Blavod Wines and Spirits plc

Consolidated Financial Statements

Year Ended 31 March 2011

Registered in England and Wales: Company No: 03727483

Content

Chairman's statement

In the year to March 2011 our own brands' revenue increased by 12% with improved margins and contribution supported by increased marketing investment, albeit from a relatively low base

We opened new export markets including USA, repositioned Blavod Black Vodka with new premium packaging, launched Diva Vodka and grew Blackwood's Gin to make it our most profitable brand However, this performance was offset by the disappointing loss of Cockspur Rum agency mid year together with reduced volumes of Mickey Finn following aggressive competitor price reductions The collapse of Oddbins resulted in some losses although this was mitigated by maintaining a prudent stance to credit limits. Overall, this led to an overall EBITDA loss of £50k versus a previous year profit of £78k on sales of £7 2m (2010: £8 3m)

All other continuing agency brands grew and on average improved revenues by 29% year on year

I joined the Board of Blavod Wines and Spirits PLC last year as a Non Executive Director and was delighted to accept the invitation to become Chairman of the business in January 2011 My thanks go to my predecessor Colin Campbell, and also to Lawrence Banks, who successfully steered the Group through difficult times Colin and Lawrence, who both retired in January of this year, were instrumental in extricating the Group from its US merger and in setting up the current UK based structure They were also closely involved in the subsequent successful acquisition of Blackwood's Gin

Our focus now is to restore profitability and successfully execute an agreed growth strategy Longer term we wish to develop a strong balance sheet and build strong brand value

Strategy for growth

During the year we developed a strategy to create a healthier platform for growth and profit This will be achieved by

- Increasing international distribution of our own brands, adding new export markets such as China for Blavod This coming year we plan to enter further markets in Latin America and in the Far East
- Extending breadth and depth of customer relationships including premium On trade coverage in the UK to assist with an overall increase in premium brand distribution and marketing effort
- Seeking additional agency brand distribution agreements to complement and strengthen our existing product portfolio During the year we added Matusalem Rum
- Developing our own new brands to fill remaining portfolio gaps We plan to introduce our first new brand in the autumn of 2011
- Restructuring our overheads through basic process and administrative efficiencies resulting in reduced back-office spend This combined with a 13% reduction in PLC cost led to an overall saving in other administrative expenses of 7% year on year
- Reinvesting overhead savings into broader customer coverage and brand marketing spend Here we increased spending by 25% year on year However this is off a low base and we will continue to find ways to improve this historically low reinvestment rate to accelerate growth in the future

Chairman's statement (continued)

Outlook

We made a strong start to our growth strategy and continue to drive distribution and activation of our full product range, both owned and agency brands

Having the right portfolio and product mix is essential and work is in progress to secure new agency agreements As communicated earlier this year, we are working closely with DBR Wines Limited to ensure a smooth and successful transition to their own in market wine company

We have now paid the final instalment due in relation to the purchase of the Blackwood's Gin trademark There now remains only the final three years of profit share before we own the trademark outright

Market conditions remain challenging and consumer confidence fragile Advancing our export effort will further reduce our exposure to the UK market However, premium brands have demonstrated their ability to remain relatively buoyant if well positioned and actively supported at both consumer and customer level This remains at the heart of everything we do

D Goulding

Chairman

Directors' report

The directors present their report and the financial statements for the year ended 31 March 2011

Principal 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 2011 financial year reflect the continued growth in volume sales in the UK for most of our brands The loss of Cockspur and the reduced volumes from Mickey Finn, as detailed in the Chairman's statement, have impacted the result for the year

Result for the year and dividends

The loss attributable to shareholders for the year amounted to £173k (2010 loss £15k)

Key performance indicators

The directors have monitored the performance of the group with particular reference to the following key performance indicators for each of our brands

- Sales volume versus prior year – volumes across all continuing brands excluding Mickey Finn increased by 17% year on year Primarily due to increased distribution and marketing activity
- Sales value net of duty versus previous year – sales net of duty across all continuing brands excluding Mickey Finn increased by 24% year on year as mix improved
- Gross margin versus previous year gross margin across all continuing brands excluding Mickey Finn increased by 17% year on year
- Gross margin as % of net sales versus previous year this eased by a percentage point from 26% to 25% across all continuing brands excluding Mickey Finn

