

This document is important. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the Public Offers of Securities Regulations 1995. Application has been made to the London Stock Exchange for the Ordinary Shares, both issued and to be issued, to be admitted to trading on the Alternative Investment Market of the London Stock Exchange. This document has been drawn up in accordance with the POS Regulations and the AIM Rules. The Ordinary Shares are not dealt in on any other recognised investment exchange and no application has been made or is being made for the Ordinary Shares to be admitted to dealing on any such exchange.

The Directors of Blavod Black Vodka plc, whose names appear under the heading "Directors, Secretary and Advisers" on page 4 of this document, accept responsibility for the information contained in this document. To the best of their knowledge, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

The Alternative Investment Market (AIM) is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not Officially Listed.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

The offer pursuant to the Placing described in this document is not being made directly or indirectly in, and this document is not being, and must not be, mailed or otherwise distributed or sent in or into, the United States, Canada, Australia or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may not be offered, sold or delivered, directly or indirectly, in the United States, Canada, Australia or Japan.

Blavod Black Vodka plc

(Incorporated in England and Wales under the Companies Act 1985 Registered Number 3727483)

Placing of 4,234,694 Ordinary Shares of 1p each at 98p per share by **BREWIN DOLPHIN SECURITIES LIMITED**

Share capital immediately following the Placing

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
25,000,000	£250,000	Ordinary Shares of 1p each	14,326,306	£143,263.06

The Ordinary Shares now being placed will rank *pari passu* in all respects with the existing issued ordinary shares in the capital of the Company including the right to receive all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

The whole text of this document should be read. Your attention is drawn to the section entitled "Risk Factors" on pages 12 and 13 of this document.

You should note that, in connection with the Admission and the Placing, Brewin Dolphin Securities Limited is acting for Blavod Black Vodka plc and will not be responsible to anyone other than Blavod Black Vodka plc for providing the protections afforded to the customers of Brewin Dolphin Securities Limited nor for providing advice in relation to the Placing.

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DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of all the issued and to be issued Ordinary Shares (including the Placing Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing admission to and the operation of AIM
“Bell Lawrie White”	Bell Lawrie White, a division of Brewin Dolphin Securities Limited
“Black Vodka”	Black Vodka Limited, a subsidiary of the Company
“Brewin Dolphin”	Brewin Dolphin Securities Limited (which is regulated by the Securities and Futures Authority Limited)
“case”	a case of 12 bottles (totalling 8.4 litres)
“City Code”	The City Code on Takeovers and Mergers
“Company”	Blavod Black Vodka plc, a company registered in England and Wales, registered no 3727483
“CREST”	the relevant system (as defined by the Uncertificated Securities Regulations 1995) in respect of which CRESTCo Limited is the operator (as defined in such Regulations)
“Directors” or “Board”	the directors of the Company whose names are listed on page 4 of this document
“EAMS”	Euro-American Marketing Services Limited, a company in which Mark Dorman, Director, is a 91% shareholder
“Group”	the Company and its subsidiaries
“IDV”	International Distillers & Vintners Limited, a subsidiary of Grand Met plc
“London Stock Exchange”	London Stock Exchange plc
“Official List”	the London Stock Exchange Daily Official List
“off trade”	licensed to sell alcohol for consumption off the premises (for example, supermarkets and off licences)
“on trade”	licensed to sell alcohol for consumption on the premises (for example, bars and restaurants)
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing”	the placing by Brewin Dolphin on behalf of the Company of 4,081,633 Ordinary Shares and on behalf of the Vendor of 153,061 Ordinary Shares as described in this document
“Placing Agreement”	the agreement between (1) the Company, (2) Brewin Dolphin and (3) the Directors relating to the Placing, further details of which are given in paragraph 17(a) of Part IV of this document
“Placing Price”	98p per Placing Share
“Placing Shares”	4,081,633 Ordinary Shares to be issued by the Company and 153,061 Ordinary Shares to be sold by the Vendor pursuant to the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Scheme”	the employee share option scheme adopted by the Company, the terms of which are summarised in paragraph 6 of Part IV of this document
“Vendor”	Mark Dorman, Director
“Warrant”	a warrant to subscribe for two Ordinary Shares pursuant to the Warrant Instrument
“Warrant Instrument”	the warrant instrument by the Company dated 25 June 1999, as amended on 9 February 2001, the terms of which are summarised in paragraph 5 of Part IV of this document

DIRECTORS, SECRETARY AND ADVISERS

Directors

Allan George Shiach, *Non-Executive Chairman*
Richard Charles Quintin Ambler, *Chief Executive*
Mark Jocelyn Dorman, *Marketing Director*
Andrew Napier, *Sales Director*
David John Wheatley, *Finance Director*

all of:
Blavod Black Vodka plc
202 Fulham Road
London SW10 9PJ

Secretary and Registered Office

David John Wheatley
Blavod Black Vodka plc
202 Fulham Road
London SW10 9PJ

Nominated Adviser

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48 St Vincent Street
Glasgow G2 5TS

Broker

Bell Lawrie White
(a division of Brewin Dolphin Securities Limited)
48 St Vincent Street
Glasgow G2 5TS

Solicitors to the Company

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61 Brook Street
London W1K 4BL

Solicitors to Nominated Adviser and Broker

Biggart Baillie
Dalmore House
310 St Vincent Street
Glasgow G2 5QR

Reporting Accountants

Smith & Williamson
No 1 Riding House Street
London W1A 3AS

Auditors

Cheesman and Partners
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Bankers

National Westminster Bank Plc
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London EC2P 2AP

Registrars

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PART I

KEY INFORMATION

The following is derived from and should be read in conjunction with the full text of this document. You should read the whole of this document and not rely solely on the key information set out below.

- Blavod is a neutral tasting premium vodka which is black in colour. It was officially launched in March 1998.
- Vodka is the largest category in the spirits market. Worldwide sales of branded vodka in 1999 were estimated at over 300 million cases.
- Blavod is already achieving growing sales in the UK through off trade accounts such as Tesco and Walmart/Asda and through on trade accounts including JD Wetherspoon and Whitbread. It has been exported to over 30 countries, in particular the USA and more recently the Far East.
- The Board has considerable experience of the drinks industry and marketing.
- The Directors' policy is to build on and to exploit the Group's ownership of the Blavod brand while continuing to subcontract production and distribution.
- Three years of growing sales without sustained marketing expenditure have demonstrated to the Directors that the Blavod brand has longevity beyond the initial interest that the colour black arouses.
- The net proceeds of the Placing receivable by the Company, estimated to amount to approximately £3.5 million, will be used principally to expand the Group's marketing and promotional activities with a view to building the value of the Blavod brand.
- The Directors consider that admission to AIM will help to raise the profile of the Group amongst its existing and potential customers, add to its credibility and assist in promoting the Blavod brand.

PLACING STATISTICS

Placing Price	98p
Number of Ordinary Shares being placed for the Company	4,081,633
Ordinary Shares in issue immediately following the Placing	14,326,306
Market capitalisation at the Placing Price	£14,039,779
Percentage of enlarged issued share capital being placed for the Company	28.49%
Approximate net proceeds of the Placing receivable by the Company	£3.5 million

Part II

INFORMATION ON THE COMPANY

Introduction

The Company owns and sells Blavod, a premium vodka brand. Blavod is a neutral tasting vodka which is black in colour. It was officially launched in March 1998. It is already achieving growing sales in the UK through off trade accounts such as Tesco and Walmart/Asda and through on trade accounts including JD Wetherspoon and Whitbread. It has been exported to over 30 countries, in particular the USA and more recently the Far East. The Directors' policy is to build on and to exploit the Group's ownership of the Blavod brand while continuing to subcontract production and distribution. Three years of growing sales without sustained marketing expenditure have demonstrated to the Directors that the Blavod brand has longevity beyond the initial interest that the colour black arouses.

The net proceeds of the Placing receivable by the Company, estimated to amount to approximately £3.5 million, will be used principally to expand the Group's marketing and promotional activities with a view to building the value of the Blavod brand.

History

Blavod was conceived in 1996 by Mark Dorman, an international advertising and marketing consultant, as a way of acquiring a share of the expanding premium vodka market. The Group has been developed with over £3,200,000 of private money, including a significant investment by companies associated with the French de Rothschild family. These investments have enabled the Group to register and protect the Blavod brand in its key markets, to build a global distributor network, to achieve listings in key retailers in the UK and to grow the Blavod brand. Despite lacking funds for a sustained marketing campaign, in the year to 31 March 2000 just under 30,000 cases of Blavod were sold.

The Board has considerable experience of the drinks industry and marketing and has an experienced finance director. Mark Dorman has international marketing experience with Foote Cone and Belding Advertising working on campaigns for companies such as Levi and British Airways. Richard Ambler, who joined the Company in November 2000, has worldwide management experience with IDV and Diageo with particular emphasis on the US market and Andrew Napier has wide UK sales experience with Martini & Rossi and IDV. The Non-Executive Chairman, Allan Shiach, was chairman of Macallan-Glenlivet from 1979 until 1996. During this time the Macallan single malt whisky developed into a worldwide international brand with its market capitalisation growing to some £180 million when it was acquired by a joint venture between Highland Distilleries and Suntory. David Wheatley was a corporate finance director at Midland Bank Group and finance director with an international design group.

The Product and its Market

Vodka is the largest category in the spirits market. Worldwide sales of branded vodka in 1999 were estimated at over 300 million cases (source: Impact Databank: July 2000). Blavod is positioned in the premium part of the vodka market where gross margins are greater than in the mid market.

The premium vodka market has a different structure in each region. The Directors consider the premium vodka market in the USA to comprise all imported vodkas retailing at over \$15 per 75cl bottle. In the UK, primarily for reasons of high excise duty, the market has a different structure and the Directors define premium as brands retailing at £10.99 and over per 70cl bottle with Smirnoff dominating this position. The Directors endeavour to ensure that Blavod is sold to off trade retailers at a price such that it is positioned in this part of the market at a premium to Smirnoff red label and priced competitively to Absolut. In mainland Western Europe and the Far East the vodka market structures are more similar to the UK than the USA.

Worldwide sales of premium vodka (excluding Russian brands) grew by 5 per cent. between 1998 and 1999 (source: Impact Databank: July 2000). The Directors expect the growth of the premium vodka market to continue. In 2000, out of a total of 30 million cases of vodka sold in the USA, in excess of 7 million were premium. The US premium vodka market grew at over 8 per cent. in volume terms between 1998 and 1999 (source: Impact Databank: July 2000).

Blavod is produced using the catechu herb. As a premium vodka that is black, Blavod is branded by being identifiable in the glass, in contrast to clear vodka which is not. This enables bar staff and consumers to introduce more variety into vodka based cocktails, a range of which is illustrated inside the front cover of this document. In addition, the Directors believe that Blavod benefits from its ability to mix creatively with energy drinks such as Red Bull™. The Directors consider that opportunities exist in the USA, the UK and the Far East to promote Blavod and energy drinks jointly in the on trade and through advertising.

Whilst fashion conscious vodka consumers particularly in the USA and the UK form a key part of the target market, the brand also appeals to the more middle range consumer who is seeking a premium quality vodka that is different and fun.

The Business

The Directors' objective is to build Blavod into a global premium brand selling 200,000 cases per annum worldwide.

The Group has an agreement with Hayman Limited to manufacture, bottle and supply Blavod. Hayman Limited is a family owned company with a history dating back to 1820 when it was founded by James Burrough, the great grandfather of the present chairman, Christopher Hayman. The James Burrough family was synonymous with Beefeater Gin which it distilled and distributed until it was bought by Whitbread in 1987. Hayman has the capacity to produce more than 200,000 cases of Blavod per annum. This allows the Group to maintain low overheads and concentrate its financial and management resources on the exploitation and marketing of the Blavod brand. As vodka does not require maturation unlike a number of other spirits, there is no requirement for working capital to fund the holding of maturing stock.

The Group's trading company, Black Vodka, carries out its own sales in the UK and has arranged distributors to carry out sales and distribution in its overseas markets. In the Company's last financial period to 31 March 2000 sales of just under 30,000 cases were achieved worldwide. Since then the UK market has continued to grow strongly and sales volume has increased by 39 per cent. during the calendar year 2000 with sales to Tesco up by 82 per cent. The brand is now listed in the UK's four largest supermarket chains. UK case sales in the key November and December 2000 sales period increased by 55 per cent. by volume over the corresponding period in 1999.

UK

Since its launch in March 1998 Blavod has achieved sales success without sustained marketing expenditure. It was launched against traditional industry practice into the off trade rather than the on trade to reduce the need for significant marketing expenditure. Blavod has achieved distribution in First Quench (Victoria Wine, Threshers, Huttons, Bottoms Up and Wine Rack), Tesco, Safeway, Sainsbury, Asda and Unwins. Increasing consumer awareness has led to growing demand from the on trade: JD Wetherspoon listed the brand for the first time in October 2000 in all their outlets (currently 440) and, since then, Whitbread have selected the brand for distribution in their on trade outlets targeted at young consumers (around 50 Hogshead city outlets).

It is the Directors' intention to manage the distribution of the Domaines Barons de Rothschild (Chateau Lafite) wine portfolio in the UK in order to spread overheads.

