £'000
United Kingdom	901	708
Europe – EU	12	31
USA	58	85
Duty Free	176	129
Rest of World	362	192
	1,509	1,145

## NOTES TO THE FINANCIAL STATEMENTS

### 3 Loss on ordinary activities before taxation

	2003 £'000	2002 £'000
Is stated after charging:		
Auditors' remuneration		
– audit	17	16
– non-audit services paid to related companies	10	20
Depreciation		
– owned assets	13	10
Amortisation	156	102
Operating lease rental payments on land and buildings	<u>22</u>	<u>22</u>

### 4 Staff costs

The average monthly number of persons (including directors) employed by the group during the year was 9 (2002: 9).

	2003 £'000	2002 £'000
Staff costs for the above employees were:		
Wages and salaries	491	528
Social security costs	49	54
Pension costs	<u>36</u>	<u>34</u>
	<u>576</u>	<u>616</u>
	2003 £'000	2002 £'000
<b>Directors</b>		
Directors' remuneration	<u>239</u>	<u>309</u>
Compensation for loss of office	<u>30</u>	<u>–</u>
Company contributions to 3 Directors' personal pension schemes (2002 - 3 schemes)	<u>26</u>	<u>29</u>
Highest paid director:		
Aggregate emoluments	101	95
Amounts paid to pension scheme	10	8

## NOTES TO THE FINANCIAL STATEMENTS

### 5 Taxation

There is no liability to corporation tax in the period because the losses incurred.

	2003 £'000	2002 £'000
Loss on ordinary activities per the accounts	(581)	(1,155)
<i>Tax reconciliation</i>		
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001:30%)	(174)	(347)
Expenses not deductible for tax purposes	49	33
Capital allowances for the period in deficit/(excess) of depreciation	2	(5)
Tax losses not utilised	<u>123</u>	<u>319</u>
Total current tax	<u>—</u>	<u>—</u>

The amount of the unrecognised deferred tax asset is as follows:

	Amount Unprovided	
	2003 £'000	2002 £'000
Unutilised losses	<u>1,394</u>	<u>1,273</u>

### 6 Intangible fixed assets

	Distribution Rights £'000	Goodwill £'000	Trademarks £'000	Total £'000
<b>Group</b>				
<b>Cost</b>				
At 1 April 2002	516	26	990	1,532
Additions	—	—	8	8
At 31 March 2003	<u>516</u>	<u>26</u>	<u>998</u>	<u>1,540</u>
<b>Amortisation</b>				
At 1 April 2002	52	3	133	188
Charge for the year	104	2	50	156
At 31 March 2003	<u>156</u>	<u>5</u>	<u>183</u>	<u>344</u>
<b>Net book value</b>				
At 31 March 2003	<u>360</u>	<u>21</u>	<u>815</u>	<u>1,196</u>
At 31 March 2002	<u>464</u>	<u>23</u>	<u>857</u>	<u>1,344</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 6 Intangible fixed assets – *continued*

	Distribution Rights £'000	Total £'000
<b>Company</b>		
<b>Cost</b>		
At 1 April 2002 and at 31 March 2003	516	516
<b>Amortisation</b>		
At 1 April 2002	52	52
Charge for the year	104	104
At 31 March 2003	156	156
<b>Net book value</b>		
At 31 March 2003	360	360
At 31 March 2002	464	464

### 7 Investments

	Shares in subsidiary undertakings £'000	Long term loans to subsidiary undertakings £'000	Total £'000
<b>Company</b>			
<b>Cost</b>			
At 1 April 2002	27	4,540	4,567
Additions	–	243	243
At 31 March 2003	27	4,783	4,810
<b>Provisions</b>			
At 1 April 2002 and at 31 March 2003	27	–	27
<b>Net book value</b>			
at 31 March 2003	–	4,783	4,783
At 31 March 2002	–	4,540	4,540

Details of the subsidiaries at the year end were as follows:

Name of company	Nature of business	Country of incorporation	Proportion of equity owned
Blavod Drinks Limited	Marketing and sale of Black Vodka	England	100%
Blavod Properties Limited	Intellectual property holding company	England	100%
The Original Black Vodka Company Limited	Dormant	England	100%
Black Vodka Limited	Dormant	England	100%

