Blavod Wines and Spirits plc

(formerly Blavod Extreme Spirits plc)

Consolidated Financial Statements

Year Ended 31 March 2010

Registered in England and Wales: Company No: 03727483

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Chairman's statement

Trading

After a strong start, the Group had a disappointing year, making a small loss of £15k (2009 profit £130k as restated) as expected in our trading statement of 1 February 2010

Spirit sales continued to grow strongly, from £4 9m to £6 8m net of excise taxes However, profits were hurt by a number of factors of which the most important were the following

- gross margins were penalised by the poor performance of Blavod Black Vodka, our highest margin brand, which was delisted in two major UK grocery chains for most of the year, in favour of a competitive product which is no longer labelled as vodka, income from wine dropped sharply as a result of the weaker pound sterling, generally difficult market conditions and a less attractive vintage,
- there were continued difficulties in Russia and Duty Free at the beginning of the year,
- overheads and brand spending increased substantially behind volume growth,
- interest charges rose sharply as we borrowed more to finance greatly increased volumes, at lower margins

Among the positive features of the year, the most important was the addition of Bruichladdich Scotch Malt Whiskies to the portfolio in September, making a strong contribution

Blavod had a good year in the US gaining volume and listings in a number of new states

Blackwood's was launched into Spain in the middle of the year, one of the world's largest premium gin markets

Vitally, the Company's very prudent credit policy, although it caused us to forfeit some sales, saved us from the First Quench collapse and other failures

The Company has taken steps to correct the causes of the poor result last year

- Blavod Black Vodka will be back in UK grocery distribution by the middle of the year in an attractive new presentation,
- Blackwood's export distribution continues to grow and the brand will be launched in the US in July,
- some price increases have been successfully implemented and others are being negotiated, improving our margins,
- overheads have been cut back almost to the levels of 2008/9, largely by the restructuring of the sales force

As a result of these corrective measures we are confident of a significantly improved performance in the year ahead and in the long term prospects of our brands

In order to improve investors' understanding of our business we have made a number of changes to our financial statements this year, and adjusted our previous year accordingly Specifically

- we have added more information in our income statement, showing separately advertising and promotional costs, administrative expenses, depreciation and amortisation and finance charges as well as adding EBITDA and operating profit lines,
- we have reallocated to cost of sales funds received from suppliers as price support, whereas in the past these have been included as a credit within administrative expenses,
- also in the course of the year we identified a misstatement in our 2008/9 financial statements whereby our profit for that year was overstated and one of our creditor's balances understated This has been corrected in the restated figures Neither the original error nor its correction had any effect on cash

Chairman's statement (continued)

Amortisation of trademarks
As envisaged in last year's report we have reviewed the policy of amortisation of the Group's owned brands We have concluded that straight line amortisation bears no relevance to brand value and have decided to adopt the more useful method of annual review of value for impairment purposes on the basis that brands are considered to have an indefinite useful life This year's review showed a value well in excess of the value on the balance sheet and therefore there is no cause for impairment

Board developments
Mr Willie Phillips will retire at the AGM, after acting as part time finance director since 2003 We thank him for his services, particularly during the very difficult times when the Company was being managed from the US

Mr Phillips will be succeeded as part time finance director by Mrs Sarah Bertolotti, who has been working with Mr Phillips for much of the last year We propose Mrs Bertolotti for election to the board of Directors at the AGM. Mrs Bertolotti is a chartered accountant and worked for Arthur Andersen for six years before moving to finance management positions with Hilton Hotels and with Regus She has already made a significant contribution to Blavod

We intend to further strengthen the board, and to prepare for the future, by proposing two new non executive directors for election at the AGM

Mr Don Goulding was for many years a senior executive at Diageo, holding a number of commercial positions internationally, lastly as Managing Director of Diageo in the UK He has deep knowledge of the UK market and Blavod's customers,

Mr Mark Quinn is an experienced businessman who until recently was Managing Director of Soho Estates, which owns the largest estate of licensed premises in Central London. He will bring deep understanding of the economics and operations of the restaurants, bars and clubs in the Capital, important customers for our brands

C Campbell
Chairman

Directors' report

The directors present their report and the financial statements for the year ended 31 March 2010

Activities and business review
The Parent company acts as a holding company for the entities in the Blavod Wines and Spirits Group The principal activity of the Group throughout the period under review was the marketing and selling of Blavod Black Vodka and Blackwood's Gin worldwide and a number of agency brands of spirits and wines in the UK

The results for the 2010 financial year reflect continued growth in volume sales in the UK, although profits were hurt by gross margins, overheads, brand spending and interest charges

Change of name
On the 5 August 2009 the Company changed its name from Blavod Extreme Spirits plc to Blavod Wines and Spirits plc

Result for the year and dividends
The loss attributable to shareholders for the year amounted to £15,000 (2009 profit £130,000 as restated)

Key performance indicators
The directors have monitored the performance of the company with particular reference to the following key performance indicators

- Sales volume versus prior year – an increase of 15%,
- Sales value versus previous year – an increase of 40%,
- Gross margin versus previous year – an increase of £147k within this challenging trading environment,
- Gross margin % versus previous year – is 19% versus 24% reflecting the reduced gross margins brought about partly by the poor performance of Blavod Black Vodka,
- Advertising and promotional costs increased by £164k and administrative expenses by £120k – steps have been taken to address this in the forthcoming year

Directors
The directors of the Company served throughout the year

R C Q Ambler
W L Banks
C. Campbell
W C H Phillips

Future developments
The Group's future developments are outlined in the Chairman's Statement

Qualifying third party indemnity provision
During the financial year, a qualifying third party indemnity provision for the benefit of 4 directors was in force

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 47 (2009 68 as restated)

Principal risks and uncertainties

The principal risks and uncertainties are outlined in the Chairman's Statement

Financial risk management

Details of the Group's financial risk management objectives and policies and its exposure to risks associated with the use of financial instruments are disclosed in note 20 to the financial statements

Donations

As in the previous year, no donations were made for political purposes during the year

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the future as planned

The Company raised a further £400k in October 2009 through a convertible loan note This, combined with the invoice discounting facility in place since 2008, ensures that the Company has sufficient capability to meet its working capital requirements Whilst there are always inherent uncertainties in relation to future events, the directors consider the Group to be a going concern for twelve months from the date of approval of these financial statements Accordingly the financial statements have been prepared on a going concern basis

Employees

The Company has, and continues to encourage, appropriate structures to make Blavod a rewarding place to work and to retain its valued employees

Auditor

Grant Thornton UK LLP has expressed willingness to continue in office In accordance with section 489(4) of the Companies Act 2006, a resolution to re-appoint Grant Thornton UK LLP as auditor will be proposed at the Annual General Meeting to be held on 6 July 2010

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

C Campbell
Director

11 June 2010

Statement of Directors' responsibilities in respect of the financial statements

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, and
- 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Each director of the Company has confirmed that, in fulfilling their duties as a director, they have