The reduced volumes of Mickey Finn following aggressive competitor reductions, as detailed in the Chairman's statement, affected the group's performance Steps are being taken to address this in the year ahead

We also closely monitor both the level of and the value derived from our advertising and promotional costs and other administrative expenses Advertising and promotional costs increased by 25% from £268k to £336k year on year Other administrative expenses decreased by 7% from £1,204k to £1,120k

Directors

The directors of the Company who served during the year and/or up to the date of this report are as follows

R Ambler	
S Bertolotti	appointed 6th July 2010
D Goulding	appointed 6th July 2010
M Quinn	appointed 6th July 2010
W Banks	resigned 25th January 2011
C Campbell	resigned 25th January 2011
W Phillips	resigned 6th July 2010

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 the directors was in force

Directors' report (continued)

Principal risks and uncertainties

The management of the business and the nature of the group's strategy are subject to a number of risks The directors have set out below the principal risks facing the business

The directors are of the opinion that a thorough risk management process is adopted which involves the formal review of all the risks identified below Where possible processes are in place to monitor and mitigate such risks

Economic downturn

The success of the business is reliant on consumer spending An economic downturn, resulting in reduction of consumer spending power, will have a direct impact on the income achieved by the group

In response to this risk, senior management aim to keep abreast of economic conditions In cases of severe economic downturn, marketing and pricing strategies will be modified to reflect the new market conditions

High proportion of fixed overheads and variable revenues

A large proportion of the group's overheads are fixed There is the risk that any significant changes in revenue may lead to the inability to cover such costs

Senior management closely monitor fixed overheads against budget on a monthly basis and cost saving exercises are implemented when there is an anticipated decline in revenues

Competition

The market in which the group operates is highly competitive As a result there is constant downward pressure on margins and the additional risk of being unable to meet customer expectations Policies of constant price monitoring and ongoing market research are in place to mitigate such risks

Failure to ensure brands evolve in relation to changes in consumer taste

The group's products are subject to shifts in fashions and trends, and the group is therefore exposed to the risk that it will be unable to evolve its brands to meet such changes in taste

The group carries out regular consumer research on an ongoing basis in an attempt to carefully monitor developments in consumer taste

Portfolio management

A key driver of the group's success lies in the mix and performance of the brands which form part of the group's portfolio The group constantly and carefully monitors the performance of each brand within the portfolio to ensure that's its individual performance is optimised together with the overall balance of performance of all brands marketed and sold by the group

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 19 to the financial statements

Capital Management

The group's capital structure consists of equity share capital (see Note 18) and a 6% convertible unsecured loan note The loan note was issued in October 2009 to raise funds for working capital The group has also put in place an invoice discount facility, which is secured against the group's accounts receivable balances

The purpose of the invoice discount facility is to provide the group with working capital and to bridge the period between payment of suppliers and receipt of funds from customers Note 8 to the group financial statements sets out the cost of the facility The amount of the facility available for draw down is variable and is based on the level of accounts receivable balances which are available to act as security for the facility

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 45 (2010 47)

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Donations

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

Going concern

The Directors have prepared forecasts and reviewed the existing invoice discounting arrangement and, as a result, the Directors consider the group to be a going concern for twelve months from the date of approval of these financial statements

The group increased its invoice discounting facility on 19 October 2010 from £1 0m to £1 25m Based on management's forecasts the group will, at certain times in the year, require additional facilities The Directors believe, based on discussions with the discounter, and past practice of additional facilities being made available on a temporary basis, that further funds will be made available as and when they are required

Whilst there are always inherent uncertainties in relation to future events, on the assumption that trading reflects the Board's forecasts and, in the exception of unforeseen circumstances, the Directors consider it appropriate to prepare the financial statements on the going concern basis

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 5 July 2011

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

June 10th 2011

Statement of Director's responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the consolidated financial statements under International Financial Reporting Standards as adopted by the European Union (IFRSs) and the parent company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS have been followed for the consolidated financial statements and UK Accounting Standards have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the directors is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

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 2011 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 their preparation 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and express an opinion on 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/private cfm

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 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs 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 group financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required 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 2011