**NOTES TO THE FINANCIAL STATEMENTS**

8 Tangible fixed assets

	Computer equipment £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
<b>Group</b>				
<b>Cost</b>				
At 1 April 2002 and at 31 March 2003	20	21	7	48
<b>Depreciation</b>				
At 1 April 2002	6	4	5	15
Charge for the year	7	5	1	13
At 31 March 2003	13	9	6	28
<b>Net book value</b>				
At 31 March 2003	7	12	1	20
At 31 March 2002	14	17	2	33

9 Stock

	2003 £'000	2002 £'000
<b>Group</b>		
Finished goods	73	286

10 Debtors

	2003 £'000	2002 £'000
<b>Group</b>		
Trade debtors	163	245
Other debtors	34	150
Prepayments and accrued income	52	35
	249	430
	£'000	£'000
<b>Company</b>		
Prepayments	12	14

**NOTES TO THE FINANCIAL STATEMENTS****11 Creditors: amounts falling due within one year**

	2003	2002
	£'000	£'000
<b>Group</b>		
Trade creditors	199	307
Other creditors including taxation and social security	18	29
Accruals	112	181
	<u>329</u>	<u>517</u>

**12 Share capital**

	2003	2002
	£'000	£'000
<b>Authorised</b>		
25,000,000 (2002: 25,000,000) ordinary shares of 1p	<u>250</u>	<u>250</u>
<b>Allotted, issued and fully paid</b>		
14,776,306 (2002: 14,776,306) ordinary shares of 1p each	<u>148</u>	<u>148</u>

**13 Reserves**

	Share premium account £'000	Profit and loss account £'000
<b>Group</b>		
At 1 April 2002	5,967	(3,303)
Loss for the financial year	—	(581)
<b>At 31 March 2003</b>	<u>5,967</u>	<u>(3,884)</u>
<b>Company</b>		
At 1 April 2002	5,967	(31)
Loss for the financial year	—	(107)
<b>At 31 March 2003</b>	<u>5,967</u>	<u>(138)</u>

**14 Reconciliation of movement in shareholders' funds**

	Group £'000	Company £'000
Loss for the financial year	<u>(581)</u>	<u>(107)</u>
Net reductions to shareholders' funds	(581)	(107)
Shareholders' funds at 1 April 2002	<u>2,812</u>	<u>6,084</u>
<b>Shareholders' funds at 31 March 2003</b>	<u>2,231</u>	<u>5,977</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Share options and warrants

At 31 March 2003 the following share options were in issue

Date of grant	No of shares	Period of options	Price per share (pence)
1 July 1999	110,640	01/07/99 – 30/06/09	64p
14 November 2000	500,000	14/11/00 – 13/11/10	50p
14 November 2000	700,000	14/11/00 – 13/11/10	75p
16 January 2001	200,000	16/01/01 – 15/01/11	75p
15 February 2001	200,000	15/02/01 – 14/02/11	75p
17 February 2001	180,000	15/02/01 – 14/02/11	75p
9 April 2001	50,000	19/04/01 – 08/04/11	75p
6 February 2002	50,000	06/02/02 – 05/02/12	40p
	<u>1,990,640</u>		

On 25 June 1999 the company constituted and issued 820,000 warrants over its share capital. Following a variation dated 9 February 2001, each warrant confers upon the holder the right to subscribe in cash for two ordinary shares in the company at the subscription price of 50p. The subscription period is for 10 years to 25 June 2009 and as at the balance sheet date no warrants had been exercised.