- Taken all the necessary steps in order to make themselves aware of any information relevant to the audit and to establish that the auditor is aware of that information, and
- Ensured that so far as they are aware, there is no relevant audit information of which the auditor has not been made aware

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Auditor's report on the consolidated financial statements

Independent auditor's report to the members of Blavod Wines and Spirits PLC

We have audited the group financial statements of Blavod Wines and Spirits PLC for the year ended 31 March 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 March 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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

Other matter

We have reported separately on the parent company financial statements of Blavod Wines and Spirits plc for the year ended 31 March 2010

Grant Thornton UK LLP

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
LONDON

14 June 2010

Consolidated income statement

for the year ended 31 March 2010

	Note	2010 £'000	2009 restated £'000
Revenue		8,316	5,955
Cost of sales	5	(6,745)	(4,531)
Gross profit		**1,571**	**1,424**
Advertising and promotional costs	5	(268)	(104)
Non recurring costs	6	(21)	–
Other administrative expenses	5	(1,204)	(1,084)
Total administrative expenses		**(1,493)**	**(1,188)**
EBITDA		**78**	**236**
Depreciation and amortisation	5	(6)	(53)
Operating profit	7	**72**	**183**
Finance income	9	20	3
Finance expense	9	(107)	(56)
(Loss)/profit before tax from continuing operations		**(15)**	**130**
Income tax	10	–	–
(Loss)/profit for the year		**(15)**	**130**
(Loss)/earnings per share			
Basic (pence per share)	3	(0 02)	0 15
Diluted (pence per share)	3	(0 02)	0 15

Consolidated statement of comprehensive income

	2010 £'000	2009 restated £'000
(Loss)/profit for the year	**(15)**	**130**
Other comprehensive income	–	–
Total comprehensive income for the year	**(15)**	**130**

Consolidated balance sheet

as at 31 March 2010

	Note	2010 £'000	2009 restated £'000	2008 £'000
Assets				
Non-current assets				
Property, plant and equipment	11	24	12	1
Intangible assets	12	1,311	1,259	615
		1,335	**1,271**	**616**
Current assets				
Inventories	13	612	452	220
Trade and other receivables	14	1,827	1,724	1,057
Cash and cash equivalents	15	118	52	502
Total current assets		**2,557**	**2,228**	**1,779**
Total assets		**3,892**	**3,499**	**2,395**
Liabilities				
Non current liabilities				
Borrowings	16	(337)	-	-
Derivative	16	(60)	-	-
		(397)	-	-
Current liabilities				
Trade and other payables	17	(974)	(1,139)	(929)
Finance facility liability	18	(905)	(745)	-
Total current liabilities		**(1,879)**	**(1,884)**	**(929)**
Total liabilities		**(2,276)**	**(1,884)**	**(929)**
Net assets		**1,616**	**1,615**	**1,466**
Equity				
Equity attributable to equity holders of the parent				
Share capital	19	878	878	878
Share premium account		-	-	18,489
Shares to be issued		717	701	682
Retained earnings		21	36	(18,583)
Total equity		**1,616**	**1,615**	**1,466**

The financial statements were approved by the Board of Directors on 11 June 2010 and were signed on their behalf by

C. Campbell
Director

R.C.Q. Ambler
Director

Consolidated statement of changes in equity

for the year ended 31 March 2010

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2008 and 1 April 2008	878	18,489	682	(18,583)	1,466
Transfer between reserves	–	(18,489)	–	18,489	–
Share based payment charge	–	–	19	–	19
Profit for the financial year as restated	–	–	–	130	130
Balance at 31 March 2009 and 1 April 2009	**878**	**–**	**701**	**36**	**1,615**
Share based payment charge	–	–	16	–	16
(Loss) for the year	–	–	–	(15)	(15)
Balance at 31 March 2010	**878**	**–**	**717**	**21**	**1,616**

Consolidated cash flow statement

for the year ended 31 March 2010

	Note	2010 £'000	2009 restated £'000
Cash flows from operating activities			
Operating profit		72	183
Adjustments for			
Depreciation	11	6	3
Amortisation	12	–	53
Share based payment		16	19
Net foreign exchange (gain)/loss		–	(11)
		94	247
Movements in working capital			
(Increase) in inventories		(160)	(232)
(Increase) in trade receivables		(103)	(667)
(Decrease)/increase in trade payables		(65)	121
Cash (used by) operations		(328)	(778)
Finance expense	9	(90)	(56)
Net cash (used in) operating activities		**(324)**	**(587)**
Cash flows from investing activities			
Interest received		–	3
Purchase of property, plant and equipment	11	(18)	(14)
Expenditure relating to the acquisition of licences and trade marks		(152)	(597)
Net cash (used by) investing activities		**(170)**	**(608)**
Cash flows from financing activities			
Net cash received from finance facility		160	745
Proceeds from convertible loan note	16	400	–
Net cash received from financing activities		**560**	**745**
Net increase/(decrease) in cash and cash equivalents		66	(450)
Cash and cash equivalents at beginning of year		52	502
Cash and cash equivalents at end of year	15	**118**	**52**

Notes to the consolidated financial statements

for the year ended 31 March 2010

1 Basis of preparation

The consolidated financial statements are for the twelve months ended 31 March 2010 They have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements have been prepared under the historical cost convention The measurement bases and principal accounting policies of the Group are set out below

These consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company Unless otherwise stated, all amounts are given in round £'000s

Blavod Wines and Spirits plc is the group's ultimate parent company The company is a public limited company incorporated and domiciled in the United Kingdom The address of Blavod Wines and Spirits plc's registered office and its principal place of business is 202 Fulham Road, London SW10 9PJ

Going concern
The Group made a loss of £15,000 and raised a further £400,000 in October 2009 through a convertible loan note This, combined with the invoice discounting facility in place, ensures that the group has sufficient capability to meet working capital requirements

The Board has reviewed the company's budgets and cash flow forecasts and the company's existing finance facilities Whilst there are always inherent uncertainties in relation to future events, the directors consider the Group to be a going concern for twelve months from the date of approval of these financial statements Accordingly the financial statements have been prepared on the going concern basis

Changes in accounting policies
The Group has adopted the following new Standards, interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board and adopted by the European Union, which are relevant and effective for the Group's financial statements for the annual period beginning 1 April 2009

- IAS 1 (revised) Presentation of financial statements
- IFRS 7 Improving Disclosures about financial instruments
- IFRS 8 Operating Segments

IAS 1 (revised) *Presentation of financial statements* requires in some cases presentation of an extra comparative statement of financial position (balance sheet) with comparatives and supporting notes Performance is reported in a statement of comprehensive income