Grant Thornton UK LLP

Christopher Smith
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

10 June 2011

Consolidated income statement

for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Revenue		7,216	8,316
Cost of sales		(5,810)	(6,745)
Gross profit		**1,406**	**1,571**
Advertising and promotional costs		(336)	(268)
Non recurring costs	5	-	(21)
Other administrative expenses		(1,120)	(1,204)
Total administrative expenses		**(1,456)**	**(1,493)**
EBITDA		**(50)**	**78**
Depreciation and amortization		(6)	(6)
Operating (loss)/profit	6	**(56)**	**72**
Finance income	8	13	20
Finance expense	8	(130)	(107)
(Loss) before tax from continuing operations		**(173)**	**(15)**
Income tax	9	–	–
(Loss) for the year		**(173)**	**(15)**
(Loss) per share			
Basic (pence per share)	3	(0.20)	(0.02)
Diluted (pence per share)	3	(0.20)	(0.02)

Consolidated statement of comprehensive income

for the year ended 31 March 2011

	2011 £'000	2010 £'000
(Loss) for the year	(173)	(15)
Other comprehensive income	–	–
Total comprehensive income for the year	**(173)**	**(15)**

The accompanying notes form an integral part of these financial statements

Consolidated balance sheet

as at 31 March 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	29	24
Intangible assets	11	1,380	1,311
		1,409	1,335
Current assets			
Inventories	12	583	612
Trade and other receivables	13	1,488	1,827
Cash and cash equivalents	14	36	118
Total current assets		2,107	2,557
Total assets		3,516	3,892
Liabilities			
Non current liabilities			
Borrowings	15	(350)	(337)
Derivative	15	(48)	(60)
		(398)	(397)
Current liabilities			
Trade and other payables	16	(923)	(974)
Finance facility liability	17	(740)	(905)
Total current liabilities		(1,663)	(1,879)
Total liabilities		(2,061)	(2,276)
Net assets		1,455	1,616
Equity			
Equity attributable to equity holders of the parent			
Share capital	18	878	878
Share premium account		–	–
Shares to be issued		51	717
Retained earnings		526	21
Total equity		**1,455**	**1,616**

The financial statements were approved by the Board of Directors on 10 June 2011 and were signed on their behalf by

D Goulding
Director

R Ambler
Director

The accompanying notes form an integral part of these financial statements

Consolidated statement of changes in equity

for the year ended 31 March 2011

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2009 and 1 April 2009	878	–	701	36	1,615
Share based payment charge	–	–	16	–	16
Transactions with owners	–	–	16	–	16
(Loss) for the year	–	–	–	(15)	(15)
Balance at 31 March 2010 and 1 April 2010	**878**	**–**	**717**	**21**	**1,616**
Share-based payment charge	–	–	12	–	12
Lapsed/forfeited share options - reclassification to retained earnings	–	–	(678)	678	–
Transactions with owners	–	–	(666)	678	12
(Loss) for the year	–	–	–	(173)	(173)
Balance at 31 March 2011	**878**	**–**	**51**	**526**	**1,455**

The accompanying notes form an integral part of these financial statements

Consolidated cash flow statement

for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating (loss)/profit		(56)	72
Adjustments for			
Depreciation	10	6	6
Share based payment		12	16
		(38)	94
Movements in working capital			
Decrease / (Increase) in inventories		30	(160)
Decrease/(Increase) in trade receivables		339	(103)
(Decrease) in trade payables		(51)	(65)
Cash generated / (used) by operations		**318**	**(328)**
Net finance expense	8	(117)	(90)
Net cash generated / (used in) operating activities		**163**	**(324)**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(11)	(18)
Expenditure relating to the acquisition of licences and trade marks		(69)	(152)
Net cash (used by) investing activities		**(80)**	**(170)**
Cash flows from financing activities			
Net cash (repaid to) / received from finance facility		(165)	160
Proceeds from convertible loan note	15	-	400
Net cash (used in)/received from financing activities		**(165)**	**560**
Net (decrease) / increase in cash and cash equivalents		(82)	66
Cash and cash equivalents at beginning of year		118	52
Cash and cash equivalents at end of year	**14**	**36**	**118**