### 16 Lease commitments

At 31 March 2003 the group was committed to making the following payments during the next year in respect of operating leases:

	2003 Land and buildings £'000	2002 Land and buildings £'000
Leases which expire: Between 2 – 5 years	<u>22</u>	<u>22</u>

### 17 Reconciliation of operating loss to net cash outflow from operating activities

	2003 £'000	2002 £'000
Operating loss	(616)	(1,252)
Depreciation	13	10
Amortisation	156	102
Decrease/(increase) in stocks	213	(213)
Decrease/(increase) in debtors	181	(239)
(Decrease)/increase in creditors	<u>(188)</u>	<u>63</u>
Net cash outflow from operating activities	<u>(241)</u>	<u>(1,529)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18 Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
(Decrease) in cash in the year	(214)	(1,805)
Change in funds resulting from cash flows	(214)	(1,805)
Net funds at the beginning of the period	<u>1,236</u>	<u>3,041</u>
Net funds at the end of the period	<u><u>1,022</u></u>	<u><u>1,236</u></u>

### 19 Analysis of net funds

	Opening balance	Cash flow	Closing balance
Cash	<u>1,236</u>	<u>(214)</u>	<u><u>1,022</u></u>

### 20 Loss per share

The loss per share is based upon a loss of £581,000 (2002: loss of £1,155,000) and the weighted average number of shares ranking for dividend during the year of 14,776,306 (2002: 14,551,306).

The fully-diluted loss per share is based upon the loss as disclosed above and the weighted average number of shares ranking for dividend during the year of 14,776,306 (2002: 14,667,965) adjusted for the effects of all dilutive potential shares.

### 21 Financial instruments

The group's financial instruments comprise cash that arises directly from its operations. The main purpose of these financial instruments is to provide working capital for the group. The group's policy is to obtain the highest rate of return on its cash balances, subject to having sufficient resources to manage the business on a day to day basis and not exposing the group to unnecessary risk of default. To date the group's exposure to foreign currency has not been significant as the group seeks to minimise exposure by matching foreign exchange income and expenditure.

## **NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Fourth Annual General Meeting of the Company will be held at 4th Floor, 47 Davies Street, London W1K 4LY on the 24th day of July 2003 at 11 am for the following purposes:

### **ORDINARY RESOLUTIONS**

1. To receive and consider the statutory accounts of the Company for the accounting reference period ended 31 March 2003 together with the reports of the Directors and auditors thereon;
2. To re-appoint the auditors, Nexia Audit Limited, to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix the remuneration of the auditors;
3. To re-elect Andrew Napier as a Director;
4. To re-elect Allan Shiach as a Director;
5. That the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") in substitution for all subsisting authorities, to the extent unused, to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £49,255 provided that this authority shall expire on 8 October 2004 or, if earlier, at the conclusion of the next general meeting of the Company at which the Company's annual audited accounts are considered by its members (unless previously renewed, varied or revoked by the Company in general meeting), that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired and that all previous authorities under section 80 of the Act be and they are hereby revoked (and in this Resolution the expression "relevant securities" and references to the allotment of relevant securities shall bear the same respective meanings as in section 80 of the Act).

### **SPECIAL RESOLUTIONS**

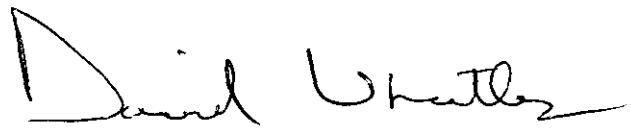
6. That, subject to the passing of Resolution 5 above, the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities wholly for cash pursuant to the authority conferred by Resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (i) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practicable problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
  - (ii) otherwise than pursuant to paragraphs (i) above, up to an aggregate nominal amount of £15,000;and shall expire on 8 October 2004 or, if earlier, at the conclusion of the next general meeting of the Company at which the Company's annual audited accounts are considered by its members (unless previously renewed, varied or revoked by the Company in general meeting) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement

notwithstanding that the power conferred hereby has expired and all previous authorities under section 95 of the Act be and they are hereby revoked (and in this Resolution the expression "equity securities" and references to the allotment of equity securities shall bear the same respective meanings as in section 94 of the Act).

7. To transact any other ordinary business.

BY ORDER OF THE BOARD

*Registered office:*  
202 Fulham Road,  
London SW10 9PJ



Dated: 10 June 2003

David Wheatley  
*Secretary*

*Note:* A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company. Forms of proxy must be lodged with the registrars of the Company, Capita Registrars (Proxies), PO Box 25, 35 Beckenham Road, Beckenham, Kent BR3 4BR, not less than 48 hours before the time appointed for the meeting.