Presentation of an additional comparative statement of financial position is required by IAS 1 (revised) where a change in accounting policy has been made retrospectively, a retrospective restatement is made to correct an error or an entity reclassifies items in its financial statements As described more fully below, the group has adopted IFRS 8 *Operating Segments* for the first time in the year under review Furthermore, the group has restated its 2009 financial statements in order to correct an error, as more fully described in Note 5 to these financial statements Note 5 also provides further information on how the group has reclassified certain expenses in its income statement during the year under review, the comparative income statement having also been restated to reflect these reclassification changes The Group therefore meets the requirements of IAS 1 with respect to presentation of an additional comparative statement of position, which is disclosed in these financial statements, with the associated notes

- IFRS 7 improving Disclosures about Financial Instruments

The Group adopted the amendments to *IFRS 7 Improving Disclosures about Financial Instruments* effective from 1 April 2009 These amendments require the Group to present certain information about financial instruments measured at fair value in the balance sheet In the first year of application, comparative information need not be presented for the disclosures required by the amendment Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 March 2010 year end (see note 20)

- IFRS 8 *Operating segments*

The Standard replaces IAS 14 *Segment Reporting* and requires entities to adopt the "management approach" to reporting on their operating segments The group's accounting policy on operating segments is presented below, under the heading Summary of significant accounting policies

1 Basis of preparation (continued)

New Standards, amendments and interpretations

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group

Management anticipates that all of the pronouncements will be adopted by the Group's accounting policies for the first period beginning after the effective date of the pronouncement Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements

- IFRS 9 *Financial Instruments (effective 1 January 2013)*

IFRS 9 addresses the classification and measurement of financial assets and will replace IAS 39 The Standard is mandatory for accounting periods commencing on or after 1 January 2013, subject to adoption by the European Union

- *Annual Improvements 2009 (effective 1 July 2009 and later)*

The IASB has issued *Improvements for International Financial Reporting Standards 2009* Most of these amendments become effective in annual periods beginning on or after 1 July 2009 or 1 January 2010 The Group has made a preliminary assessment of the proposed amendments and does not believe that the effect on the Group's financial statements will be significant

2 Summary of significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2010 Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities The Group obtains and exercises control through voting rights

Intra group transactions and profits are eliminated fully on consolidation Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to 1 April 2006

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions

Foreign currencies

i) ***Presentational currency***

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which that subsidiary operates The consolidated financial statements of the Group are presented in Pounds Sterling which is the Group's presentational currency

ii) ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Notes to the consolidated financial statements

for the year ended 31 March 2010

2 Summary of significant accounting policies (continued)

Segment reporting

The Group operates one main business segment, being the marketing and sale of spirits and a number of agency brands of wines and spirits in the UK, which is carried out through the Group's sole trading company, Blavod Drinks Limited No Group companies transact with each other and there are therefore no inter segment transactions which require elimination

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that expenses relating to share based payment are not included in arriving at the operating profit of the sole operating segment

The parent company acts as a holding company but also holds some of the Group's intangible assets associated with the Group's sole business segment These intangible assets have been allocated to the operating segment General corporate expenses of the parent company are not allocated to the operating segment The Group also has a subsidiary which holds further intangible assets associated with the Group's sole operating segment – these intangible assets have been allocated to the operating segment

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of depreciation and any provisions for impairment

Depreciation is calculated using the straight line method to allocate the depreciable value of property, plant and equipment to the income statement over its useful economic life as follows

Computer equipment	20% to 33% on a straight line basis
Fixtures and fittings	12% to 33% on a straight line basis
Office equipment	14% to 20% on a straight line basis

The useful economic lives are reassessed at least annually Material residual value estimates are updated as required, but at least annually Gains and losses on disposals are determined by comparing proceeds with carrying amounts These are included in the income statement

Inventories

Inventories are stated at the lower of cost and net realisable value and are accounted for on the FIFO basis Cost is calculated as the cost of purchase of bottled products including delivery charges and non refundable duty Net realisable value is based on estimated selling prices less further costs of disposal

Leased assets

Where assets are financed by leasing agreements and where the risks and rewards are substantially transferred to the Group ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases Depreciation on leased assets is charged to the income statement on the same basis as owned assets

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases and are accounted for on a straight line basis over the term of the lease

2 Summary of significant accounting policies (continued)

Intangible assets

Other Intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights

The Group's other intangible assets consist of expenditure on trademarks Historically these assets have been amortised over their estimated useful economic life of 20 years During the year the Group reviewed the policy of amortisation of the Group's owned brands and concluded that it is more appropriate to adopt the policy of annual impairment as the assets are considered to have an indefinite useful economic life

Impairment reviews are carried out to ensure that intangible assets are not carried at above their recoverable amounts In particular, the Group performs a discounted cash flow analysis at least annually to compare discounted estimated future operating cash flows with asset carrying values The estimated cash flows are discounted at the Group's weighted average cost of capital

The tests are dependent on management's estimates and judgement, in particular in relation to the forecasting of future cash flows Such estimates and judgements are subject to change as a result of changing economic conditions Management attempts to make the most appropriate estimates but actual cash flows may be different Where impairments are identified the loss is recognised in the income statement of the Group

Invoice discounting facility

The Group has in place an invoice discount facility based on the value of trade receivables Under this arrangement the Group has retained both the credit and late payment risk associated with the receivables As the Group has retained substantially all the risk and rewards of ownership of the receivables, it continues to recognise the receivables in the balance sheet with advances from the facility provider treated as a separate liability

The expenses associated with this facility are included within finance expense within the consolidated income statement

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires Financial assets and liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value

Financial assets and liabilities are measured subsequently as described below

Notes to the consolidated financial statements

for the year ended 31 March 2010

2 Summary of significant accounting policies (continued)

Financial assets
Financial assets can be divided into the following categories

- loans and receivables
- financial assets at fair value through profit and loss
- available-for-sale financial assets
- held to maturity investments

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in profit or loss or charged directly against equity

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment Any change in their value is recognised in profit or loss The Group's trade and other receivables fall into this category of financial instruments

Individual receivables are considered for impairment when they are past due at the balance sheet date or when objective evidence is received that a specific third party will default

Financial liabilities
The Group's financial liabilities include borrowings, trade and other payables All financial liabilities are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost, using the effective interest method

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument All interest-related charges and, if applicable, changes in the instrument's fair value that are reported in profit or loss are included in the income statement line items "finance expense" or "finance income "

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

Convertible loan note
Convertible loan notes are assessed in accordance with IAS 32 *Financial Instruments Presentation* to determine whether the conversion element meets the fixed for fixed criteria Where this is met, the instrument is accounted for as a compound financial instrument with appropriate presentation of the liability and equity components Where the fixed for-fixed criteria is not met, the conversion element is accounted for separately as an embedded derivative which is measured at fair value through profit or loss In the balance sheet, this is presented separately as a derivative instrument The residual loan element is measured at amortised costs using the effective interest rate method

Employee benefits
Defined contribution pension scheme
Pension contributions to personal pension schemes are charged to the income statement in the period in which they occurred There is no Group pension scheme in operation