The accompanying notes form an integral part of these financial statements

Notes to the consolidated financial statements

for the year ended 31 March 2011

1 Basis of preparation

The consolidated financial statements are for the twelve months ended 31 March 2011 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 Directors have prepared forecasts and reviewed the existing invoice discounting arrangement and, as a result, the Directors consider the group to be a going concern for twelve months from the date of approval of these financial statements

The group increased its invoice discounting facility on 19 October 2010 from £1 0m to £1 25m Based on management's forecasts the group will, at certain times in the year, require additional facilities The Directors believe, based on discussions with the discounter, and past practice of additional facilities being made available on a temporary basis, that further funds will be made available as and when they are required

Whilst there are always inherent uncertainties in relation to future events, on the assumption that trading reflects the Board's forecasts and, in the exception of unforeseen circumstances, the Directors consider it appropriate to prepare the financial statements on the going concern basis

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 2011 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

2 Summary of significant accounting policies (continued)

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

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 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

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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

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

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 The Group carries out an annual impairment review 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 and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts

2 Summary of significant accounting policies (continued)

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

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 cost using the effective interest rate method

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

Employee benefits

Defined contribution pension scheme

Pension contributions to personal pension schemes are charged to the income statement in the period in which they occur 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

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

2 Summary of significant accounting policies (continued)

Current and deferred tax

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

Deferred 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

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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

2 Summary of significant accounting policies (continued)

Blackwood's Gin Licence

During the 2008/9 financial 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 is 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) 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) per share is identical to the basic (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

	2011	2010
(Loss) attributable to ordinary shareholders (£'000)	(173)	(15)
Weighted average number of shares (used for basic earnings per share)	87,758,508	87,758,508
Basic and diluted (loss) per share (pence)	(0 20)	(0 02)

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 view

	2011 Marketing and sale of spirits and agency brands	2010 Marketing and sale of spirits and agency brands
Revenue from external customers	7,216	8,316
Costs of materials	(5,810)	(6,745)
Employee and director benefits expense	(751)	(768)
Depreciation and amortisation of non- financial assets	(6)	(6)
Other expenses	(522)	(524)
Segment operating profit	127	273
Segment assets	2,232	2,224

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

During 2011, 13% of the Group's revenues depended on a single customer (2010 18% of revenue) During 2011, 10% of the Group's revenues depended on a second single customer (2010 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

	2011	2010
Segment & group revenues	7,216	8,316
Segment operating profit	127	273
Share based payment expenses	(12)	(16)
Other expenses not allocated	(171)	(185)
Group operating (loss)/profit	(56)	72
Finance income	13	20
Finance expense	(130)	(107)
Group (loss) before tax	(173)	(15)
Segment assets	2,232	2,224
Other liabilities	(28)	(29)
Consolidation	(749)	(579)
	(1,455)	1,616

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

5 Non recurring costs

During the prior 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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

6 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting)

	2011 £'000	2010 £'000
Depreciation – owned assets	6	6
Operating lease rental payments on land and buildings	30	30
Foreign exchange loss/(gain)	6	(12)

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

	2011 £'000	2010 £'000
Grant Thornton UK LLP		
Fees payable to the Company's auditor for the audit of the annual financial statements	10	15
Fees payable to the Company's auditor and its associates for other services		
– audit of the financial statements of the Company's subsidiaries	12	20
– other services relating to taxation – compliance and advice	5	5
	27	40

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 and Liability Limitation Agreements) Regulations 2005, regulation 5(1) to disclose such fees on a consolidated basis

7 Directors and employees

	2011 £'000	2010 £'000
Staff costs		
Wages and salaries	653	654
Social security costs	56	72
Pension costs	61	62
	770	788

	No	No
Average monthly number of persons employed (including directors)	12	13

Remuneration of directors	2011 £'000	2010 £'000
Emoluments for qualifying services (including bonus)	182	184
Company pension contributions to money purchase scheme	32	14
Share based payment	8	10
	222	208

The directors of the Company are the key management personnel The number of directors acquiring benefits under money purchase pension scheme arrangements was 1 (2010 1)

7 Directors and employees (continued)

Individual director's emoluments and compensation

	Pension £'000	Salaries and fees £'000	2011 Total £'000	2010 Total £'000
R Ambler	32	99	131	136
W Banks		8	8	10
S Bertolotti	-	39	39	-
C Campbell	-	8	8	10
D Goulding	-	11	11	
W Phillips	-	9	9	42
M Quinn	-	8	8	-
Total	**32**	**182**	**214**	**198**