USA

In the first 15 months of trading in the USA, Blavod achieved distribution in 27 states. The Group has focused initially on sales into California, Florida and Texas. Further promotional investment is required to convert the distribution achieved into higher volumes and also to commence marketing in New York. Interestingly in the Control States, that is states controlled by local government, where very few promotional techniques are permitted, the sales of Blavod continue to expand showing the underlying strength of the brand amongst consumers not known to be at the cutting edge of style or fashion.

Western Europe

Given the lower margins available in mainland Western Europe compared to other areas, Blavod has appointed distributors but does not intend to commit funds to marketing ahead of specific opportunities for volume growth.

Eastern Europe

Strong duty free sales in Eastern Europe through the large Heinemann duty free distribution group show the demand for the brand in a wide range of European countries, not just those in the European Union. These opportunities will be further explored by the Board during 2001.

Rest of the World

Trading with the Far East has only just commenced, with Hong Kong, China and the Philippines having taken their first shipments of Blavod in the last three months. Sales have been made to Japan and Australia but these markets are not expected to provide as fast rates of growth as Hong Kong, China and the Philippines. As a result of the merger of United Distillers and IDV, the Directors believe there are a number of distributors in this part of the world who have lost brands and who are keen to grow new sources of revenue. The Group is also currently in negotiations with one of the major spirits companies to sell Blavod in South Africa which, if successful, may enable further co-operation with this company in other parts of the world.

Marketing and Sales Strategy

Whilst Blavod has been launched in over 30 countries in order to establish a wide trading base and to ensure its trade marks can be protected in those countries, the Directors intend to focus the marketing and building of the brand in the UK, the USA and parts of the Far East. Other countries will be allowed to develop at their own pace but if particular growth opportunities become apparent these will be nurtured.

Prospects and Use of Proceeds

Due to the reliance to date on private funding, the level of investment in promoting and marketing the Blavod brand has been limited. The Directors intend that the net proceeds of the Placing for the Company will be used principally to expand the Group's marketing and promotional activities and to continue to protect the Blavod brand through further trade mark registrations. In addition, the Company intends to repay certain outstanding loans and indebtedness totalling approximately £280,000, including repayment of a loan of £65,674 from a company controlled by Mark Dorman as referred to in paragraph 7(n) of Part IV of this document.

As noted above, the Board intends to focus on the key markets of the UK, USA and parts of the Far East. The UK focus will comprise mainly promotional spending in the off trade with some advertising with a view to accelerating the current growth in sales. Work has now commenced in "high image" on trade premises in London which, the Directors believe, will grow the image of the brand among opinion forming bar owners and bartenders.

In the USA and the Far East the focus will be on image creating promotional activity linked to the number of cases sold. In the USA much promotional activity is traditionally co-funded by the distributor which helps to ensure the latter's commitment to its success and to the efficient use of the funds deployed. The Directors also intend to exploit the link between Blavod and energy drinks, such as Red Bull™, via promotions and marketing activities.

Marketing activities will aim to promote the advertising proposition that Blavod is a smoother, premium vodka that is black. Three years of growing sales without sustained marketing expenditure has demonstrated to the Directors that the Blavod brand has longevity beyond the initial interest that vodka coloured black arouses.

The Directors believe that they can achieve their objective of creating a global premium vodka brand selling 200,000 cases per annum worldwide.

Reasons for Admission

The Directors consider that Admission will help to raise the profile of the Group amongst its existing and potential customers, add to its credibility and assist in promoting the Blavod brand. They believe it should also help the Company attract and retain high calibre staff by allowing the introduction of the employee share option scheme described in paragraph 6 of Part IV of this document.

The net proceeds of the Placing for the Company, estimated to amount to approximately £3.5 million will, as set out above, be used principally to expand the Group's marketing and promotional activities focusing on the core UK and USA markets and should allow sufficient funds to exploit opportunities that may arise in parts of the Far East.

Intellectual Property

The Group has retained Page White & Farrer to protect the Blavod brand by registering its trade marks around the world. The Group's principal mark, BLAVOD, is registered in class 33 "alcoholic beverages; vodka" in 29 countries including Australia, Canada, the European Union, Hong Kong, Japan and the USA. Applications are pending in a further nine countries. More recently the Group has made applications to register the BLAVOD mark for a broader range of merchandise (including printed matter and clothing) rather than simply alcoholic beverages. These applications have been granted in Australia and the European Union and are pending in eleven other countries.

In addition, the Group has sought to register the slogan BLACK THE COLOUR OF VODKA as a trade mark with a view to establishing a form of protection against third parties marketing vodka coloured black. The applications for registration of this mark in the UK and the EU were opposed by United Distillers and Vintners, proprietors of the Smirnoff black label brand. However, both oppositions have failed and, while the EU application is still pending, the mark is now registered in the UK. BLACK THE COLOUR OF VODKA is also registered in Japan, New Zealand, Norway and Taiwan with applications pending in a further four countries in addition to the EU and the USA.

In the UK and China, the Group is seeking to register the concept of vodka coloured black as a trade mark, while an application has been made in the USA to register the mark DESIGN OF THE COLOUR BLACK. Applications of this nature are unusual and there is no guarantee the Group will be successful in achieving such a registration. However, it has registered the black colour as a trade mark in Andorra. The look of the Blavod bottle is also registered as a trade mark in Andorra, Taiwan and the UK.

Financial Information

Details of the Group's trading record are set out in the Accountants' Report in Part III of this document.

Directors

The following are the Directors of the Company. The Company intends to recruit a further non-executive director and will make an appointment when a suitable candidate is selected. Details of contractual arrangements between the Company and the Directors are set out in paragraph 8 of Part IV, details of share options granted to Directors are set out in paragraph 2(f) of Part IV and further information on the Directors is set out in paragraph 7 of Part IV.

Allan Shiach BA (Hons.) – Non-Executive Chairman (age 58)

Allan Shiach was chairman of Macallan-Glenlivet from 1979 until 1996 and helped it to establish a highly successful international brand of single malt whisky.

From 1986 to 1998 he was chairman of the Film Production Fund and he was a governor of The British Film Institute from 1992 to 1998. He is a director of SMG plc, owners of two television franchises, Ginger Media Group, the national radio franchise Virgin Radio, 25% of GMTV and various newspapers and advertising interests. He is a former chairman of The Writers' Guild of Great Britain and beginning with "Don't Look Now" in 1974, he has written or co-written over a dozen feature films both in the UK and Hollywood. He joined the Board in February 2001.

Richard Ambler MBA – Chief Executive (age 45)

Richard Ambler joined IDV in 1981. In 1986 he left his role as brand manager in the UK for Bombay Sapphire to do an MBA. In 1988 he rejoined IDV as director for the USA for J&B Rare Scotch Whisky and subsequently took on responsibility for the Far East and then Europe. In 1994 he was promoted to be vice president of marketing of IDV's marketing company in the USA where he was responsible for both established brands such as Bailey's Irish Cream, J&B, Malibu and also for the introduction of several new brands.

In 1996 he moved to Italy to be managing director of Cinzano International (part of Diageo) responsible for sales and marketing worldwide. In 1998 he became managing director of Mentzendorff & Co, the import company in the UK for Bollinger Champagne, Taylors Port and premium wine and spirit brands including the Domaines Barons de Rothschild (Chateau Lafite) wines. He joined the Group in November 2000.

Mark Dorman – Marketing Director (age 44)

Between 1978 and 1986 Mark was an international advertising director at Foote Cone and Belding Advertising working out of London, Chicago and San Francisco, on brands including Levi, Bass, Toshiba, Palitoy, Cadbury's and British Airways. Mark left in 1986 to set up a pan European marketing company, Euro-American Marketing Services Limited, to manage US Government financed marketing programmes for a number of industries such as the US wine, apple, walnut, almond and prune industries to convert these commodities into consumer brands. In 1996 he founded the Group.

Andrew Napier MBA – Sales Director (age 50)

After 5 years experience in retail alcoholic drinks marketing, Andrew joined Martini & Rossi in a sales role in 1978. Two years later he moved to IDV to become a regional sales manager and was subsequently appointed national accounts manager. In 1984 he was promoted to national accounts director, responsible for accounts including Asda, FineFare, Gateway, Morrisons, Sainsbury and Tesco and for brands such as Baileys, Cinzano, Croft, Malibu, Piat d'Or and Smirnoff. He joined the Group in 1997 and assisted Mark Dorman to launch Blavod in the following year.

David Wheatley FCA – Finance Director (age 54)

David has managed his own corporate advisory business since April 1997, delivering solutions for clients with commercial problems in a range of businesses including financial information services, pharmaceutical research, safety surfacing and consumer products. Prior to setting up his own business, David spent seven years at DEGW International, a design and consulting practice, as group finance director. He led the reversal of a loss-making financial position, restoring profitability and financial strength through implementing a new board strategy and negotiated a successful sale to a Dutch consulting group.

His previous positions include a period as a corporate finance director at Midland Bank Group and senior manager at Deloitte Haskins & Sells, London. He has carried out consultancy work for the Group since October 1999 and joined the Board as a Director in January 2001.

Corporate Governance

The Directors intend that the Company will comply with the Principles of Good Governance and Code of Best Practice prepared by the Committee on Corporate Governance and appended to the Listing Rules of the London Stock Exchange, as refined by the Guidance for Smaller Companies published by the Quoted Companies Alliance, so far as is appropriate having regard to the size of the Company and to the fact that it currently has only one non-executive director.

The Company will hold Board meetings regularly throughout the year at which financial and other reports will be considered. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

An Audit Committee has been established comprising Allan Shiach and David Wheatley. The Committee is chaired by Allan Shiach. It will meet at least twice a year and is responsible, *inter alia*, for ensuring that the financial performance of the Company is properly reported on and monitored, for meeting the auditors and for reviewing the reports from the auditors relating to the accounts and internal control systems. David Wheatley

will retire from, and be replaced on, the Committee in due course by the additional non-executive director the Company intends to recruit.

A Remuneration Committee has also been established comprising Allan Shiach and Richard Ambler. The Committee, which is chaired by Allan Shiach, will meet as and when necessary, but at least once a year. It reviews, *inter alia*, the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. It is a rule of the Remuneration Committee that no director shall participate in discussions or decisions concerning his own remuneration. The Remuneration Committee will also determine the allocation of share options to directors of the Company. Richard Ambler will retire from, and be replaced on, the Committee in due course by the additional non-executive director the Company intends to recruit.

The Company has adopted a code for dealings by its directors and employees in the Ordinary Shares.

Dividends and Dividend Policy

The Company has never paid or declared any dividend on its shares. In the short term the Directors intend to reinvest future earnings to finance the growth of the business. When profits permit, the Directors will consider the payment of dividends. The payment of any future dividends will depend on the Company's financial performance, cash requirements, future prospects, the profits available for distribution and other factors deemed relevant at that time.

The Placing

Brewin Dolphin has conditionally agreed to use reasonable endeavours to procure subscribers or itself to subscribe for a total of 4,234,694 Ordinary Shares which are being placed conditionally with, principally, institutional investors at the Placing Price. The Placing Shares being issued by the Company will represent 28.49 per cent. of the enlarged issued ordinary share capital of the Company following the Placing. At the Placing Price, the Placing of 4,081,633 Ordinary Shares for the Company will raise approximately £3.5 million for the Company, net of expenses. In addition 153,061 Ordinary Shares are being placed on behalf of the Vendor at the Placing Price. The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares. The Placing is conditional on:

- (i) the London Stock Exchange admitting the existing Ordinary Shares and the Placing Shares to AIM and such admission becoming effective on or before 8.00am on 26 February 2001 (or such later time and date as the Company and Brewin Dolphin may agree, not being later than 8.00am on 12 March 2001); and
- (ii) the Placing Agreement becoming unconditional in all other respects and not being terminated by Brewin Dolphin in accordance with its terms.

Details of the Placing Agreement are contained in paragraph 17(a) of Part IV of this document.

It is anticipated that the Ordinary Shares will be admitted to trading on AIM on 26 February 2001.

Restrictions on Disposal of Shares

Each of the Directors, Dorinda Wolfe-Murray (who is the registered holder of 940,000 Ordinary Shares, all of which are beneficially owned by Mark Dorman), Jonathan Wheatley (an employee of the Group) and Bero SCA have undertaken pursuant to the AIM Rules to Brewin Dolphin and the Company in respect of 4,666,366 Ordinary Shares (being their entire interests in the Ordinary Shares on Admission) representing approximately 32.6 per cent. of the issued ordinary share capital following Admission and in respect of Ordinary Shares arising on the exercise of options and Warrants which they will hold on Admission over 2,160,022 Ordinary Shares, not to dispose of such interests (subject to certain limited exceptions permitted by the AIM Rules) until one year from Admission.

Shareholders holding a further 3,680,061 Ordinary Shares (being their entire interests in the Ordinary Shares on Admission) representing approximately 25.7 per cent. of the issued ordinary share capital following Admission, have undertaken to Brewin Dolphin and the Company in respect of such Ordinary Shares and in respect of Ordinary Shares arising on the exercise of options and Warrants which they will hold on Admission

over 986,846 Ordinary Shares not to dispose of such interests without the prior written consent of Brewin Dolphin (subject to certain exceptions) until one year from Admission.