Share-based compensation
All share based payments granted after 7 November 2002 that had not vested by 1 April 2006, are recognised in the financial statements under IFRS 2 – share based payments

A fair value for equity settled share awards is measured at the date of grant The Group measures the fair value using the Black Scholes valuation technique to value each class of award

The fair value of each award is recognised as an expense over the vesting period on a straight line basis, after allowing for an estimate of the share awards that will eventually vest The level of vesting is reviewed annually and the charge is adjusted to reflect actual and estimated levels of vesting

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

2 Summary of significant accounting policies (continued)

Equity

Equity comprises the following

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- "Shares to be issued" represents the accumulated charge for share based payments
- "Retained earnings" represents accumulated profits and losses from incorporation

Warrants over equity

The Group has issued warrants over its own equity These warrants meet the definition of an equity instrument under the 'fixed for fixed' rule of IAS 32 'Financial instruments Presentation ' Changes in the equity instruments' fair value are not recognised in the financial statements

Revenue recognition

Revenue comprises revenue from the sale of goods and management fee income

Revenue from the sale of goods supplied is measured by reference to consideration received or receivable by the Group, including excise duty, but excluding VAT, and is net of rebates and trade discounts Revenue on goods supplied is recognised at the point of delivery

Management fee income is recognised when the services are performed and the income can be measured reliably and is expected to be received by the Group

Current and deferred tax

Current tax is the tax payable based on taxable profit for the year

Deferred income taxes are calculated using the liability method on temporary differences Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets

Deferred tax liabilities are provided in full Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity

Significant judgements and estimates

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances Actual results may differ from these estimates The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below

Classification of invoice discounting facilities in the cash flow statement

IAS 7 does not provide guidance on the treatment of factored debts in a cash flow statement. The invoice discounting facility factors debts with recourse, with the advances from the factor treated as financing creditors in the balance sheet IAS 7 requires cash flows to be analysed under the standard headings according to the substance of the transactions that give rise to them Cash inflows and outflows relating to the invoice discounting facility are assessed to be a financing cash flow This results in operating cash flows including the cash flows from the receivables as if the factoring had not been entered into It also results in financing cash flows as if the receivables had been financed by a loan Management feel this method of presentation best reflects the substance of the relationship entered into

2 Summary of significant accounting policies (continued)

Intangible assets

As disclosed under the intangible assets accounting policy above, the Group does not amortise its intangible assets as they are considered to have an indefinite life Impairment reviews are carried out annually to ensure that these assets are not carried above their recoverable amount with a number of significant assumptions and estimates being made by management when performing these annual impairment reviews These assumptions and estimates are described more fully above, under the accounting policy for intangible assets

Inventories

Inventories are measured at the lower of cost and net realisable value In estimating net realisable values, management takes into account the most reliable evidence available at the time the estimates are made

Recognition of deferred tax asset

The Group's management bases its assessment of the probability of future taxable income on the Group's latest approved budget forecast, which is adjusted for significant non taxable income and expenses and specific limits to the use of any unused tax loss or credit The specific tax rules in the jurisdictions in which the Group operates are also carefully taken into consideration If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full However, management does not consider it appropriate to recognise a deferred tax asset where there is uncertainty over the amount of future profits The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by the Group's management based on the specific facts and circumstances

Blackwood's Gin Licence

During the prior year the Group purchased the licence to distribute Blackwood's Gin From post year 3 of the purchase to post year 7, a profit share is payable to the vendor amounting to 35% of the net profits before tax attributable to the Blackwood's products As use of the licence is wholly within the gift of the Group, management do not consider there to be a financial liability in accordance with IAS 39 'Financial Instruments Recognition and Measurement' Management deem the appropriate treatment in this instance is to follow 'IAS 37 Provisions, Contingent Liabilities and Contingent Assets' and assess the liability at each period end, with corresponding amounts being taken to the cost of the licence This assessment will be reviewed at each period end

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments where active market quotes are not available Details of assumptions used are given in the notes regarding financial assets and liabilities In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument Where applicable data is not observable, management uses it best estimates about the assumptions that market participants would make These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date

3 Earnings per share

The calculation of the basic (loss)/earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year

The diluted (loss)/earnings per share is identical to the basic earnings/(loss) per share as the exercise of convertible loan instruments, warrants and options would be anti dilutive as the market value of shares is less than the exercise price of the convertible loan instruments, warrants and options granted

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

	2010	2009 restated
(Loss)/profit attributable to ordinary shareholders (£'000)	(15)	130
Weighted average number of shares (used for basic earnings per share)	87,758,508	87,758,508
Basic and diluted (loss)/earnings per share (pence)	(0 02)	0 15

4 Segment reporting

Management currently identifies one sole business segment, being the marketing and sale of spirits and a number of agency brands of wines and spirits in the UK Segment information can be analysed as follows for the reporting periods under review

	2010 Marketing and sale of spirits and agency brands	2009 Marketing and sale of spirits and agency brands
Revenue from external customers	8,316	5,955
Costs of materials	(6,745)	(4,531)
Employee and director benefits expense	(768)	(631)
Depreciation and amortisation of non financial assets	(6)	(53)
Other expenses	(524)	(367)
Segment operating profit	273	373
Segment assets	2,224	2,294

The Group's revenues are derived substantially in the UK and all assets and liabilities are based in the UK

During 2010, 22% of the Group's revenues depended on a single customer (2009 23% of revenue) During 2010, 18% of the Group's revenues depended on a second single customer (2009 22%)

The totals presented for the Group's operating segment reconcile to the entity's key financial figures as presented in the financial statements as follows

	2010	2009 as restated
Segment & group revenues	8,316	5,955
Segment operating profit	273	373
Share based payment expenses	(16)	(19)
Other expenses not allocated	(185)	(171)
Group operating profit	72	183
Finance income	20	–
Finance expense	(107)	(53)
Group profit before tax	(15)	130
Segment assets	2,224	2,294
Other liabilities	(29)	(55)
Consolidation	(579)	(624)
	1,616	1,615

In the years under review, unallocated operating expenses mainly consist of head office corporate expenses

5 Prior year adjustment and reclassifications

Prior year adjustment

In the course of the year a misstatement was identified in the prior year financial statements whereby the profit for the year was overstated by £55,000 with a corresponding understatement of trade creditors This has been accounted for as a prior year adjustment in the current year with the 2009 comparative information restated There is no effect on 2008 or the opening balance sheet at 1 April 2008 The effect of this adjustment is to increase cost of sales as previously stated by £55,000 The basic and diluted earnings per share previously stated at £0 21 per share has been restated to £0 15 per share as a result

Notes to the consolidated financial statements

for the year ended 31 March 2010

5 Prior year adjustment and reclassifications (continued)

Prior year reclassifications

In order to improve the usefulness of information presented within the financial statements, certain items of income and expense have been classified differently on the face of the income statement in the current year The 2009 comparative income statement has been restated to aid comparability