Share Options	At start of year	At end of year	Price paid	Exercise price	Date from which exercisable	Expiry date
R Ambler	1,250,000	1,250,000		0.05	05 Jul 11	02-Jul 18
W Banks	350,000	350,000	-	0.05	05 Jul 11	02-Jul 18
S Bertolotti	-	-	-	0.05	05 Jul 11	02 Jul 18
C Campbell	350,000	350,000	-	0.05	05 Jul 11	02 Jul 18
D Goulding				0.05	05 Jul 11	02 Jul 18
W Phillips	350,000		-	0.05	05 Jul 11	02 Jul 18
M Quinn			-	0.05	05-Jul 11	02 Jul 18

8 Finance income and expense

	2011 £'000	2010 £'000
Finance income		
Finance income associated with derivative	13	20
	13	**20**
Finance expense		
Interest expense on convertible loan note	(37)	(17)
Finance costs associated with finance facility liability	(93)	(90)
	(130)	**(107)**

In the 2011 business year, total finance income amounted to £13k (2010 £20k) 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 2011 business year, total finance expense of £130k (2010 £107k) related to interest charged on the invoice discount finance facility and borrowings, both classified as financial liabilities at amortised cost

Notes to the consolidated financial statements
(continued)

for the year ended 31 March 2011

9 Income tax

Reconciliation of the effective tax rate

	2011 £'000	2010 £'000
(Loss) before taxation	(173)	(15)
(Loss) before tax multiplied by standard rate of corporation tax in the UK of 28% (2010 28%)	(48)	(4)
Effects of:		
Other expenses not deductible for tax purposes	9	22
Depreciation charge in excess of capital allowances	(1)	(2)
Tax losses arising within the year	43	2
Other timing differences	(3)	(18)
Tax expense	–	–

The amount of the unrecognised deferred tax is as follows

	2011 £'000	2010 £'000
Depreciation in excess of capital allowances	(4)	(4)
Other short term timing differences	2	-
Unutilised losses	2,677	2,698
Unrecognised deferred tax	2,675	2,694

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

10 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 2009	30	23	14	67
Additions	17	1	-	18
At 31 March 2010	47	24	14	85
Additions	10		1	11
At 31 March 2011	**57**	**24**	**15**	**96**
Accumulated Depreciation				
At 1 April 2009	24	23	8	55
Charge for the year	4		2	6
At 1 April 2010	28	23	10	61
Charge for the year	5		1	6
At 31 March 2011	**33**	**23**	**11**	**67**
Net book value				
At 31 March 2009	6		6	12
At 31 March 2010	19	1	4	24
At 31 March 2011	**24**	**1**	**4**	**29**

11 Intangible assets – trademarks

	2011 £'000	2010 £'000
Carrying amount		
Carrying amount beginning of year	1,806	1,754
Additions	69	52
Disposals	–	–
Carrying amount at end of year	**1,875**	**1,806**
Amortisation		
Carrying amount at beginning of year	495	495
Charge for year	–	–
Accumulated amortisation at end of year	**495**	**495**
Net book value	**1,380**	**1,311**

Capitalised brands are regarded 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

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 a growth rate of 5% in years 1 5 and no growth in subsequent years

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

	2011
Weighted average cost of capital	10%
Long term growth rate years 1 5	5%

Any impairment write downs are charged to other administrative expenses in the income statement. In the year ended 31st March 2011 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 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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

11 Intangible assets – trademarks (continued)

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% increase 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 above The principal trademarks of the company are Blavod Black Vodka and Blackwood's Gin The net book values of Blavod Black Vodka and Blackwood's Gin were £588k (2010 £578k) and £747k (2010 £697k) respectively at the end of the financial year

12 Inventory

	2011 £'000	2010 £'000
Finished goods	583	612
	583	612

In 2011, a total of £5,810k of inventories was included in the income statement as an expense (2010 £6,745k)

13 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	1,443	1,764
Less provision for impairment of trade receivables	(47)	(22)
Net trade receivables	1,396	1,742
Other debtors		33
Prepayments and accrued income	92	52
	1,488	1,827

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 17)