The City Code on Takeovers and Mergers

Under Rule 9 of the City Code, any person (or group of persons acting in concert) who acquires 30 per cent. or more of the voting rights of a public company is normally required by the Panel on Takeovers and Mergers ("the Panel") to make a general offer to all shareholders of that company.

It is considered that Herrick Investissements SAS, Ponthieu Ventures SA and Bero SCA (together "the Rule 9 Shareholders"), all of which are companies associated with the French de Rothschild family, may be regarded as acting in concert for the purposes of Rule 9.

The Rule 9 Shareholders currently own 1,955,322 Ordinary Shares (as set out in paragraph 7(f) of Part IV of this document), being 26.93 per cent. of the Company's issued share capital at the date of this document, and hold warrants to subscribe for a further 2,200,000 Ordinary Shares (as set out in detail in paragraphs 2(j) and 5(a) of Part IV of this document). Conditional upon, *inter alia*, Admission occurring on or before 28 February 2001, the Rule 9 Shareholders have agreed on Admission to subscribe for a further 2,533,332 Ordinary Shares by exercising some of their warrants and capitalising certain loans they have made to the Company (as set out in detail in paragraphs 2(d)(viii)(2) and (3) of Part IV of this document) and to acquire from the holders thereof existing warrants to subscribe for, and options over, a further 310,000 Ordinary Shares (as set out in detail in paragraphs 2(j) and 5(a) of Part IV of this document).

Accordingly, on Admission the Rule 9 Shareholders will own a total of 4,488,654 Ordinary Shares, being approximately 31.3 per cent. of the Company's issued share capital immediately after the Placing, as set out in detail in paragraph 7(f) of Part IV of this document. Furthermore, on Admission the Rule 9 Shareholders will hold warrants to subscribe for, and options over, 450,000 Ordinary Shares, as set out in detail in paragraphs 2(j) and 5(a) of Part IV of this document. If such warrants and options were all exercised after completion of the Placing at the earliest date on which they respectively become exercisable, then immediately following such exercise (assuming that no other warrants to subscribe for, or options over, Ordinary Shares have been exercised and no further Ordinary Shares have been issued), the Rule 9 Shareholders would then hold a total of 4,938,654 Ordinary Shares, representing approximately 34.5 per cent. of the share capital of the Company then in issue.

The Rule 9 Shareholders wish to preserve the publicly traded status of the Company following Admission and do not wish to obtain majority control. The Panel has agreed therefore to waive the requirement which might otherwise arise as a result of such acquisition on Admission of Ordinary Shares by the Rule 9 Shareholders for such persons to make a general offer to shareholders under Rule 9.

Since following Admission and completion of the Placing, the Rule 9 Shareholders will own or control in aggregate approximately 31.3 per cent. before the exercise of the warrants and options referred to above and approximately 34.5 per cent. after the exercise of such warrants and options, the Rule 9 Shareholders will not be permitted to acquire any additional Ordinary Shares which increase their aggregate percentage of the Company's voting share capital (by, for example, purchasing Ordinary Shares) without incurring an obligation under Rule 9 to make a general offer to all the holders of Ordinary Shares (although they will be permitted to exercise all the warrants and options referred to above without being obliged to make such an offer).

If, at any time following Admission and completion of the Placing, the Rule 9 Shareholders should own or control more than 50 per cent. of the Company's voting share capital, the Rule 9 Shareholders will be free to acquire any of the Company's voting share capital without incurring any obligations under Rule 9 to make a general offer to all the holders of Ordinary Shares.

Risk Factors

Investors should be aware of the risks associated with an investment in the Company. In particular, the following risk factors should be considered:

Retention of Key Directors

The departure of key Directors from the Group could adversely affect the Group. The Group has therefore entered into service agreements with each of the executive Directors with terms containing non-compete provisions which are considered enforceable. Share options have been granted to Directors details of which are set out in paragraph 7(b) of Part IV.

Competition

Changing commercial circumstances and new entrants to the markets in which the Group operates may impinge on the Group's business.

Limited Operating History

Developing and selling a new product is subject to higher risks than those associated with a product having an established track record. There is no certainty that the Group will be able to achieve market acceptance or generate material revenues for several years.

Working Capital

While the Directors believe that the Company has sufficient working capital for its present requirements, that is for at least the next twelve months, the Company may seek additional capital or issue further shares to enable the Group to progress through further stages of development.

Intellectual Property Rights

There is no certainty that the Group can protect its proprietary information. Should it require to do so the expense of doing so could have an adverse effect on the Group's operating results.

Product Quality and Continuity of Supply

In using a third party supplier, the Group relies on Hayman Limited for the supply and quality of Blavod. In turn, Hayman is reliant on a third party supplier to provide all of the Blavod bottles. If either of these parties were unable, or unwilling, to continue to supply then the continuity of supply to customers could be temporarily adversely affected which could have a material adverse effect on the Group's operating results. The Directors believe, however, that alternative sources of supply could be obtained if necessary.

Distributor and Importer Risk

The actions of overseas third party distributors and importers may cause reputational or financial damage to the Group.

Foreign Currencies

Some of the Company's income and expenditure may be denominated in foreign currencies. Fluctuations in exchange rates may, therefore, adversely affect the Group's performance.

Law and Regulations

The law, regulations applicable and excise duties in the United Kingdom and elsewhere may change which could have an adverse effect on the Group.

Marketability of Shares

Potential investors should be aware that the value of shares can rise or fall and that investment in a share which is traded on AIM may be less realisable and carry a higher risk than investment in a share listed on the Official List. Investors may realise less than their original investment.

An investment in the Company may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services Act 1986 who specialises in advising on investments of this kind before making any investment decisions.

PART III

ACCOUNTANTS' REPORT

The following is a report by Smith & Williamson, Chartered Accountants, to the Directors and the directors of Brewin Dolphin:

Smith & Williamson

— Chartered Accountants —

The Directors
Blavod Black Vodka plc
202 Fulham Road
London
SW10 9PJ

The Directors
Brewin Dolphin Securities Limited
48 St. Vincent Street
Glasgow
G2 5TS

15 February 2001

Dear Sirs

BLAVOD BLACK VODKA PLC ("THE COMPANY") AND SUBSIDIARIES ("BLAVOD" OR "THE GROUP")

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 15 February 2001 ("the Prospectus").

INTRODUCTION

Blavod Black Vodka plc was incorporated on 5 March 1999 as Woodwick Limited. On 21 May 1999, Woodwick Limited changed its name to Black Vodka Limited.

Black Vodka Limited ("BVL"), was incorporated on 12 April 1999 as Crossbost Limited. On 10 June 1999, Crossbost Limited changed its name to Blavod Black Vodka Limited.

Blavod Properties Limited ("BPL"), was incorporated on 12 April 1999 as Braeswick Limited. On 9 June 1999, Braeswick Limited changed its name to Blavod Properties Limited.

On 22 June 1999 the Company completed the acquisition of all the shares in The Original Black Vodka Company Limited ("Original") and The Original Black Vodka Co. (International) Limited ("International"). This entailed one share in the Company being offered for every one share in Original, and one share in the Company being offered for every one share in International.

Following the formation of the Group, the trade of both Original and International was transferred to BVL and intellectual property rights of Original and International to BPL. Both Original and International remain dormant subsidiaries.

The Company was re-registered as a public limited company and changed its name to Blavod Black Vodka plc and BVL changed its name to Black Vodka Limited on 9 February 2001.

BASIS OF PREPARATION

The financial information set out below, is extracted from the audited consolidated financial statements of the Group for the period from 5 March 1999 to 31 March 2000 and the six month period ended 30 September 2000, to which we have made no adjustment.

The financial statements for both periods were audited by Cheesman and Partners. In both periods, in forming their opinion, they considered the adequacy of the disclosures made in the financial statements in connection with the preparation of the financial statements on a going concern basis. Their opinion was not qualified in this respect.

RESPONSIBILITY

Such financial statements are the responsibility of the Directors of the Group who approved their issue. The Directors of the Group are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by us relating to the audit of the financial statements for each of the periods. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made in the financial information concerning the basis of preparation. The financial information has been prepared on a going concern basis and the validity of this depends principally on the availability of funding arising from a successful admission of the Group on the Alternative Investment Market. The financial information does not include any adjustment that would result from a failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

OPINION

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses and cash flows for the periods then ended.

CONSENT

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b) and 45(10)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		5 March 1999 to 31 March 2000 £	1 April 2000 to 30 September 2000 £
	Notes		
Turnover	1	776,062	409,361
Cost of sales		(637,761)	(291,246)
Gross Profit		138,301	118,115
Administrative expenses		(1,122,036)	(553,614)
Other operating income		363	735
Operating loss	3	(983,372)	(434,764)
Interest receivable	4	8,632	2,100
Interest payable and similar charges	5	(41,491)	(3,884)
Loss on ordinary activities before taxation		(1,016,231)	(436,548)
Tax on loss on ordinary activities	6	—	—
Retained loss for the financial period	16	(1,016,231)	(436,548)
Basic (loss) per share	7	(28.03p)	(12.04p)
Diluted (loss) per share	7	(22.58p)	(9.68p)

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

CONSOLIDATED BALANCE SHEET

		31 March 2000 £	30 September 2000 £
	Notes		
Fixed assets			
Intangible assets	8	922,859	917,466
Tangible assets	9	9,222	7,398
		932,081	924,864
Current assets			
Stock	10	63,693	63,911
Debtors	11	263,797	146,769
Cash at bank and in hand		154,556	114,237
		482,046	324,917
Creditors: amounts falling due within one year	12	(998,542)	(1,295,744)
Net current liabilities		(516,496)	(970,827)
Total assets less current liabilities		415,585	(45,963)
Creditors: amounts falling due after one year	13	(155,341)	(130,341)
Net assets/(liabilities)		260,244	(176,304)
Capital and reserves			
Called up share capital	15	36,252	36,252
Share premium account	16	1,240,223	1,240,223
Profit and loss account	16	(1,016,231)	(1,452,779)
Equity shareholders' funds	16	260,244	(176,304)

CONSOLIDATED CASH FLOW STATEMENT

		5 March 1999 to 31 March 2000 £	1 April 2000 to 30 September 2000 £
Net cash outflow from operating activities	Notes A	(1,105,944)	(181,860)
Returns on investments and servicing of finance			
Interest paid		(41,491)	(3,884)
Interest received		8,632	2,100
Net cash outflow from returns on investments and servicing of finance		(32,859)	(1,784)
Capital expenditure			
Purchase of intangible fixed assets		(16,691)	(18,157)
Purchase of tangible fixed assets		(4,769)	.
Net cash outflow for capital expenditure		(21,460)	(18,157)
Acquisition			
Cash acquired with subsidiary		18,432	—
Net cash outflow for acquisition		18,432	
Financing			
Issue of ordinary shares		1,250,002	—
Investors' loans		150,000	150,000
Repayment of bank loan		(112,501)	(5,832)
Net cash inflow from financing		1,287,501	144,168
Increase/(decrease) in cash	B	145,670	(57,633)

NOTES TO THE CASH FLOW STATEMENT

A. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOW

	5 March 1999 to 31 March 2000 £	1 April 2000 to 30 September 2000 £
Operating loss	(983,372)	(434,764)
Depreciation	701	1,824
Amortisation	35,956	23,550
Decrease in debtors	187,161	117,028
Decrease/(increase) in stock	33,421	(218)
(Decrease)/increase in creditors	(379,811)	110,720
Net cash outflow from operating activities	(1,105,944)	(181,860)

B. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	£	£
Increase/(decrease) in cash in the period	145,670	(57,633)
Cash (inflow) from net increase in debt	(37,499)	(144,168)
Change in debt resulting from cash flows	108,171	(201,801)
Loans of acquired companies	(273,674)	—
Net debt at beginning of period	—	(165,503)
Net debt at end of period	(165,503)	(367,304)

C. ANALYSIS OF CHANGES IN NET DEBT

	At 5 March 1999 £	Cash flows £	Acquired £	At 31 March 2000 £
Cash at bank and in hand	—	154,556	—	154,556
Overdraft	—	(8,886)	—	(8,886)
	—	145,670	—	145,670
Debt due within one year	—	(155,832)	—	(155,832)
Debt due after one year	—	118,333	(273,674)	(155,341)
	—	108,171	(273,674)	(165,503)
	At 1 April 2000 £	Cash flows £	Other non-cash changes £	At 30 September 2000 £
Cash at bank and in hand	154,556	(40,319)	—	114,237
Overdraft	(8,886)	(17,314)	—	(26,200)
	145,670	(57,633)	—	88,037
Debt due within one year	155,832	(144,168)	(25,000)	(325,000)
Debt due after one year	(155,341)	—	25,000	(130,341)
	(165,503)	(201,801)	—	(367,304)

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards.

The financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the significant accounting policies adopted by the Group and the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(a) Going Concern

The financial statements have been prepared on the going concern basis which assumes the Group will continue to trade. The validity of the assumption is dependent upon the Group obtaining additional funding adequate to pay its debts as they fall due. The going concern assumption is subject to uncertainty because to date the Group has traded at a loss, future profitability is dependent upon the growth and development of its brand and until the Group's operations become cash generative it is dependent on attracting further funding.