- Advertising and promotional costs, which were previously included in Administrative expenses, are now shown as a separate line on the face of the income statement Advertising and promotion costs in 2009 amounted to £104,000

- Depreciation and amortisation costs, which were previously included in Administrative expenses, are now shown as a separate line on the face of the income statement Depreciation and amortisation costs in 2009 amounted to £53,000

- Finance expenses, which were previously included in Administrative expenses, are now shown as a separate line item on the face of the income statement Finance expenses in 2009 amounted to £56,000

- Price support contributions from suppliers, which were previously included in Administrative expenses, are now included within cost of sales Price support contributions from suppliers amounted to £146,000 in 2009 The effect of this reclassification is to reduce cost of sales for 2009, as previously presented, by this amount with a corresponding increase in gross profit

2009 administrative expenses, as previously stated, were £1,151,000 These have been reduced in total by £67,000 to reflect the reclassification of advertising and promotion costs, depreciation and amortisation expenses and finance expenses and the reclassification of price support contribution credit from suppliers

6 Non recurring costs

During the year the Group paid a one off full and final settlement to one of its main bottling suppliers in respect of debts incurred by the Group's former US trading subsidiary

7 Operating profit

Operating profit is stated after charging/(crediting)

	2010 £'000	2009 £'000
Depreciation – owned assets	6	3
Amortisation	–	53
Operating lease rental payments on land and buildings	30	30
Foreign exchange gain	(12)	(18)

During the year the Group obtained the following services from the Group's auditor at costs as detailed below

	2010 £'000	2009 £'000
Grant Thornton UK LLP		
Fees payable to the Company's auditor for the audit of the annual financial statements	15	10
Fees payable to the Company's auditor and its associates for other services		
– audit of the financial statements of the Company's subsidiaries	20	15
– other services relating to taxation – compliance and advice	5	5
	40	30

Fees payable to the Company's auditor, Grant Thornton UK LLP, and its associates for non audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Company's Group financial statements are required by the Companies (Disclosure of Auditor Remuneration) Regulations 2005, regulation 5(1) to disclose such fees on a consolidated basis

8 Directors and employees

	2010 £'000	2009 £'000
Staff costs		
Wages and salaries	654	554
Social security costs	72	62
Pension costs	62	35
	788	651

	No	No
Average monthly number of persons employed (including directors)	13	11

	2010 £'000	2009 £'000
Remuneration of directors		
Emoluments for qualifying services (including bonus)	184	187
Company pension contributions to money purchase scheme	14	11
Share based payment	10	8
	208	206

The directors of the Company are the key management personnel The number of directors acquiring benefits under money purchase pension scheme arrangements was 1 (2009 1)

Individual director's emoluments and compensation

	Salaries and fees £'000	2010 Total £'000	2009 Total £'000
R C Q Ambler	122	122	122
W L Banks	10	10	10
C Campbell	10	10	10
W C H Phillips	42	42	45
	184	184	187

Share Options

	At start and end of year	Price paid	Exercise price	Date from which exercisable	Expiry date
R C Q Ambler	1,250,000	–	0 05	05 Jul-11	02-Jul-18
W L. Banks	350,000	–	0 05	05 Jul-11	02-Jul-18
C Campbell	350,000	–	0 05	05 Jul-11	02-Jul-18
W C H Phillips	350,000	–	0 05	05 Jul-11	02-Jul-18

Notes to the consolidated financial statements

for the year ended 31 March 2010

9 Finance income and expense

	2010 £'000	2009 £'000
Finance income		
Bank interest receivable	–	3
Finance income associated with derivative	20	–
	20	3
Finance expense		
Interest expense on convertible loan note	(17)	–
Finance costs associated with finance facility liability	(90)	(56)
	(107)	(56)

In the 2010 business year, total finance income amounted to £20,000 (2009 £3,000) This interest related solely to the conversion option in the convertible loan which has been accounted for as a derivative and which is classified as a financial liability at fair value through profit and loss In the prior year, the interest related soley to bank interest receivable on cash balances classified within loans and receivables

In the 2010 business year, total finance expense of £107,000 (2009 £56,000) related to interest charged on the invoice discount finance facility and borrowings, both classified as financial liabilities at amortised cost

10 Income tax

Reconciliation of the effective tax rate

	2010 £'000	2009 restated £'000
(Loss)/profit before taxation	(15)	130
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(4)	36
Effects of		
Other expenses not deductible for tax purposes	22	29
Depreciation charge in excess of capital allowances	(2)	–
Tax adjustments, reliefs and transfers	–	12
Tax losses arising/(utilised) within the year	2	(77)
Other timing differences	(18)	–
Tax expense	–	–

The amount of the unrecognised deferred tax is as follows

	2010 £'000	2009 restated £'000
Depreciation in excess of capital allowances	(4)	–
Unutilised losses	2,698	2,738
Unrecognised deferred tax	2,694	2,738

A deferred tax asset in respect of losses has not been recognised due to the uncertainty over the timing of future profits

11 Property, plant and equipment

The following tables show the significant additions and disposals of property, plant and equipment.

	Computer Equipment £'000	Fixtures and Fittings £'000	Office Equipment £'000	Total £'000
Cost				
At 1 April 2008	23	23	7	53
Additions	7	-	7	14
At 31 March 2009	30	23	14	67
Additions	17	1	–	18
At 31 March 2010	**47**	**24**	**14**	**85**
Accumulated Depreciation				
At 1 April 2008	23	22	7	52
Charge for the year	1	1	1	3
At 31 March 2009	24	23	8	55
Charge for the year	4	–	2	6
At 31 March 2010	**28**	**23**	**10**	**61**
Net book value				
At 31 March 2008	–	1	–	1
At 31 March 2009	6	–	6	12
At 31 March 2010	**19**	**1**	**4**	**24**

12 Intangible assets – trademarks

	2010 £'000	2009 £'000	2008 £'000
Carrying amount			
Carrying amount beginning of year	1,754	1,057	1,070
Additions	52	697	3
Disposals	-	-	(16)
Carrying amount at end of year	**1,806**	**1,754**	**1,057**
Amortisation			
Carrying amount at beginning of year	495	442	388
Charge for year	–	53	54
Accumulated amortisation at end of year	**495**	**495**	**442**
Net book value	**1,311**	**1,259**	**615**

During the year the Group reviewed the policy of amortisation of the group's owned brands and concluded that it is more appropriate to adopt the policy of impairment as the assets are considered to have an indefinite useful economic life

Capitalised brands are regards as having indefinite useful economic lives and have therefore not been amortised These brands are protected by trademarks, which are renewable indefinitely, in all of the major markets in which they are sold There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these brands The nature of the premium drinks industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace Accordingly the directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes