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 £47k (2010 £22k) 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

	2011 £'000	2010 £'000
Not more than 3 months	102	138
More than 3 months, but not more than 6 months	62	105
More than 6 months, but not more than 1 year	88	7
More than 1 year	14	8
	266	258

14 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

	2011 £'000	2010 £'000
Cash and cash equivalents	36	118

15 Borrowings and derivative

	2011 £'000	2010 £'000
Borrowings	350	337
Derivative	48	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%

16 Trade and other payables

	2011 £'000	2010 £'000
Trade payables	720	862
Other payables including taxation and social security	33	21
Accruals	170	91
	923	**974**

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

17 Finance facility liability

	2011 £'000	2010 £'000
Finance facility liability	740	905

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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

18 Share capital

(a) Share capital

	2011 £'000	2010 £'000
Authorised		
105,000,000 ordinary shares of 1p each	1,050	1,050
Allotted, issued and fully paid		
87,758,508 (2010 87,758,508) ordinary shares of 1p each	878	878

(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

	2011 £'000	2010 £'000
Equity-settled share-based payment expense	12	16

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
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
	4,915,000		

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

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the period	17 11	5,615,000	18 19	5,747,716
Lapsed during the period	75 00	700,000	64 00	132,716
Forfeited during the period	12 00	2,320,000	-	-
Outstanding at the end of the period	6 4	2,595,000	17 11	5,615,000
Exercisable at the end of the period	6 4	2,595,000	19 62	4,715,000

18 Share capital (continued)

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	Shares 2011	Shares 2010
2011	75 00p	–	700,000
2012	75 00p	50,000	50,000
2015	21 44p	–	1,000,000
2018	5 00	2,545,000	3,865,000
		2,595,000	5,615,000

The weighted average remaining contractual life for the options granted is 7 25 years (2010 – 6 7 years)

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

Notes to the consolidated financial statements (continued)

for the year ended 31 March 2011

19 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

	2011 £'000	2010 £'000
Classes of financial assets – carrying amounts		
Cash and cash equivalents	36	118
Trade and other receivables	1,396	1,775

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

During the 2008/9 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 prior year the Group issued a convertible loan note with which it raised a further £400k

As at 31 March 2011, 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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Finance facility	740	905	–	–	–	–
Trade payables	720	862	–	–	–	–
Total financial liabilities at amortised cost	**1,460**	**1,767**	–	–	–	–
Borrowings and derivative	–	–	–	–	484	505
Total financial liabilities at fair value through profit and loss	–	–	–	–	**484**	**505**
Totals	**1,460**	**1,767**	–	–	**484**	**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 15 these liabilities comprise a convertible loan note with interest payable at 6% per annum

19 Financial instruments (continued)

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

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 15 This instrument is classified under Level 3 above

The instrument had a value at the beginning of the year of £60k (initial value at date of loan of £80k) with a fair value gain of £13k (2010 £20k) being recognised during the year through profit and loss as a component of "finance income" The closing balance was £48k

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

20 Financial commitments – operating leases

	Land and buildings	
	2011	**2010**
	£'000	**£'000**
Total minimum operating lease payments due		
Within one year	30	30
One to five years	23	53
	53	83

21 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, for part of 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 2011, the total fee receivable was £221k (2010 £185k) At the year end the Group was owed £41k nil (2010 £nil)

Director's guarantee one of the directors of the Group has provided a personal guarantee in the amount of £50k (2010 £50k) 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 2011 which comprise the parent company balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and express an opinion on 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/private cfm

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 2011,
- 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 statements of Blavod Wines and Spirits PLC for the year ended 31 March 2011

Grant Thornton UK LLP

Christopher Smith
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

10 June 2011

Parent company balance sheet Company No. 03727483

As at 31 March 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	4	–	–
Intangible assets	5	1,380	738
		1,380	738
Current assets			
Debtors	6	9	–
Total current assets		9	-
Creditors. amounts falling due within one year	7	(1,442)	(620)
Net current (liabilities)		(1,433)	(620)
Creditors. amounts falling due after more than one year	8	(400)	(400)
Net (liabilities)		(453)	(282)
Capital and reserve			
Called up share capital	9	878	878
Shares to be issued	10	51	717
Profit and loss account	10	(1,382)	(1,877)
Shareholders' (deficit)	11	**(453)**	**(282)**