The directors have prepared future cash flow projections and, with the expectation of the successful placing and admission on the Alternative Investment Market, consider it appropriate to adopt the going concern basis in preparing the financial statements. If the going concern basis was not to be appropriate, adjustments would have to be made to the financial information to reduce the value of assets to the recoverable amounts, to provide for further liabilities that may arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

(b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings at each financial period end. The results of subsidiary undertakings acquired or disposed of during a financial period are included from, or up to, the effective date of acquisition or disposal.

(c) Turnover

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the period.

(d) Goodwill

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

(e) Intangible fixed assets

Acquired brands and other intangible assets which are controlled through custody or legal rights and could be sold separately from the rest of the business are capitalised at cost or fair value where such value can be reliably measured.

The Group's policy is to write off intangible fixed assets over their estimated life of 20 years. An annual review is carried out by the directors to consider whether any brand has suffered an impairment in value. The principal acquired brand included above is Blavod Black Vodka.

(f) Depreciation of tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Fixtures and fittings	33% Straight line
Office equipment	20% Straight line

(g) Stock

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

(h) Taxation

The charge for taxation takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Provision is made for deferred taxation only to the extent that it is probable that a liability or asset will crystallise.

(i) **Leasing and hire purchase**

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their estimated useful lives. Finance charges and interest are taken to the profit and loss account in constant proportion to the remaining balance of capital repayments or net obligation outstanding.

Rentals payable under operating leases are taken to the profit and loss account on a straight line basis over the lease term.

(j) **Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into the profit and loss account for the period.

2. EMPLOYEES AND DIRECTORS

(a) **Employee information**

The average number of persons, including executive directors, employed by the Group during the periods was:

	5 March 1999 to 31 March 2000 Number	1 April 2000 to 30 September 2000 Number
Administration	2	2
Sales and production	5	5
	<u>7</u>	<u>7</u>

(b) **Employee costs**

The costs incurred in respect of these employees were as follows:

	£	£
Wages and salaries	149,247	52,083
Social security costs	11,016	12,260
Pension costs	5,625	3,750
	<u>165,888</u>	<u>68,093</u>

(c) **Directors' emoluments**

	£	£
Directors' remuneration	98,458	63,750
Pension costs	5,625	3,750
	<u></u>	<u></u>

The Group does not operate a company pension scheme. However, during the period ended 30 September 2000 it made contributions amounting to £3,750 (31 March 2000: £5,625) to the personal pension schemes of one of the directors.

3. OPERATING LOSS

	5 March 1999 to 31 March 2000 £	1 April 2000 to 30 September 2000 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation	701	1,824
Amortisation	35,956	23,550
Auditors' remuneration:		
Audit	15,250	11,250
Non-audit services	35,785	—
Operating lease rental payments on land and buildings	16,750	12,806
	<u></u>	<u></u>
And after crediting:		
Gain on foreign currencies	(10,113)	(512)
	<u></u>	<u></u>

4. INTEREST RECEIVABLE

	5 March 1999 to 31 March 2000 £	1 April 2000 to 30 September 2000 £
Bank interest	8,632	1,959
Other interest	—	141
	<u>8,632</u>	<u>2,100</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	£	£
On bank overdrafts	385	99
On loans repayable in full within five years	11,875	3,785
Other interest	11,371	---
Factoring charges	17,860	---
	<u>41,491</u>	<u>3,884</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no liability to corporation tax in respect of the periods in view of the losses sustained. At 30 September 2000, there were approximately £3,062,000 (31 March 2000: £2,653,000) of tax losses available within the Group to carry forward against profits for the same trade. Of these losses, £1,288,000 were acquired with the trade of The Original Black Vodka Company Limited and have not yet been agreed by the Inland Revenue. Credit has not been taken for the deferred tax asset arising on the grounds of prudence.

7. LOSS PER SHARE AND DILUTED LOSS PER SHARE

Loss per share is calculated by dividing the loss attributable to ordinary shareholders of £435,548 (31 March 2000: £1,016,231) by 3,625,161, being the weighted average number of ordinary shares in issue during both periods.

Diluted loss per share is calculated by dividing the loss attributable to ordinary shareholders as disclosed above, by 4,500,366 (31 March 2000: 4,500,366) being the weighted average number of ordinary shares in issue during each period, adjusted for the weighted number of share options and warrants outstanding at the end of each period. For the purposes of dilution, outstanding share options have been included at their exercise price of £1 per share.

8. INTANGIBLE ASSETS

Cost	Goodwill £	Trade marks and brands £	Total £
Acquired during the period	26,475	932,340	958,815
At 31 March 2000	26,475	932,340	958,815
Acquired during the period	—	18,157	18,157
At 30 September 2000	26,475	950,497	976,972
Amortisation			
Charge for the period	993	34,963	35,956
At 31 March 2000	993	34,963	35,956
Charge for the period	662	22,888	23,550
At 30 September 2000	1,655	57,851	59,506
Net book value			
At 31 March 2000	25,482	897,377	922,859
At 30 September 2000	24,820	892,646	917,466

9. TANGIBLE FIXED ASSETS

Cost	Office equipment £	Furniture and fittings £	Total £
Acquired during the period	5,431	4,492	9,923
At 31 March 2000	5,431	4,492	9,923
Acquired during the period	—	—	—
At 30 September 2000	5,431	4,492	9,923
Depreciation			
Charge for the period	177	524	701
At 31 March 2000	177	524	701
Charge for the period	476	1,348	1,824
At 30 September 2000	653	1,872	2,525
Net book value			
At 31 March 2000	5,254	3,968	9,222
At 30 September 2000	4,778	2,620	7,398

10. STOCK

	31 March 2000 £	30 September 2000 £
Finished goods and goods for resale	63,693	63,911

11. DEBTORS

	£	£
Trade debtors	130,358	85,779
Other debtors	70,007	27,003
Prepayments and accrued income	63,432	33,987
	263,797	146,769

12. CREDITORS: amounts falling due within one year

	31 March 2000 £	30 September 2000 £
Bank loans (see note 14)	5,832	25,000
Overdrafts (see note 14)	8,886	26,200
Trade creditors	692,115	750,935
Other creditors including taxation and social security	8,024	14,938
Shareholder loans (see note 14)	150,000	300,000
Accruals and deferred income	133,685	178,671
	<u>998,542</u>	<u>1,295,744</u>

13. CREDITORS: amounts falling due after one year

	£	£
Bank loans (see note 14)	86,667	61,667
Shareholder loans (see note 14)	68,674	68,674
	<u>155,341</u>	<u>130,341</u>

14. BORROWINGS

The Group's bank loans represent two loans from National Westminster Bank Plc of £100,000 and £150,000 respectively, subject to variable interest rates, currently 3% over base rate. Repayments of both loans are in 60 equal monthly instalments with the final payments due in March 2003 and October 2003.

The bank loans are secured by way of a fixed and floating charge over the current and future assets of the trading subsidiary, Black Vodka Limited.

In addition, under the Industrial Development Act 1982, the Secretary of State guarantees 80% of the Company's obligations under the "Small Firms Loan Guarantee Scheme".

Shareholders loans:

- £65,674 due to Euro-American Marketing Services Limited, a company of which a director, Mark Dorman, is a director and shareholder. Under the terms of an agreement dated 17 May 1999 the loan will only be repayable on an offer for the whole of the share capital of Blavod Black Vodka plc becoming unconditional or on a sale of its business or substantially all of its assets but the Company has agreed to repay the loan from the proceeds of the Placing. The loan is interest free.
- A number of shareholders have lent the Group a total £300,000, £150,000 in the period ended 31 March 2000 and a further £150,000 in the period ended 30 September 2000. At 30 September 2000 the Company had agreed to issue warrants to the lending shareholders entitling the holder to 1.5 shares per £1 of loan but it has not issued these warrants. The Company has agreed, conditional on Admission, that these warrants will be cancelled with effect from Admission and the loans will be capitalised into 799,998 shares.
- There is a shareholder loan for £3,000. The terms of this loan is that it is interest free and unsecured. There is no set repayment date for this loan.

15. CALLED UP SHARE CAPITAL

	31 March 2000 £	30 September 2000 £
Authorised		
5,000,000 ordinary shares of £0.01 each	50,000	50,000
	<hr/>	<hr/>
Allotted, called up and fully paid	£	£
3,625,161 ordinary shares of £0.01 each	36,252	36,252
	<hr/>	<hr/>

Two ordinary shares of £1 each were issued at par for cash consideration on incorporation of the Company in order to establish its capital base. On 1 April 1999 an ordinary resolution was passed increasing the authorised share capital by 49,000 shares to 50,000 ordinary shares of £1 each. The shares were then converted to 5,000,000 ordinary shares of 1p each.

On 2 June 1999 and 22 June 1999 the Company allocated an aggregate of 2,647,300 ordinary shares of 1p each and taken together with the converted subscriber shares as consideration for the acquisitions of The Original Black Vodka Company Limited and The Original Black Vodka Co. (International) Limited.

On 1 July 1999 the Company allocated 977,661 ordinary shares for total cash consideration of £1,250,000 to provide working capital for the Group.

On 18 December 2000 the Company passed an ordinary resolution increasing the authorised share capital by 15 million ordinary shares to 20 million ordinary shares.

On 16 January 2001 a further 5,000 ordinary shares were issued for £10,000.

On 9 February 2001 a further 3,630,161 ordinary shares were issued to the shareholders of the Company at 16 January 2001 by way of a capitalisation of the Company's share premium account and bonus issue of one ordinary share for every one existing ordinary share held.

Conditional on Admission occurring on or before 28 February 2001:

- (a) 133,333 ordinary shares will be issued on Admission to a shareholder in relation to the capitalisation of £50,000 due to that shareholder;
- (b) a total of 799,998 ordinary shares will be issued on Admission to certain shareholders of the Company in relation to the capitalisation of loans they have made to the Company totalling £300,000;
- (c) a total of 2,000,000 ordinary shares will be issued on Admission pursuant to the exercise of warrants issued by the Company on 14 November 2000;
- (d) 51,020 ordinary shares will be issued at the Placing Price on Admission to The Mackenzie Partnership Limited in relation to the capitalisation of £50,000 due to that company.

On 25 June 1999 the Company constituted and issued 820,000 warrants over its share capital. Following a variation dated 9 February 2001, each warrant confers upon the holder the right to subscribe in cash for two ordinary shares in the Company at the subscription price of 50p. The subscription period is for 10 years to 2 June 2009 and as at the balance sheet date no warrants had been exercised.

On 14 November 2000 the Company constituted a further 1,000,000 warrants over its share capital. Following a variation dated 9 February 2001, each warrant confers upon the holder the right to subscribe in cash for two ordinary shares in the Company at the subscription price of 37½p. There is no fixed subscription period. As at 30 September 2000 no warrants had been exercised but the warrant holders have agreed, conditional on Admission occurring on or before 28 February 2001, to exercise their warrants in full on Admission.

16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Share capital £	Share premium account £	Profit and loss account £	Total £
On incorporation	2	—	—	2
Arising on shares issued in period	36,250	1,240,223	—	1,276,473
Loss for the financial period	—	—	(1,016,231)	(1,016,231)
At 31 March 2000	36,252	1,240,223	(1,016,231)	260,244
Loss for the financial period	—	—	(436,548)	(436,548)
At 30 September 2000	36,252	1,240,223	(1,452,779)	(176,304)

17. PURCHASE OF SUBSIDIARY UNDERTAKINGS

On 22 June 1999 the Company completed the acquisitions of the whole of the issued share capital of The Original Black Vodka Company Limited and The Original Black Vodka Co. (International) Limited for a consideration of £26,475 in the form of a share for share exchange.

The fair value of the assets and liabilities acquired in respect of each acquisition, the cost of consideration and goodwill arising was as follows:

	The Original Black Vodka Company Limited	The Original Black Vodka Co. (International) Limited
Fixed assets		
Tangible fixed assets	5,154	—
Intangible fixed assets	899,126	16,523
	904,280	16,523
Current assets		
Stock	46,676	50,438
Trade debtors	57,839	299,720
Other debtors	88,950	4,449
Cash at bank and at hand	12,518	5,914
	205,983	360,521
Creditors: Amounts falling due within one year		
Trade creditors	(712,772)	(334,033)
Other creditors	(39,411)	(36,723)
Other taxes and social security costs	(36,064)	
Accruals	(51,342)	(3,288)
Loans	(50,000)	(3,000)
	(889,589)	(377,044)
Net current liabilities	(683,606)	(16,523)
Creditors: Amounts falling due after more than one year		
Loans	(220,674)	—
Total assets less current liabilities	—	—
Goodwill	12,460	14,015
Fair value of assets acquired	12,460	14,015
Satisfied by:		
Issue of shares	12,460	14,015

18. COMMITMENTS

At the each financial period end the Group was committed to making the following payments during the next year in respect of operating leases with expiry dates as follow:

	Land and Buildings
	2000
	£
Within one year	22,000

19. GUARANTEES AND INDEMNITIES

The Company, BVL and BPL are party to a composite accounting arrangement and guarantee with its bankers. Amounts due to the bank are secured on the assets of Black Vodka Limited.