Impairment testing To ensure that brands with indefinite useful lives are not carried above their recoverable amount, impairment reviews are performed comparing the net carrying value with the recoverable amount using value in use calculations These calculations are performed annually, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable The value in use calculations are based on discounted forecast cash flows and terminal values

12 Intangible assets – trademarks (continued)

Cash flows are forecast for each brand for the next financial year in the group's annual financial plan, which is approved by the board and reflects management's expectations of sales growth, operating costs and margin based on past experience and external sources of information

The discount rate used for the value in use calculations is the group's weighted average cost of capital Management have prepared a detailed 10 year forecast using growth rates in excess of long term country growth rates – this growth will be achieved using Blavod's marketing and distribution expertise The long term terminal growth rates applied at the end of this forecast period is the real GDP growth rate

The pre tax discounts rates and growth rates used for impairment testing are as follows

	2010
Weighted average cost of capital	10%
Long term growth rate	5%

Any impairment write downs are charged to other administrative expenses in the income statement In the year ended 31st March 2010 there are no impairment write downs

Sensitivity to change in key assumptions Impairment testing is dependent on management's estimates and judgements, in particular in relation to the forecasting of future cash flows, the discount rates applied to the cash flows and the expected long term growth rates

For all brands with an indefinite life other than Blackwood's management has concluded that no reasonably possible change in the key brand assumptions on which it has determined the recoverable amounts would cause their carrying values to exceed their recoverable amounts

The table below shows the impairment charge that would be required if the assumptions in the calculation of their value in use were changed

	1% decrease in discount rate £'000	1% decrease in long term growth rate £'000
Blackwood's	–	–
Other brands	–	–

It remains possible that changes in assumptions could also arise in excess of those indicated in the table below

The principal trademarks of the company are Blavod Black Vodka and Blackwood's Gin

13 Inventory

	2010 £'000	2009 £'000	2008 £'000
Raw materials	–	–	15
Finished goods	612	452	205
	612	452	220

In 2010, a total of £6,745,000 of inventories was included in the income statement as an expense (2009 £4,531,000)

14 Trade and other receivables

	2010 £'000	2009 £'000	2008 £'000
Trade receivables	1,764	1,498	1,000
Less provision for impairment of trade receivables	(22)	(76)	(7)
Net trade receivables	1,742	1,422	993
Other debtors	33	39	33
Prepayments and accrued income	52	263	31
	1,827	**1,724**	**1,057**

The carrying value of trade receivables is considered a reasonable approximation of fair value

The trade receivables act as security against amounts borrowed by the Group under a trade finance facility (see Note 18)

All of the Group's trade and other receivables have been reviewed for indicators of impairment Certain trade receivables were found to be impaired and a provision of £22,000 (2009 £76,000) has been recorded accordingly The impaired trade receivables are mostly due from customers that are experiencing difficult market conditions, or the amounts owing are subject to further discussion

In addition, some of the unimpaired trade receivables are past due as at the reporting date The age of financial assets past due but not impaired is as follows

	2010 £'000	2009 £'000	2008 £'000
Not more than 3 months	138	143	83
More than 3 months, but not more than 6 months	105	18	1
More than 6 months, but not more than 1 year	7	13	–
More than 1 year	8	12	–
	258	**186**	**84**

15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents at the end of the period as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows

	2010 £'000	2009 £'000	2008 £'000
Cash and cash equivalents	**118**	**52**	**502**

16 Borrowings and derivative

	2010 £'000	2009 £'000	2008 £'000
Borrowings	337	–	–
Derivative	60	–	–

On 8 October 2009 the Group issued a 6% convertible unsecured loan note with which it raised funds totalling £400,000

The convertible loan note contains within it three option conversion periods during which the loan note holder has the option to convert the loan notes at share options prices as follows 5p per share 8 October 2009 to 30 September 2010, 5 5p per share 1 October 2010 to 30 September 2011 and 6p per share 1 October 2011 to 30 September 2014

The Group recorded the convertible loan note with an initial loan value of £319,000 and derivative of £81,000 The derivative element has been valued using the Black – Scholes valuation model The significant inputs into the 2010 valuation model were volatility of 42 2% and a risk free rate of 3%

17 Trade and other payables

	2010 £'000	2009 restated £'000	2008 £'000
Trade payables	862	848	613
Other payables including taxation and social security	21	20	17
Accruals	91	271	299
	974	**1,139**	**929**

All amounts detailed above are payable within one year The fair values of trade and other payables are not materially different from those disclosed above

18 Finance facility liability

	2010 £'000	2009 £'000	2008 £'000
Finance facility liability	905	745	–

The Group holds a contract with a leading invoice discounting house to provide a substantial finance facility based on the value of the trade receivables The facility is secured against the Group's trade receivable balances

19 Share capital

(a) Share capital

	2010 £'000	2009 £'000	2008 £'000
Authorised			
105,000,000 ordinary shares of 1p each	1,050	1,050	1,050
Allotted, issued and fully paid			
87,758,508 (2009 87,758,508) ordinary shares of 1p each	878	878	878

19 Share capital (continued)

(b) Share options

Certain employees hold options to subscribe for Ordinary shares in the Company under the share option schemes approved by the Directors on 9 July 2002 The number of shares subject to options, the period in which they were granted and the period in which they may be exercised are given below

The total expenses recognised for the period arising from share based payments are as follows

	2010 £'000	2009 £'000	2008 £'000
Equity settled share based payment expense	16	19	27

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares

Date of grant	No of shares	Vesting conditions	Contractual life of options
14 November 2000	100,000	100% Vested under EMI Scheme	10 years
16 January 2001	200,000	100% Vested under EMI Scheme	10 years
15 February 2001	200,000	100% Vested under EMI Scheme	10 years
17 February 2001	200,000	100% Vested under EMI Scheme	10 years
9 April 2001	50,000	100% Vested under EMI Scheme	10 years
15 March 2005	1,000,000	3 years	10 years
4 July 2008	2,965,000	100% Vested under EMI Scheme	10 years
4 July 2008	900,000	3 years	10 years
	5,615,000		

The number and weighted average exercise prices of share options are as follows

	2010		2009		2008	
	Weighted average exercise price pence	Number Number of options	Weighted average exercise price pence	Number Number of options	Weighted average exercise price pence	Number Number of options
Outstanding at the beginning of the period	18 19	5,747,716	34 07	4,072,716	30 05	6,757,716
Granted during the period	–	–	5 00	3,865,000	–	–
Lapsed during the period	64 00	132,716	–	–	–	–
Forfeited during the period	–	–	24 00	2,190,000	23 95	2,685,000
Outstanding at the end of the period	**17.11**	**5,615,000**	**18 19**	**5,747,716**	**34.07**	**4,072,716**
Exercisable at the end of the period	19 62	4,715,000	20 64	4,847,716	34 07	4,072,716

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted Share options outstanding at the end of the year have the following expiry date and exercise prices