The financial statements were approved by the Board of Directors on 10 June 2011 and were signed on their behalf by

D Goulding
Director

R Ambler
Director

The accompanying notes form an integral part of these financial statements

Notes to the parent company financial statements

for the year ended 31 March 2011

1 Basis of preparation

The financial statements are for the twelve months ended 31 March 2011 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 £183k (2010 loss of £211k)

The company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related Party Disclosures" and has not disclosed transactions with Group companies

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 £93k (2010 £88k)

2 Summary of significant accounting policies

Going Concern

The Company is reliant on financial support from other group companies

The Directors have prepared forecasts and reviewed the existing invoice discounting arrangement and, as a result, the Directors consider the group to be a going concern for twelve months from the date of approval of these financial statements

The group increased its invoice discounting facility on 19 October 2010 from £1 0m to £1 25m Based on management's forecasts the group will, at certain times in the year, require additional facilities The Directors believe, based on discussions with the discounter, and past practice of additional facilities being made available on a temporary basis, that further funds will be made available as and when they are required

Whilst there are always inherent uncertainties in relation to future events, on the assumption that trading reflects the Board's forecasts and, in the exception of unforeseen circumstances, the Directors consider it appropriate to prepare the financial statements 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 intangible 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

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 auditor for audit services as follows

	2011 £'000	2010 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	15	15

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 2010 and 31 March 2011	33
Provision for Impairment	
At 1 April 2010 and 31 March 2011	33
Net Book Value	
– at 1 April 2010 and at 31 March 2011	-

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 Extreme Spirits USA Inc	Non-trading	100	US

Notes to the parent company financial statements (continued)

for the year ended 31 March 2011

5 Intangible assets – trademarks

	2011 £'000
Carrying amount	
Carrying amount beginning of year	738
Additions	69
Transfer from other group companies	573
Carrying amount at end of year	**1,380**
Amortisation	
Carrying amount at beginning of year	-
Charge for year	-
Accumulated amortisation at end of year	**-**
Net book value	
- at 31 March 2011	**1,380**
- at 31 March 2010	738

On 8 July 2010 the intangible asset in Blavod Properties Limited, being the Blavod Black Vodka brand, was transferred to Blavod Wines and Spirits Plc at its net book value £573k

6 Debtors

	2011 £'000	2010 £'000
Prepayments	9	
	9	-

7 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Amounts owed to subsidiary undertakings	1,382	577
Accruals and deferred income	60	43
	1,442	**620**

8 Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Convertible loan note	400	400

9 Called up share capital

Share capital	2011		2010	
	Number of shares	£'000	Number of shares	£'000
Authorised				
Ordinary shares of 1p each	105,000,000	1,050	105,000,000	1,050
Allotted and fully paid				
Ordinary shares of 1p each	87,758,508	878	87,758,508	878

10 Reserves

	Shares to be issued £'000	Profit and loss account £'000
At 1 April 2010	717	(1,877)
Share based payment charge	12	-
Lapsed/forfeited share options reclassification	(678)	678
(Loss) for the financial year	-	(183)
At 31 March 2011	**51**	**(1,382)**

11 Reconciliation of movement in shareholders' (deficit)

	2011 £'000	2010 £'000
(Loss) for the financial year	(183)	(211)
Shares to be issued	12	16
Net (increase) in shareholders' deficit	(171)	(195)
Shareholders' (deficit) at 1 April	(282)	(87)
Shareholders' (deficit) at 31 March	**(453)**	**(282)**

12 Share based payments

Details of share options and warrants issued by the Company are set out in Note 18 to the consolidated financial statements

Directors and advisers

Directors	D Goulding (Non executive Chairman) R Ambler S Bertolotti M Quinn (Non executive)
Secretary	S Bertolotti
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 Limited 34 Lisbon Street Leeds LS1 4LX
Nominated Broker	Brewin Dolphin Limited 34 Lisbon Street Leeds LS1 4LX
Registrars	Share Registrars Ltd Suite E, First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL
Solicitors	Maclay, Murray & Spens 1 London Wall London EC2Y 5AB
Tax Adviser	Grant Thornton UK LLP Grant Thornton House Melton Street London NW1 2EP

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