20. POST BALANCE SHEET EVENTS

On 14 November 2000 Blavod Black Vodka plc obtained a further loan for £750,000 for investment in working capital from private investors. The terms of this loan are that it is interest free until 28 February 2001 and thereafter at interest accrues at 2% above LIBOR. The loan is repayable on demand at any time on or after 1 March 2001. The loan is secured on all Group assets both current and future. The loan has 1,000,000 warrants to subscribe for 2,000,000 ordinary shares attached to it. The Company has agreed with the lenders, conditional on Admission occurring on or before 28 February 2001, to repay the loan on Admission and the lenders will use the proceeds of the loan to exercise the warrants in full.

21. RELATED PARTY TRANSACTIONS

The Company had an oral agreement with Euro-American Marketing Services Limited for the period 1 March 1998 to 28 February 2000 for the services of Mark Dorman for an annual fee of £60,000. Amounts charged to the profit and loss account during the period in respect of this agreement totalled £11,025 (31 March 2000: £49,558). At 30 September 2000 £54 (31 March 2000: £5,053) were included within trade creditors as being due. The Company also has an oral agreement with that Company for the provision of office space and services for an annual fee of £22,000. Mark Dorman is a director of the Company and is a director of, and controls, Euro-American Marketing Services Limited.

Included within other creditors due after more than one year are amounts totalling £65,674 due to Euro-American Marketing Services Limited. Under the terms of an agreement dated 17 May 1999 the loan will only be repayable on an offer for the whole of the share capital of Blavod Black Vodka plc becoming unconditional or on a sale of its business or substantially all of its assets but the Company has agreed to repay the loan from the proceeds of the Placing. The loan is interest free.

Yours faithfully

Smith & Williamson
Chartered Accountants

PART IV

ADDITIONAL INFORMATION

1. THE COMPANY

- (a) The Company was incorporated in England and Wales on 5 March 1999 under the Companies Acts 1985 to 1989 as a private company limited by shares with the name Woodwick Limited and the registered number 3727483.
- (b) The Company changed its name to Black Vodka Limited on 21 May 1999. On 9 February 2001 the Company re-registered as a public company limited by shares with the name Blavod Black Vodka plc.
- (c) The liability of the members of the Company is limited to the amount paid up or to be paid up on their shares.
- (d) The registered office of the Company is at 202 Fulham Road, London SW10 9PJ.

2. SHARE CAPITAL

- (a) On incorporation the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each.
- (b) By an ordinary resolution passed on 1 April 1999 the capital of the Company was sub-divided into 1p shares and was increased to £50,000 divided into 5,000,000 Ordinary Shares. By a further ordinary resolution dated 18 December 2000 the authorised share capital of the Company was increased to £200,000 divided into 20,000,000 Ordinary Shares. By a further ordinary resolution dated 9 February 2001 the authorised share capital of the Company was increased to £250,000 divided into 25,000,000 Ordinary Shares.
- (c) By ordinary and special resolutions passed on 9 February 2001:
 - (i) the Directors were authorised for the purpose of section 80 of the Act to allot relevant securities in the capital of the Company up to an aggregate nominal amount of £139,000, such authority to expire on 8 May 2002 or, if earlier, at the conclusion of the next annual general meeting of the Company in 2002; and
 - (ii) the Directors were empowered to allot shares as if section 89(1) of the Act did not apply, for issues of equity securities in connection with (1) up to an aggregate nominal amount of £51,000 pursuant to the Placing; (2) up to an aggregate nominal amount of £2,000 pursuant to a grant of options to a new non-executive chairman; (3) up to an aggregate amount of £3,825 pursuant to the grant of options pursuant to the Scheme; (4) in connection with rights issues; and (5) up to an aggregate nominal amount of £7,650 in respect of other allotments, such power to expire on 8 May 2002, or if earlier, at the conclusion of the next annual general meeting of the Company in 2002.
- (d)
 - (i) The Company was incorporated on 5 March 1999 with two subscriber shares of £1 each.
 - (ii) On 1 April 1999 each ordinary share of £1 each in the Company was sub-divided into 100 Ordinary Shares.
 - (iii) On 2 June 1999 a further 2,566,300 Ordinary Shares were issued pursuant to an offer ("the Offer") made by the Company to purchase the entire issued share capitals of The Original Black Vodka Company Limited and The Original Black Vodka Co. (International) Limited on the basis of a share for share swap.
 - (iv) On 22 June 1999 a further 81,000 Ordinary Shares were issued pursuant to further acceptances received by the Company in relation to the Offer.
 - (v) On 25 June 1999 a further 977,661 Ordinary Shares were issued to Bero SCA, Herrick Investissements SAS and Ponthieu Ventures SA, three companies associated with the French de Rothschild family in consideration for £1.25 million.
 - (vi) On 16 January 2001 a further 5,000 Ordinary Shares were issued to David Smith for £10,000.
 - (vii) On 9 February 2001 a further 3,630,161 Ordinary Shares were issued to the shareholders of the Company at 16 January 2001 by way of a capitalisation of the Company's share premium account and bonus issue of one Ordinary Share for every one existing Ordinary Share held;
 - (viii) Conditional on Admission occurring on or before 28 February 2001:
 - (1) 133,333 Ordinary Shares will be issued on Admission to Hayman Limited in relation to the capitalisation of £50,000 of indebtedness due to that company;
 - (2) a total of 799,998 Ordinary Shares will be issued on Admission to certain shareholders of the Company (but not Directors) in relation to the capitalisation of loans they have made to the Company totalling £300,000. Of these Ordinary Shares, a total of 533,332 Ordinary Shares will be issued to Bero SCA and Herrick Investissements SAS;

- (3) a total of 2,000,000 Ordinary Shares will be issued on Admission to Bero SCA and Herrick Investissements SAS pursuant to the exercise of all the warrants held by them referred to in sub-paragraph (j) below; and
- (4) 51,020 Ordinary Shares will be issued at the Placing Price on Admission to The Mackenzie Partnership Limited in relation to the capitalisation of £50,000 of indebtedness due to that company.
- (e) As at the date of this document, and following the Placing, the Company's authorised and issued share capital is and will be as follows:

	Present		Following the Placing	
	Nominal Value	Number of	Nominal Value	Number of
	(£)	Ordinary Shares	(£)	Ordinary Shares
Authorised	250,000.00	25,000,000	250,000.00	25,000,000
Issued and fully paid	72,603.22	7,260,322	143,263.06	14,326,306

As at Admission the Company will have outstanding 820,000 Warrants which if exercised in full would result in the allotment of a further 1,640,000 Ordinary Shares and has presently granted options over a total 1,710,410 Ordinary Shares.

- (f) The Company has granted options over 1,600,000 Ordinary Shares to the Directors as described in paragraph 7(b) of this Part IV pursuant to option agreements dated 14 November 2000 and 16 January 2001, as varied by letters dated 9 February 2001, and 15 February 2001. The principal terms of these option agreements are as follows:
- (i) The options are exercisable at any time in whole or in part and are not subject to any exercise or performance conditions;
 - (ii) The options are conditional, *inter alia*, upon the Company raising by 28 February 2001 at least £3 million from sources other than Bero SCA and Herrick Investissements SAS in exchange for no more than 30 per cent. of the issued share capital of the Company;
 - (iii) The options will cease to be exercisable on the date four weeks before an offer to acquire all or a majority of the issued ordinary share capital of the Company becomes unconditional unless the sale price for the Ordinary Shares is at least the relevant option price.
- (g) The Company has granted options over its Ordinary Shares pursuant to an option agreement dated 2 June 1999, as varied by a letter dated 9 February 2001 and a deed of novation dated 13 February 2001. The principal terms of this option agreement are as follows:
- (i) Dial Ventures Limited has an option to subscribe for 110,410 Ordinary Shares at 64p per share but, conditional on Admission occurring on or before 28 February 2001, it has agreed on Admission to assign that part of the option as relates to 9,970 of those Ordinary Shares to Herrick Investissements SAS and that part of the option as relates to 12,106 of those Ordinary Shares to Bero SCA;
 - (ii) The options are exercisable at any time in whole or in part during a period of 10 years commencing on 25 June 1999 and shall lapse if not exercised during this period.
- (h) The Company has issued 820,000 Warrants which, if exercised in full, would result in the allotment of 1,640,000 Ordinary Shares. Further details of the Warrants are set out in paragraph 5 of this Part IV.
- (i) On 19 January 2000 and 23 May 2000 the Company agreed to issue a total of 450,000 warrants to the shareholders referred to in sub-paragraph (d)(viii)(2) above. Each warrant was to entitle the holder to subscribe for one Ordinary Share at £1 per share. Such warrants were never issued by the Company and the relevant shareholders have agreed as part of the terms of the capitalisation of their loans referred to in sub-paragraph (d)(viii)(2) above that they will, conditional on Admission occurring on or before 28 February 2001, waive with effect from Admission any and all rights they have to such warrants.
- (j) The Company has issued 1,000,000 warrants to Bero SCA and Herrick Investissements SAS pursuant to a warrant instrument dated 14 November 2000, as amended on 9 February 2001. Each warrant carries the right for the holder to subscribe in cash for two Ordinary Shares at 37½ p per share.
- (k) Save as is disclosed in sub-paragraphs (f), (g), (h), (i) and (j) above and paragraphs 5, 6 and 7 of this Part IV, no share or loan capital of any member of the Group is under option or agreed conditionally or unconditionally to be put under option.
- (l) Except to the extent disapplied pursuant to Section 95 of the Act (as is referred to in sub-paragraph (c)(ii) above), the provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be paid up in, cash) will apply to the authorised but unissued share capital of the Company.

3. SIGNIFICANT INVESTMENTS

Save as disclosed in this document, there have been no significant investments by the Company or any of its subsidiaries since 30 September 2000, being the date to which the last audited accounts of the Company have been made up.

4. MEMORANDUM AND ARTICLES OF ASSOCIATION

(A) Memorandum of association of the Company

The principal objects of the Company are to carry on business as a general commercial company.

The objects of the Company are set out in full in Clause 4 of the memorandum of association of the Company which is available for inspection at the address and times specified in paragraph 19 of this Part IV.

(B) Summary of the articles of association of the Company

The articles of association of the Company, which were adopted by special resolution on 9 February 2001 ("the Articles"), contain provisions *inter alia* to the following effect:

(a) Voting rights

At general meetings of the Company, on a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative shall have one vote and on a poll every member present in person or by proxy shall have one vote for every Ordinary Share held by him. On a poll votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

(b) Restrictions on voting

If a member, or any other person appearing to be interested in Ordinary Shares held by such member, has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying to the Company the information thereby required, then the directors may in their absolute discretion at any time thereafter by notice ("a direction notice") to such member direct that in respect of the shares in relation to which the default occurred ("default shares") the member shall not be entitled to vote at any general meeting of the Company or to exercise any other right conferred by membership in relation to a general meeting of the Company. Where default shares represent at least 0.25 per cent. of the issued shares of that class the direction notice may additionally direct that any cash dividend or other money which would otherwise be payable on the default shares shall be retained by the Company without any liability to pay interest on such dividend or other money when it is finally paid and/or no transfer of any shares held by such member shall be registered unless it is a transfer to an offeror by way of the acceptance of or in pursuance of a takeover offer or the directors are satisfied that the transfer is made pursuant to a sale of the whole of the beneficial ownership of the shares to an unconnected third party or it results from a sale made through a recognised investment exchange or any other stock exchange outside the United Kingdom on which the Company's shares are normally traded. The prescribed period referred to above means 28 days from the date of the service of the direction notice except in any case where the default shares represent at least 0.25 per cent. of the issued shares of that class when the prescribed period is 14 days from such date.

(c) Alteration of capital

(i) The Company may from time to time by ordinary resolution:

- (1) increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe;
- (2) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (3) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (4) sub-divide all or any of its shares into shares of a smaller amount.

(ii) The Company may reduce its share capital or any capital redemption reserve fund or share premium account or other undistributable reserve in any manner and with and subject to any incident authorised and consent required by law.

(d) Variation of rights

Subject to the provisions of the Act, and every other statute (and any regulations subordinate thereto) for the time being concerning companies and affecting the Company ("the Statutes"), the holders of any class of shares may, by an extraordinary resolution passed at a meeting of such holders, consent to the issue or creation of any shares ranking equally therewith, or having any priority thereto, or to the abandonment of any preference or priority or of any

accrued dividend, or the reduction for any time or permanently of the dividends payable thereon, or to the amalgamation into one class of the shares of any two or more classes, or to the sub-division of shares of one class into shares of different classes, or any alterations in the Articles varying or taking away any rights or privileges attached to shares of the class, or to any scheme for the reduction of the Company's capital affecting the class of shares in a manner not otherwise authorised by the Articles, or to any scheme for the distribution (though not in accordance with legal rights) of assets in money or in kind on or before liquidation, or to any contract for the sale of the whole or any part of the Company's property or business determining the way in which as between the several classes of shareholders the purchase consideration shall be distributed. The consent in writing of the holders of three-fourths of the issued shares of the class shall have the same effect as an extraordinary resolution passed at a meeting of holders of shares of the class.