Expiry date	Exercise price per share	2010	Shares 2009	2008
2010	64 00p	–	132,716	132,716
2011	75 00p	700,000	700,000	700,000
2012	75 00p	50,000	50,000	50,000
2014	24 5p	–	–	2,100,000
2015	21 44p	1,000,000	1,000,000	1,000,000
2016	26 36p	–	–	90,000
2018	5 00	3,865,000	3,865,000	–
		5,615,000	5,747,716	4,072,716

The weighted average remaining contractual life for the options granted is 6 7 years (2009 – 7 4 years)

19 Share capital (continued)

The weighted average fair value of options granted during 2005, following the Group's transition to IFRS, determined using the Black Scholes valuation model, was 8 41 pence The significant inputs into the 2005 model were a weighted average share price of 18 31 pence at grant date, the exercise price shown above, volatility of 50%, an expected option life of five years, and an annual risk-free interest rate of 5% The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last fifty days

3,865,000 options were issued during 2009, replacing 2,190,000 which were forfeited The weighted average fair value of options granted during 2009, determined using the Black-Scholes valuation model, was 2 pence The significant inputs were a weighted average share price of 4 pence at grant date, an exercise price of 5 pence per share, volatility of 60%, an expected option life of five years and an annual risk free interest rate of 4 91% The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last five years

Warrants

The following hold warrants over the share capital of the Company

	No of Warrants	Equivalent Shares	Conversion price
Bero SCA	133,947	227,894	50 0p
E C Capital Limited	333,335	333,335	38 9p
K Developpment	110,015	220,030	50 0p
C Salin	30,000	60,000	50 0p
Wheatley family	288,819	577,638	50 0p
Willoughby Limited	230,414	460,830	50 0p
Laurus Master Fund Limited	2,250,000	2,250,000	18 5p

In addition, Bero SCA and K Developpment held 12,106 and 9,970 options, respectively, to subscribe for the equivalent number of shares at a price of 64 0p per share, exercisable before 30 June 2009

20 Financial instruments

The principal financial assets of the Group are bank balances and cash, trade and other receivables The main purpose of these financial instruments is to raise finance for the Group's operations Its principal financial liabilities are trade and other payables that arise directly from its operations and trade finance facilities All financial assets are classified as loans and receivables

Credit risk analysis

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below

	2010 £'000	2009 £'000	2008 £'000
Classes of financial assets – carrying amounts			
Cash and cash equivalents	118	52	502
Trade and other receivables	1,775	1,461	1,026

The Group's credit risk is primarily attributable to its trade receivables The amounts presented in the Balance Sheet are net of allowances for doubtful receivables An allowance for impairment is made where there is an identified event which, based on previous experience, is evidence of a likely reduction in the recoverability of the cash flows The Group has no significant concentration of risk, with exposure spread over a large number of third parties and customers

The credit risk on liquid funds is limited because the third parties are banks with high credit ratings assigned by international credit-rating agencies

Liquidity risk analysis

The Group's funding strategy is to ensure a mix of financing methods offering flexibility and cost effectiveness to match the requirements of the Group The Group monitors its liquidity risk on an ongoing basis by undertaking rigorous cash flow forecasting procedures In order to ensure continuity of funding, the Group seeks to arrange funding ahead of business requirements and maintain sufficient un drawn committed borrowing facilities

20 Financial instruments (continued)

Dunng the pnor year, a contract was arranged with a leading invoice discounting house to provide a substantial finance facility based on the value of the trade receivables This facility has continued in the current year and can be renewed thereafter as required

In the current year the Group issued a convertible loan note with which it raised a further £400,000

As at 31 March 2010, the Group's liabilities have contractual maturities which are summarised below

	Current						Non-current		
	within 6 months			6 to 12 months			1 to 5 years		
	2010 £'000	2009 £'000	2008 £'000	2010 £'000	2009 £'000	2008 £'000	2010 £'000	2009 £'000	2008 £'000
Finance facility	905	745	–	–	–	–	–	–	–
Trade payables	862	848	565	–	–	48	–	–	–
Total financial liabilities at amortised cost	**1,767**	**1,593**	**565**	**–**	**–**	**48**	**–**	**–**	**–**
Borrowings and derivative	–	–	–	–	–	–	505	–	–
Total financial liabilities at fair value through profit and loss	**–**	**–**	**–**	**–**	**–**	**–**	**505**	**–**	**–**
Totals	**1,767**	**1,593**	**565**	**–**	**–**	**48**	**505**	**–**	**–**

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date, with the exception of the borrowings and derivative As disclosed in note 16 these liabilities comprise a convertible loan note with interest payable at 6% per annum

IFRS 7 Improving Disclosures about Financial Instruments

The Group adopted the amendments to *IFRS 7 Improving Disclosures about Financial Instruments* effective from 1 April 2009 These amendments require the Group to present certain information about financial instruments measured at fair value in the balance sheet In the first year of application, comparative information need not be presented for the disclosures required by the amendment Accordingly, the disclosure for the fair value hierarchy is only presented for the 31 March 2010 year end

The fair value hierarchy has the following levels

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability either as prices or derived from prices, and

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable basis)

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period

The only financial instrument which the Group has issued which is classified as a financial liability at fair value through profit and loss is a derivative, further details of which are disclosed in Note 16 This instrument is classified under Level 3 above

The instrument had an initial value of £80,000 with a fair value gain of £20,000 being recognised during the year through profit and loss as a component of "finance income" The closing balance was £60,000

Changing inputs to the Level 3 valuations to reasonable possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity

Foreign currency

The Group faces minimal foreign currency risk as the majority of the Group's transactions are carried out in Pounds Sterling

Fair value

The carrying value of all financial instruments equates to fair value

Notes to the consolidated financial statements

for the year ended 31 March 2010

21 Financial commitments – operating leases

	Land and buildings		
	2010 £'000	2009 £'000	2008 £'000
Total minimum operating lease payments due			
Within one year	30	30	30
One to five years	53	78	108
	83	**108**	**138**

22 Related party transactions

The contribution from related parties has been included, where appropriate, as follows

DBR Wines Limited as one director of the Group was, throughout the year, also a director of that Company, it is regarded as 'related' A management fee is receivable for sales, marketing and administration services provided by the Group In the year to 31 March 2009, the total fee receivable was £185,000 (2009 £389,000) At the year end the Group was owed £nil (2009 £271,990)

Director's guarantee one of the directors of the Group has provided a personal guarantee in the amount of £50,000 (2009 £50,000) with respect to the finance facility liability

Auditor's report on the parent company financial statements

Independent auditor's report to the members of Blavod Wines and Spirits plc

We have audited the parent company financial statements of Blavod Wines and Spirits PLC for the year ended 31 March 2010 which comprise the parent company balance sheet and the related notes The financial reporting framework that has been applied in the preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the group financial statement of Blavod Wines and Spirits plc for the year ended 31 March 2010

Grant Thornton UK LLP

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
LONDON

14 June 2010

Parent company balance sheet

Company No 03727483

as at 31 March 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	4	–	–
Intangible assets	5	738	692
		738	692
Current assets			
Debtors	6	–	7
Total current assets		–	7
Creditors amounts falling due within one year	7	(620)	(786)
Net current (liabilities)		**(620)**	**(779)**
Creditors amounts falling due after more than one year	8	**(400)**	**–**
Net (liabilities)		**(282)**	**(87)**
Capital and reserve			
Called up share capital	9	878	878
Shares to be issued	10	717	701
Profit and loss account	10	(1,877)	(1,666)
Shareholders' (deficit)	11	**(282)**	**(87)**

The financial statements were approved by the Board of Directors on 11 June 2010 and were signed on their behalf by

C. Campbell
Director

R.C.Q. Ambler
Director

Notes to the parent company financial statements

for the year ended 31 March 2010

1 Basis of preparation

The financial statements are for the twelve months ended 31 March 2010 They have been prepared in accordance with applicable United Kingdom accounting standards The financial statements have been prepared under the historical cost convention

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been included in these financial statements Blavod Wines and Spirits plc reported a loss of £211k (2009 £191k)

As permitted by FRS 8 Related party disclosures, no related party disclosures for the Company have been included

The Companies Act 2006 requires intangible assets to be amortised systematically over their useful economic lives Management consider the Company's brands to have an indefinite useful life and have invoked the true and fair override A policy of non amortisation has therefore been adopted to ensure the accounts show a true and fair view Intangible assets are reviewed annually for impairment Had intangible assets been amortised the charge would have been £88k

2 Summary of significant accounting policies

Going Concern

The Group made a loss of £15,000 and raised a further £400,000 in October 2009 through a convertible loan note This, combined with the invoice discounting facility in place ensures that the Group has sufficient capability to meet working capital requirements

The Board has reviewed the company's budgets and cash flow forecasts and the company's existing finance facilities Whilst there are always inherent uncertainties in relation to future events, the directors consider the Group to be a going concern for twelve months from the date of approval of these financial statements Accordingly the financial statements have been prepared on the going concern basis

Fixed asset investments

The Company's investments in Group companies are stated at cost less provisions for impairment Any impairment is charged to the profit and loss account as it arises

Intangible assets

The Company's intangibe assets consist of expenditure on licences These assets are not amortised as the useful economic life of these assets is considered to be indefinite

Impairment reviews are carried out to ensure that intangible assets are not carried at above their recoverable amount In particular, the Company performs a discounted cash flow analysis at least annually to compare discounted estimated future operating cash flows with asset carrying values The estimated cash flows are discounted at the Group's weighted average cost of capital

Financial Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Notes to the parent company financial statements

for the year ended 31 March 2010

2 Summary of significant accounting policies (continued)

Share-based compensation

All share-based payments granted after 7 November 2002 that had not vested by 1 April 2006, are recognised in the financial statements under FRS 20 – share-based payments

A fair value for equity settled share awards is measured at the date of grant The Group measures the fair value using the Black Scholes valuation technique to value each class of award

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest The level of vesting is reviewed annually and the charge is adjusted to reflect actual and estimated levels of vesting

3 Audit fees

Included in other operating expenses is remuneration to the auditors for audit and non-audit services as follows

	2010 £'000	2009 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	15	10

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as this information has been disclosed in the consolidated financial statements of the Company

4 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2009 and 31 March 2010	33
Provision for Impairment	
At 1 April 2009 and 31 March 2010	33
Net Book Value	
– at 1 April 2009 and at 31 March 2010	**–**

Investments comprise the following principal subsidiary companies

Name of Company	Nature of Business	%	Country of Incorporation
Blavod Drinks Limited	Marketing and sale of spirits and wines	100	England & Wales
Blavod Properties Limited	Intellectual property holding company	100	England & Wales
Blavod Black Vodka Limited	Dormant	100	England & Wales
The Original Black Vodka Company Limited	Dormant	100	England & Wales
Black Vodka Limited	Dormant	100	England & Wales
Blavod Extreme Spirits USA Inc	Non trading	100	US

5 Intangible assets – trademarks

	2010 £'000
Carrying amount	
Carrying amount beginning of year	692
Additions	46
Carrying amount at end of year	**738**
Amortisation	
Carrying amount at beginning of year	–
Charge for year	–
Accumulated amortisation at end of year	**–**
Net book value	
– at 31 March 2010	**738**
– at 31 March 2009	692

6 Debtors

	2010 £'000	2009 £'000
Prepayments	–	7
	–	7

7 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Amounts owed to subsidiary undertakings	577	625
Accruals and deferred income	43	161
	620	**786**

8 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Convertible loan note	400	–

9 Called up share capital

Share capital

	2010		2009	
Authorised	**Number of shares**	**£'000**	**Number of shares**	**£'000**
Ordinary shares of 1p each	105,000,000	1,050	105,000,000	1,050
Allotted and fully paid	**Number of shares**	**£'000**	**Number of shares**	**£'000**
Ordinary shares of 1p each	87,758,508	878	87,758,508	878

Notes to the parent company financial statements

for the year ended 31 March 2010

10 Reserves

	Shares to be issued £'000	Profit and loss account £'000
At 1 April 2009	701	(1,666)
Share based payment charge	16	-
(Loss) for the financial year	-	(211)
At 31 March 2010	**717**	**(1,877)**

11 Reconciliation of movement in shareholders' funds/(deficit)

	2010 £'000	2009 £'000
(Loss) for the financial year	(211)	(191)
Shares to be issued	16	19
Net (decrease) in shareholders' funds	(195)	(172)
Shareholders' (deficit)/funds at 1 April	(87)	85
Shareholders' (deficit) at 31 March	**(282)**	**(87)**

12 Share based payments

Details of share options and warrants issued by the Company are set out in Note 19 to the consolidated financial statements

Directors and advisers

Directors	C Campbell (Non-executive Chairman) R C Q Ambler W L Banks (Non-Executive) W C H Phillips
Secretary	W C H Phillips
Registered Office	202 Fulham Road London SW10 9PJ
Company's registered number	England and Wales 03727483
Auditor	Grant Thornton UK LLP Grant Thornton House Melton Street London NW1 2EP
Bankers	Barclays Bank Plc 50 Pall Mall London SW1A 1QA
Nominated Adviser	Brewin Dolphin Corporate Advisory and Banking 34 Lisbon Street Leeds LS1 4LX
Nominated Broker	Brewin Dolphin Investment Banking 34 Lisbon Street Leeds LS1 4LX
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA
Solicitors	Maclay, Murray & Spens 1 London Wall London EC2Y 5AB
Tax Adviser	Grant Thornton UK LLP Grant Thornton House Melton Street London NW1 2EP

Designed and printed by Perivan 218101

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