Any meeting for this purpose shall be convened and conducted in all respects as nearly as possible in the same way as an extraordinary general meeting of the Company provided that no member, not being a director, shall be entitled to notice thereof or to attend thereat, unless he is a holder of shares of the class intended to be affected by the resolution and that (except that a chairman if a director may give a casting vote whether a holder of shares of the class or not) no vote shall be given except in respect of a share of that class, and that the quorum at any such meeting shall be members holding or representing by proxy not less than one-third of the issued shares of that class.

(c) *Purchase of own shares*

Subject to the provisions of the Statutes, the Company may purchase any of its own shares (including any redeemable shares).

(f) *Transfer of shares*

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect thereof. The registration of transfers may be suspended at such times and for such period as the directors may from time to time determine and either generally or in respect of any class of shares.

The directors may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share and is deposited at the place where the register of members of the Company is situate for the time being accompanied by the relevant share certificate(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

(g) *Dividends*

The Company may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the directors. No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid through the period in respect of which the dividend is paid) be apportioned and paid pro rata accordingly to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. The directors may pay interim dividends of such amounts and on such dates and respect of such period as they think fit.

(h) *Scrip dividend entitlement*

The Company may upon the recommendation of the directors by ordinary resolution authorise the directors to capitalise any sum standing to the credit of any of the Company's reserve accounts (including any share premium account, capital redemption reserve or other undistributable reserve) or any sum standing to the credit of profit and loss account or otherwise available for distribution, and to appropriate the sum resolved to be capitalised to the holders of Ordinary Shares in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend on the Ordinary Shares and to apply such sum on their behalf either in or towards paying up the amounts (if any) for the time being unpaid on any shares held by them respectively or in paying up in full unissued shares of the Company of a nominal amount equal to such sum, such shares or debentures to be allotted and distributed credited as fully paid up to and amongst them in the proportion aforesaid or partly in one way and partly in another.

(i) *Unclaimed dividends*

All dividends unclaimed for a period of twelve years from the date such dividend became due for payment shall, if the directors so resolve, be forfeited and shall revert to the Company.

(j) *Distribution of assets on a winding up*

On a winding up the liquidator may, with the authority of an extraordinary resolution, divide among the members *in specie* or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as among the members or different classes of members. The liquidator may with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like authority, shall think fit but no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) *Directors*

(i) *Retirement by rotation*

At each annual general meeting of the Company one third of the directors for the time being (or, if their number is not a multiple of three, the number nearest one-third) shall retire by rotation and be eligible for re-election. The directors to retire shall be those who have been longest in office or, in the case of those who became or were last re-elected directors on the same day, shall, unless they otherwise agree, be determined by lot.

(ii) *Number of directors*

Subject as set out below, the directors shall not be less than two in number. The Company may by ordinary resolution from time to time vary the minimum number of directors and/or fix and from time to time vary the maximum number of directors.

(iii) *Directors' remuneration and expenses*

Any director who is appointed to any executive office or who serves on any committee or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director may be paid remuneration by way of salary, commission or otherwise. The directors may repay to any director all such reasonable expenses as he may incur in attending and returning from meetings of the directors or of any committee of the directors or general meetings or otherwise in or about the business of the Company.

The directors have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any director or ex-director who may hold or have held any executive office or any office or place of profit under the Company or any of its subsidiaries and for the purpose of providing any such pensions or other benefits to contribute to any scheme or fund or to pay premiums.

(iv) *Interests in contracts*

A director may be party to or in any way interested in any contract or arrangement or transaction to which the Company is a party or in which the Company is in any way interested and he may hold any office or place of profit (other than the office of auditor of the Company or any subsidiary thereof) under the Company or any other company in which the Company is in any way interested and he (or any firm of which he is a member) may act in a professional capacity for the Company or any such other company and be remunerated therefor and in any such case as aforesaid (save as otherwise agreed by him) he may retain for his own absolute use and benefit all profits and advantages accruing to him thereunder or in consequence thereof.

(v) *Appointment to executive office*

The directors may from time to time appoint one or more of their body to be holder of any executive office by such title and on such terms and for such period as they may (subject to the provisions of the Statutes) determine and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke any such appointment.

The appointment of any director to the office of chairman or to any executive office shall automatically determine if he ceases to be a director but without prejudice to any claim for damages for breach of any contract of service between him and the Company.

(vi) *Appointment*

Subject to the provisions of the Articles, directors may be appointed by ordinary resolution. The directors shall have power at any time and from time to time to appoint any person to be a director either to fill a casual vacancy or as an additional director, but so that the total number of directors shall not at any time exceed the maximum number (if any) fixed by or in accordance with the Articles. Any director so appointed shall hold office only until the next annual general meeting and shall then be eligible for election, but shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.

(vii) *Directors' interests*

- (1) A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company shall declare the nature of his interest in accordance with the provisions of the Statutes.
- (2) Save as provided in the Articles, a director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has an interest which (together with any interest of any person connected with him for the purposes of the Act) is a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. Provided that he has declared his interest in accordance with these Articles, a director shall be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (3) Subject to the provisions of the Statutes, a director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters namely: (a) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries; (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security; (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof; (d) any proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he (together with persons connected with him within the meaning of section 346 of the Act) is not beneficially interested in one per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant Company (any such interest being deemed for these purpose to be a material interest in all circumstances); (e) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme or employees' share scheme under which he may benefit except where such proposal directly concerns his own individual rights of participation in or benefits under such scheme; and (f) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or the benefit of persons including directors.

(l) *Indemnity to directors and officers*

Subject to the provisions of and so far as may be consistent with the Statutes, every director, auditor, secretary or other officer of the Company shall be entitled to be indemnified by the Company out of its own funds against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and / or discharge of his duties and / or the exercise or purported exercise of his powers and / or otherwise in relation to or in connection with his duties, powers or office including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company and in which judgement is given in his favour (or the proceedings are otherwise disposed of without any finding or admission or any material breach of duty on his part) or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the court.

(m) *Borrowing powers*

- (i) The directors may exercise all the powers of the Company to borrow money.
- (ii) The directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that the aggregate amount for the time being of all borrowings by the Company shall not without the previous sanction of an ordinary resolution of the Company exceed an amount equal to four times the adjusted capital and reserves (as calculated in the manner set out in the Articles).

5. DETAILS OF THE WARRANTS

- (a) The Warrants were created by the Warrant Instrument pursuant to which 820,000 Warrants have been issued. The Warrants are not listed on the London Stock Exchange or admitted to trading on AIM and there is no intention to seek such a listing or admission.

As at the date of this document and immediately following the Placing (Herrick Investissements SAS, Bero SCA and Christopher Salin (an individual connected with those companies and a former director of the Company) having agreed, conditional on Admission occurring on or before 28 February 2001, to acquire on Admission 143,962 Warrants from the other holders of the same) the Warrants are and will be held as follows:

Warrantholder	Present		Following the Placing	
	Number of Warrants	Number of Ordinary Shares subject to Warrants	Number of Warrants	Number of Ordinary Shares subject to Warrants
A Wheatley	110,000	220,000	88,006	176,012
S Wheatley	25,000	50,000	20,001	40,002
M J Wheatley	25,000	50,000	20,001	40,002
J D Wheatley	180,000	360,000	144,010	288,020
D J Wheatley	20,000	40,000	16,001	32,002
Willowby Limited	288,000	576,000	230,415	460,830
S Svenson & A Svenson	72,000	144,000	57,604	115,208
Herrick Investissements SAS	100,000	200,000	100,015	200,030
Bero SCA	—	—	113,947	227,894
C Salin	—	—	30,000	60,000

(b) The principal provisions of the Warrant Instrument are as follows:

(i) *Subscription rights*

Each Warrant carries the right for the holder (“Warrantholder”) to subscribe in cash for two Ordinary Shares at a subscription price of 50p per Ordinary Share.

(ii) *Exercise of Warrants*

The Warrants may be exercised in whole or in part at any time before 2 June 2009 (“the Final Subscription Date”).

(iii) *Ranking for distributions*

Ordinary Shares allotted pursuant to the exercise of the Warrants will not rank for any distribution arising by reference to a record date prior to the date the notice of subscription was lodged but shall otherwise participate in all dividends and other distributions in respect of the then current financial period of the Company *pari passu* in all other respects with the Ordinary Shares in issue on that date.

(iv) *Lapse of Warrants*

Any Warrants which have not been exercised by the Final Subscription Date will lapse.

(v) *Adjustment of subscription rights*

The subscription rights for the Warrants shall from time to time be adjusted proportionally in the event of any consolidation or sub-division of the nominal value of the Ordinary Shares.

(vi) *Admission of Ordinary Shares to listing or trading*

So long as the Company’s share capital is listed on the London Stock Exchange or on AIM, the Company will apply to the London Stock Exchange for any Ordinary Shares allotted pursuant to any exercise of subscription rights under the Warrants to be admitted to the Official List or AIM.

(vii) *Transfer*

Each Warrant is in registered form and is fully transferable.

(viii) *Winding up*

If an order is made or an effective resolution is passed on or before the Final Subscription Date for the winding up of the Company each Warrantholder will be entitled for the purpose of ascertaining his rights in the winding up to be treated as if he had immediately before the date of the passing of the order or resolution fully exercised his Warrants and in that event he shall be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he fully exercised his Warrants after deducting a sum equal to the sum which would have been payable in respect of such exercise.

(ix) *Variation of rights*

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the Warrantholders at a meeting of the Warrantholders entitled to subscribe for 25 per cent. in the nominal amount of the Ordinary Shares attributable to the outstanding Warrants.

6. EMPLOYEE SHARE OPTION SCHEME

- (a) The Company intends following Admission to grant options over a total of 200,000 Ordinary Shares under the Scheme to certain employees excluding the Directors.
- (b) The following is a summary of the principal terms of the Scheme which was adopted by the shareholders of the Company on 9 February 2001. It is not and is not intended to be approved by the Inland Revenue and options granted under it will not be eligible for favourable tax treatment.

(i) *Eligibility*

All employees and directors of the Company and any subsidiaries designated by the Directors, whether full time or part time, are eligible to participate in the Scheme.

(ii) *Grant of options*

The Directors may grant options to acquire Ordinary Shares under the Scheme to any eligible employee. Options can normally only be granted within 42 days following the announcement of the Company's results for any period. Options may be granted subject to a performance or exercise condition.

Save for options granted prior to, or within 42 days after, Admission options will be granted with an option price which is not less than the market value of an Ordinary Share on the date of grant (or, where Ordinary Shares are to be subscribed rather than purchased, their nominal value (if greater)). Market value means, where Ordinary Shares are not listed on the Official List, the market value of an Ordinary Share as agreed in advance with the Inland Revenue and, where Ordinary Shares are listed, the middle market quotation of an Ordinary Share (derived from the Official List) on the dealing day before the date of grant or, if the Directors so determine, the average middle market quotation over the preceding three dealing days (or any other value agreed with the Inland Revenue).

(iii) *Exercise of options*

Options are normally exercisable, subject to the satisfaction of any performance or exercise condition, at any time after the grant, provided the optionholder remains an employee or director of the Group. Options which have not been exercised will normally lapse on the tenth anniversary of grant. Options may, however, be exercised early in certain circumstances (even if any performance or exercise condition has not been satisfied), for example, if an optionholder ceases to be an employee due to injury, disability, redundancy, retirement or a change in control of his employing company or business and, unless the Directors decide otherwise, in the event of a takeover or winding-up of the Company. The directors may also allow options to be exercised in whole or in part in the event of a demerger, dividend *in specie*, super-dividend or any other transaction which the directors believe would affect the value of options. Options are not transferable and may only be exercised by the persons to whom they are granted.

(iv) *Issue of shares*

Ordinary Shares issued on the exercise of options will rank equally with shares in issue at that time, except in respect of rights arising by reference to a prior record date. Application will be made to the London Stock Exchange for the admission of Ordinary Shares issued under the Scheme to trading on AIM or to the Official List if the Ordinary Shares are so traded or listed.

(v) *Substitution of options*

In the event of a change in control of the Company in certain circumstances, the directors may determine that options will be substituted for options over shares in the acquiring company.

(vi) *Variation in share capital*

Options may be adjusted following certain variations in the share capital of the Company, including a capitalisation or rights issue, sub-division or consolidation of share capital and a distribution *in specie*.

(vii) *Scheme limits*

The number of new Ordinary Shares which may be issued under the Scheme is subject to the following limits:

- (1) in any 10 year period, not more than 10 per cent. of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other employee share scheme operated by the Company;

- (2) in any 10 year period, not more than 5 per cent. of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other executive share option scheme adopted by the Company;
- (3) during the first four years following adoption of the Scheme, not more than 2.5 per cent. of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other executive share option scheme adopted by the Company; and
- (4) in any 3 year period, not more than 3 per cent. of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other employee share scheme adopted by the Company.

For the purpose of these limits, no account will be taken of any Ordinary Shares (i) where the right to the shares lapsed or was released or (ii) which were issued or placed under option prior to, or within 42 days after, Admission under the Scheme or any other employee share scheme operated by the Company.

(viii) *Individual limits*

An employee's participation is limited so that the aggregate price payable on the exercise of all options granted to him under the Scheme and any other executive share option scheme operated by the Company in any 10 year period (but, at the discretion of the directors, excluding options which have been exercised, if there has been a sustained improvement in the Company's performance over the preceding two to three years) will not exceed four times his total remuneration. For the purposes of this limit, no account will be taken of any option which has lapsed or been released or which was granted prior to, or within 42 days after, Admission under the Scheme or any other employee share scheme operated by the Company.

(ix) *Amendments*

The rules of the Scheme relating to eligibility, scheme and individual limits, the option price, rights attaching to options and shares and rights of optionholders in the event of a variation of capital may, generally, not be amended to the advantage of optionholders without shareholder approval. Otherwise, the directors can amend the Scheme.

(x) *Termination*

The directors may, at any time, terminate the Scheme. If this happens, no further options will be granted but the provisions of the Scheme will continue in relation to options already granted. No options may be granted after the tenth anniversary of the adoption of the Scheme rules.

7. DIRECTORS' AND OTHERS' INTERESTS

- (a) As at 13 February 2001 (the latest practicable date prior to the publication of this document) and immediately following the Placing, the interests of the Directors in the issued share capital of the Company which have been notified to the Company pursuant to sections 324 or 328 of the Act or are required to be entered in the Company's statutory register maintained in accordance with section 325 of the Act and the interests of all persons connected with the Directors (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed in accordance with the foregoing sections and the existence of which is known to, or could with reasonable diligence be ascertained by, the Directors concerned, (all of which are beneficial unless otherwise stated) are and will be as follows:

Director	Present		Following the Placing	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
A G Shiach	—	—	102,040 ⁽¹⁾	0.71%
R C Q Ambler	—	—	—	—
M J Dorman	2,040,000 ⁽²⁾	28.10%	1,886,939 ^{(2) (3)}	13.17%
A Napier	210,000	2.89%	210,000	1.47%
D J Wheatley	40,000	0.55%	40,000	0.28%

Notes:

- (1) Allan Shiach intends to subscribe for 102,040 Ordinary Shares pursuant to the Placing.
- (2) Includes 940,000 Ordinary Shares, all of which are beneficially owned by Mark Dorman but registered in the name of Dorinda Wolfe-Murray.
- (3) Mark Dorman intends to sell 153,061 Ordinary Shares pursuant to the Placing.

- (b) The Directors have conditionally been granted options to subscribe for Ordinary Shares pursuant to option agreements, the terms of which are summarised in paragraph 2(f) of this Part IV, as follows:

	Number of Ordinary Shares subject to options	Date of grant	Exercise price per share	Exercise period
A G Shiach	200,000	15.02.01	75p	15.02.01 to 14.02.11
R C Q Ambler	500,000	14.11.00	50p	14.11.00 to 13.11.10
M J Dorman	500,000	14.11.00	75p	14.11.00 to 13.11.10
A Napier	200,000	14.11.00	75p	14.11.00 to 13.11.10
D J Wheatley	200,000	16.01.01	75p	16.01.01 to 15.01.11

In addition David Wheatley holds 20,000 Warrants to subscribe for 40,000 Ordinary Shares as are described in paragraph 5(a) of this Part IV. Conditional on Admission occurring on or before 28 February 2001, he has agreed to dispose of Warrants relating to 7,998 Ordinary Shares leaving him holding 16,001 Warrants to subscribe for 32,002 Ordinary Shares.

- (c) Save as disclosed in sub-paragraphs (a) and (b) above, none of the Directors or any persons connected with them (within the meaning of section 346 of the Act) has any interest, beneficial or non-beneficial, in the share capital of the Company or of any of its subsidiaries.
- (d) The aggregate remuneration paid and benefits in kind granted to the Directors during the financial year ended 31 March 2000 was £104,083 and the aggregate remuneration payable and benefits in kind to be granted to the Directors and any proposed directors, for the current financial year ending 31 March 2001 is estimated to be £153,000.
- (e) Save as disclosed herein, there are no outstanding loans or guarantees provided by the Group to or for the benefit of any of the Directors.
- (f) In addition to the interests of the Directors shown in sub-paragraph (a) above, the following persons, in so far as the Directors are aware, are as at 13 February 2001 (the latest practicable date prior to the publication of this document) and will be immediately following the Placing interested, directly or indirectly, in 3 per cent. or more of issued share capital of the Company:

Shareholder	Present		Following the Placing	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Bero SCA	977,660	13.47%	2,244,326 ⁽¹⁾	15.67%
Herrick Investissements SAS	156,426	2.15%	1,423,092 ⁽¹⁾	9.93%
Ponthieu Ventures SA	821,236	8.06%	821,236	5.73%
A Wheatley	574,000	5.63%	574,000	4.01%
Willowby Limited	401,333	3.94%	401,333	2.80%

Notes:

(1) Includes the issues of Ordinary Shares on Admission referred to in paragraphs 2(d)(viii)(2) and (3) of this Part IV.

- (g) Save as disclosed in this paragraph 7, the Directors are not aware of any persons who, directly, indirectly, jointly or severally, exercise or could exercise control over the Company.
- (h) The Directors and their current directorships (in addition to their directorships of the Company) and directorships held during the five years preceding the date of this document are as follows:

Name	Current Directorships	Past Directorships
A G Shiach	Fourth Angel Productions (UK) Limited Grizzly Productions (UK) Limited La Compagnie des Armagnacs Rafford Films Limited SMG plc	Macallan-Glenlivet plc Scottish Screen Scottish Screen (Enterprises) Limited The Scotch Whisky Association The British Film Institute
R C Q Ambler	Caledonian Finance Edinburgh Limited Caledonian Finance Limited Caledonian Investment and Finance Company Limited Edinburgh Mortgage Corporation Limited	Mentzendorff & Company Limited
M J Dorman	Black Vodka Limited Blavod Properties Limited Euro-American Marketing Services Limited The Original Black Vodka Co. (International) Limited The Original Black Vodka Company Limited	—
A Napier	Black Vodka Limited Blavod Properties Limited Consul Limited The Original Black Vodka Co. (International) Limited The Original Black Vodka Company Limited Toptags Limited	
D J Wheatley	Peppermints Limited	Cablemove Limited DEGW (Europe) Limited DEGW International Consulting Limited DEGW International Limited DEGW London Limited DEGW Trustees Limited DEGW Deutschland GmbH

- (i) The Directors and their current partnerships and partnerships held during the five years preceding the date of this document are as follows:

Name	Current Partnership	Past Partnership
A G Shiach	—	—
R C Q Ambler	—	—
M J Dorman	Woodford Partnership	—
A Napier	—	—
D J Wheatley	—	—

- (j) David Wheatley was a director of Bulstrode Properties Limited when it was placed in insolvent liquidation on 22 June 1992. He was also a director of Porters North Limited which was placed in insolvent liquidation on 24 November 1993 after he had resigned on 9 October 1993 due to a conflict of interest. Both were companies whose only liabilities were in respect of property leases and related commitments and no trade creditors were affected. The Department of Trade and Industry did not investigate the conduct of the directors in relation to either liquidation.

- (k) Save as disclosed in sub-paragraph (j) above, none of the Directors has:

- (i) any unspent convictions relating to indictable offences;
- (ii) had a bankruptcy order made against him or entered into any individual voluntary arrangements;
- (iii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company at the time of, or within the twelve months preceding, such events;
- (iv) been a partner of a firm which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement whilst he was a partner of that firm at the time of, or within twelve months preceding, such events;
- (v) had any asset belonging to him made the subject of a receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership; and

- (vi) been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a Court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (l) Pursuant to an oral agreement The Original Black Vodka Company Limited (with effect from 23 July 1999, Black Vodka) engaged EAMS to supply the services of Mark Dorman to the Group for a fee of £5,000 per month from 1 March 1998 to 28 February 2000.
- (m) Pursuant to an oral agreement EAMS provided office space and services at 202 Fulham Road, London SW10 9PJ to Black Vodka for £22,000 per annum from March 1997 to 31 December 2000.
- (n) EAMS advanced an interest free loan to The Original Black Vodka Company Limited pursuant to an agreement dated 17 May 1999 and for which Black Vodka is now responsible. The outstanding amount payable and due from Black Vodka to EAMS is £65,674. This sum will be repaid immediately in full after Admission out of the proceeds of the Placing.
- (o) By a letter dated 14 October 1999 the Company engaged David Wheatley to provide certain accounting and other services to the Group for the period from October 1999 to January 2001 at a fee of £44,750.
- (p) Save as disclosed above, no Director has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and its subsidiaries during the current or immediately preceding financial year or which was effected by the Company or any of its subsidiaries during an earlier financial year and remains in any respect outstanding or unperformed.

8. DIRECTORS' SERVICE AGREEMENTS, LETTER OF APPOINTMENT AND EMOLUMENTS

- (a) The following contracts of service have been entered into between the Company and the Directors:
 - (i) a service agreement dated 15 February 2001 pursuant to which Richard Ambler is employed as Chief Executive. The agreement is for a fixed term of 2 years from the date of the agreement and thereafter terminable by the Company on 12 months' written notice or by Richard Ambler on 6 months' written notice. The initial salary is to be not less than £75,000 per annum and will be reviewed annually by the Board. Richard Ambler is entitled to an annual discretionary bonus, private health insurance for himself, his spouse and any minor children, life assurance at three times salary, critical illness insurance, a car allowance of £250 per month and reimbursement of business mileage. On a successful flotation of the Company on AIM, Richard Ambler will be entitled to a payment equal to 10 per cent. per annum of his annual salary into a personal pension scheme of his choice.
 - (ii) a service agreement dated 15 February 2001 under which Mark Dorman is employed as Marketing Director of the Company on terms similar to those of Richard Ambler's service agreement save that his salary is not less than £70,000 per annum and he may spend 10 per cent. of his time on the business of EAMS;
 - (iii) a service agreement dated 16 January 2001 under which Andrew Napier is employed as Sales Director of the Company on terms similar to Richard Ambler's service agreement save that his fixed term of two years commenced on 1 January 2001, his salary is not less than £50,000 per annum, the Company will pay £10,000 per annum to a personal pension scheme of his choice, the amount of such salary and pension contribution to be reviewed on an upward basis only on the successful flotation of the Company;
 - (iv) a service agreement dated 16 January 2001 under which David Wheatley is employed as Finance Director of the Company on terms similar to those of Richard Ambler's service agreement save that his fixed term of two years commenced on 1 January 2001, he is required to work not less than 10 days per calendar month on the business of the Company, is paid a salary of £60,000 per annum and is not entitled to a car allowance;

Save as disclosed above, there are no existing or proposed contracts of service between the Company and any Director.

- (b) Mr A Shiach signed a letter of appointment dated 15 February 2001 pursuant to which he was appointed a non-executive director for a fee of £10,000 per annum. The fee is reviewed annually by the Board. Mr Shiach is required to offer himself for re-election at the next Annual General Meeting. Subject to such re-election, his appointment continues until his turn comes next to retire by rotation under the Articles or until he resigns on not less than six months' notice or is removed as a director pursuant to the Articles.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within two years immediately preceding the date of this document and are or may be material in the context of the Company:

- (i) the Placing Agreement, a summary of which is set out in paragraph 17(a) of this Part IV;
- (ii) the option agreements dated 14 November 2000 and 16 January 2001, as varied by letters dated 9 February 2001, and 15 February 2001 between the Company and its Directors, a summary of which is set out in paragraph 2(f) of this Part IV;
- (iii) a warrant instrument by the Company dated 14 November 2000, as amended on 9 February 2001, pursuant to which the Company has issued the 1,000,000 warrants referred to in paragraph 2(j) of this Part IV and which are to be exercised on Admission as detailed in paragraph 2(d)(viii)(3) of this Part IV;
- (iv) a loan agreement dated 14 November 2000 between (1) the Company, (2) Bero SCA and Herrick Investissements SAS, (3) Herrick Investissements SAS (as agent) and (4) Herrick Investissements SAS (as security agent) relating to a loan of £750,000 to the Company;
- (v) a composite guarantee and debenture dated 14 November 2000 between (1) the Company, (2) Blavod Properties Limited and (3) Herrick Investissements SAS;
- (vi) a letter dated 21 August 2000, as varied by a letter dated 1 November 2000, whereby the Company engaged The Mackenzie Partnership Limited as the Company's corporate adviser to assist it in raising £2.5 million or more by way of equity investment for a retainer of £5,000 and a commission on the amount of money raised, such retainer and commission not to exceed £100,000;
- (vii) a loan agreement dated 23 May 2000 between (1) the Company, (2) Herrick Investissements SAS, (3) Bero SCA, (4) A Wheatley, (5) S Svenson and A Svenson and (6) Willowby Limited relating to a loan of £150,000 to the Company (which loan is to be capitalised as detailed in paragraph 2(d)(viii)(2) of this Part IV) and to an agreement by the Company to issue 225,000 of the warrants referred to in paragraph 2(i) of this Part IV;
- (viii) a loan agreement dated 19 January 2000 between (1) the Company, (2) Herrick Investissements SAS, (3) Bero SCA and (4) A Wheatley relating to a loan of £150,000 to the Company (which loan is to be capitalised as detailed in paragraph 2(d)(viii)(2) of this Part IV) and to an agreement by the Company to issue 225,000 of the warrants referred to in paragraph 2(i) of this Part IV;
- (ix) the Warrant Instrument, a summary of which is set out in paragraph 5 of this Part IV;
- (x) the option agreement dated 2 June 1999 between the Company and Dial Ventures Limited, as varied by a letter dated 9 February 2001 and a deed of novation dated 15 February 2001 between (1) the Company, (2) Dial Ventures Limited, (3) Bero SCA and (4) Herrick Investissements SAS, a summary of which is set out in paragraph 2(g) of this Part IV;
- (xi) the letter of engagement dated 14 October 1999 between the Company and David Wheatley, a summary of which is set out in paragraph 6(o) of this Part IV; and
- (xii) an offer document dated 17 May 1999 issued by the Company in respect of the entire issued share capital of The Original Black Vodka Company Limited and The Original Black Vodka Co. (International) Limited.

10. PREMISES

The following are the only premises owned or leased by the Group:

Group Company	Location	Lease start date	Lease expiry date	Current rent
Black Vodka Limited	202 Fulham Road, London SW10 9PJ	1 January 2001	31 December 2004	£22,000 per annum

11. SUBSIDIARIES

The Company is the holding company of a group, the other members of which are the following companies, all of which are wholly owned subsidiaries of the Company:

Name	Date of incorporation	Authorised share capital	Issued and fully paid share capital	Country of incorporation	Principal activity
Black Vodka Limited	12 April 1999	£2	£2	England	General commercial company
Blavod Properties Limited	12 April 1999	£2	£2	England	Intellectual property holding company
The Original Black Vodka Company Limited	18 March 1996	£25,000	£12,460	England	Dormant
The Original Black Vodka Co. (International) Limited	24 February 1998	£25,000	£14,015	England	Dormant

All the above subsidiaries operate in their country of incorporation.

12. LITIGATION

Neither the Company nor any other member of the Group is involved in any legal or arbitration proceedings and, so far as the Directors are aware, there are no legal or arbitration proceedings, pending or threatened against them or being brought by the Company or any other member of the Group which may have a significant effect on the financial position of the Company.

13. WORKING CAPITAL

The Directors, having made due and careful enquiry, are of the opinion that, taking into account the net proceeds of the Placing receivable by the Company, the working capital available to the Company and the members of its Group will be sufficient for their present requirements, that is for at least the next twelve months from Admission.

14. SIGNIFICANT CHANGE IN FINANCIAL POSITION

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 September 2000, the date to which the latest audited accounts of the Group were prepared.

15. NOMINATED ADVISER AND BROKER

Brewin Dolphin Securities Limited of 48 St Vincent Street, Glasgow G2 5TS is the nominated adviser to the Company and Bell Lawrie White (a division of Brewin Dolphin) of 48 St Vincent Street, Glasgow G2 5TS is the broker to the Company.

16. UK TAXATION

The following paragraphs are intended as a general guide only and are based on current UK tax legislation and Inland Revenue practice as at the date of this document. Except where the position of non-UK resident shareholders is expressly referred to, they deal only with the position of shareholders who are resident or ordinarily resident in the UK for tax purposes, who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. They do not deal with the position of certain classes of shareholders, such as dealers in securities.

(a) Dividends

The Company will not be required to account for advance corporation tax ("ACT") in respect of dividends. Furthermore, the Company will not be required to withhold tax at source from dividend payments it makes.

Individual shareholders resident in the UK will generally be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their total income tax liability. The amount of the tax credit is one-ninth of the amount of the cash dividend. The amount of the cash dividend received by such an individual shareholder and the associated tax credit are both included in calculating the shareholder's income for UK tax purposes.

The rate of income tax on dividends is 10 per cent. for starting and basic rate taxpayers. The tax credit will discharge the entire income tax liability of an individual shareholder who is not liable to income tax at a rate greater than the basic rate. Higher rate taxpayers will be liable to tax on such dividends at the rate of 32.5 per cent., so that an individual shareholder who is a higher rate taxpayer will have a liability, after taking account of the tax credit, equal to 25 per cent. of the cash dividend.

A UK resident corporate shareholder will not normally be liable to corporation tax in respect of any dividend received.

Shareholders will generally not benefit from any entitlement to a refund of any part of the tax credit, although non-resident shareholders may receive a benefit under applicable double taxation treaties.

(b) Stamp duty and stamp duty reserve tax

Stamp duty and stamp duty reserve tax ("SDRT") treatment under the Placing will be as follows:

- (i) in relation to the shares being issued by the Company, no liability to stamp duty or SDRT will arise on their issue or on the issue of definitive share certificates by the Company;
- (ii) in relation to the Placing Shares being sold by the Vendor a liability to stamp duty and/or SDRT will arise in relation to their sale under the Placing. The Vendor has agreed to meet such liability;
- (iii) the transfer of shares will generally be liable to stamp duty at the rate of 0.5 per cent. rounded up to the next £5 of the value of the consideration given. A charge to SDRT at the rate of 0.5 per cent. of the consideration will arise in the case of an unconditional agreement to transfer shares on the date of the agreement, and in the case of a conditional agreement on the date the agreement becomes unconditional. However, if within the period of

six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee;

- (iv) no stamp duty or SDRT will arise on a deposit of shares in CREST for conversion into uncertificated form (otherwise than pursuant to a transfer on sale or in contemplation of such sale), unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out in 1 above;
- (v) a transfer of shares effected within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the actual consideration.

Special rules apply to certain categories of person including intermediaries and persons connected with depository arrangements and clearance services.

(c) *Capital gains*

A disposal of shares by a shareholder who is either resident or, in the case of an individual, ordinarily resident for tax purposes in the UK or who is not UK resident but carries on a trade, profession or vocation in the UK through a branch or agency to which the shares are attributable, may, depending on the shareholder's circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the shares during that period may also be liable on his return to UK taxation of chargeable gains (subject to any available exemptions or reliefs).

For a shareholder not within the charge to corporation tax, such as an individual, trustee or personal representative, taper relief (which reduces a chargeable gain depending on the length of time for which an asset is held) may be available to reduce the amount of chargeable gain realised on a subsequent disposal.

For a shareholder within the charge to corporation tax, indexation allowance on the cost apportioned to the shares should be available to reduce the amount of chargeable gain realised on a subsequent disposal.

The above paragraphs are intended as a general guide to current United Kingdom tax law and practice. If you are in any doubt as to your taxation position or if you require more detailed information than that outlined above you should consult an appropriate professional adviser without delay.

17. PLACING ARRANGEMENTS

(a) *Placing agreement*

A placing agreement dated 15 February 2001 between (1) the Company, (2) Brewin Dolphin and (3) the Directors pursuant to which:

- (i) Brewin Dolphin agreed to use its reasonable endeavours, subject to certain conditions, as agent for the Company and the Vendor to procure placees for or itself to subscribe or purchase 4,081,633 Placing Shares and 153,061 Placing Shares, respectively, in each case at the Placing Price;
- (ii) the Company has agreed to pay Brewin Dolphin fees of £130,000 and a commission of 2.5 per cent. on the 4,081,633 Placing Shares being issued by the Company, and the Vendor has agreed to pay a commission of 2.5 per cent. on the 153,061 Placing Shares being sold by the Vendor;
- (iii) the Company will be responsible for all costs and expenses of the Placing excluding the placing commission and stamp duty relating to the sale of shares by the Vendor;
- (iv) the Company and the Directors have given certain warranties and the Company and the Executive Directors have given certain indemnities in relation to this document and the business of the Group. These warranties are subject to certain limitations in relation to time and amount; and
- (v) the obligations on Brewin Dolphin under the Placing Agreement are conditional *inter alia* upon Admission becoming effective. Brewin Dolphin may terminate its obligations under the Placing Agreement in certain circumstances (including in the event of a material breach of the warranties referred to above).

(b) *Lock-in agreements*

- (i) By undertakings dated 14 February 2001, each of the Directors, Dorinda Wolfe-Murray (who is the registered holder of 940,000 Ordinary Shares all of which are beneficially owned by Mark Dorman), Jonathan Wheatley and Bero SCA, has agreed with Brewin Dolphin and the Company pursuant to the AIM Rules, subject to certain limited exceptions permitted by the AIM Rules, not to dispose of 4,666,366 Ordinary Shares and any Ordinary Shares arising on the exercise of options and warrants over 2,360,022 Ordinary Shares which will be held by them immediately following Admission (or any interest therein) for a period of 12 months following Admission; and

- (ii) By undertakings dated 14 February 2001 certain other shareholders holding an aggregate of 3,680,061 Ordinary Shares which they will hold on Admission, being approximately 25.7 per cent. of the Company's issued share capital immediately following Admission have agreed (subject to certain exceptions) during the period until 12 months following Admission not to dispose of any Ordinary Shares (or any interest therein) or any Ordinary Shares arising on the exercise of options and warrants over 986,846 Ordinary Shares which will be held by them on Admission without the prior written consent of Brewin Dolphin.

18. GENERAL

- (a) Cheesman and Partners of 4 Aztec Row, Berners Road, Islington, London, N1 0PW are the auditors of the Company as at the date of this document.
- (b) The Company's accounting reference date is 31 March.
- (c) Smith & Williamson have given and have not withdrawn their written consent to the issue of this document and to the inclusion of their report contained in Part III of this document and the references thereto in the form and context in which it appears and have accepted responsibility for such report.
- (d) Brewin Dolphin has given and not withdrawn its written consent to the issue of this document with the inclusion in it of its name in the form and context in which it appears.
- (e) Except as described in this document, no persons (excluding professional advisers otherwise disclosed in this document and trade suppliers) have received, directly or indirectly, from the Company within the 12 months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- (f) The costs and expenses of, and incidental to, the Placing of Ordinary Shares for the Company and Admission are payable by the Company and are estimated to amount to £497,500 (excluding Value Added Tax) and include fees totalling in aggregate £130,000 (excluding Value Added Tax) and commissions of £100,000 payable by the Company to Brewin Dolphin.
- (g) The total proceeds of the Placing for the Company are £4 million (before expenses) and the net proceeds of the Placing (after the expenses referred to in sub-paragraph (f) above) will be approximately £3.5 million.
- (h) The costs and expenses of the Company's corporate advisers, The Mackenzie Partnership Limited, in respect of services provided in relation to the Placing total £100,000 and will be part paid by the issue of 51,020 Ordinary Shares on Admission at the Placing Price per share.
- (i) The Ordinary Shares are in registered form and, following Admission, will be capable of being held in uncertificated form. Settlement of the Placing will, at the option of placees, be within CREST and Placing Shares will be delivered into the CREST account of placees immediately following the commencement of dealings which is expected to be at 8.00 a.m. on 26 February 2001. Payment for Placing Shares not settled through CREST must be made by telegraphic transfer to Brewin Dolphin. Pending the commencement of dealings such monies will be retained by Brewin Dolphin in a client account established for such purpose. No temporary documents of title will be issued. Definitive share certificates for placees not settling through CREST will be despatched by 26 February 2001. Prior to the despatch of such certificates, transfers will be certified against the register of members of the Company. If for any reason, the Placing is not completed any monies held by Brewin Dolphin will be returned to applicants as soon as reasonably practicable.
- (j) Save as disclosed in this document, no exceptional factors have influenced the Company's activities.
- (k) Bell Lawrie White is arranging for the Placing Shares to be placed with institutional and other investors. The arrangements for payment to Bell Lawrie White for the Placing Shares and during the period prior to completion of the Placing relating to monies received by Bell Lawrie White from such investors are set out in the placing letters sent to such investors.

- (l) The minimum amount which, in the opinion of the Directors, must be raised by the Company for the purposes set out in paragraph 21 of Schedule 1 to the POS Regulations is £4,000,000, which will be applied as follows:
- (i) none in respect of any property purchased or to be purchased out of the proceeds of the Placing and none in respect of preliminary expenses;
 - (ii) approximately £100,000 in respect of estimated commissions for procuring subscriptions for shares in the Company; and
 - (iii) the balance for working capital purposes.

The Company has not borrowed any money in respect of the matters described in paragraph (i) and (ii) above and therefore none of the subscription monies will be applied to the repayment of any such money.

There are no further amounts which require to be provided in respect of the matters mentioned above otherwise than out of the proceeds of the Placing.

- (m) The Placing Price of 98p per Ordinary Share represents a premium of 97p over the nominal value of 1p per Ordinary Share.
- (n) The audited financial information relating to the Company for the period ended 30 September 2000 contained in this document does not comprise statutory accounts for the purposes of section 240 of the Act.

19. DOCUMENT AVAILABLE TO THE PUBLIC

Copies of the following documents will be available for inspection during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) at the offices of Brewin Dolphin, 5 Giltspur Street, London EC1A 9BD from the date of this document until the date which is one month after Admission:

- (a) the memorandum and articles of association of the Company;
- (b) the audited consolidated accounts of the Company for the periods ended 31 March 2000 and 30 September 2000;
- (c) the report of Smith & Williamson set out in Part III of this document;
- (d) the share option scheme summarised in paragraph 6 of this Part IV;
- (e) the contracts of service and letter of appointment referred to in paragraph 8 of this Part IV;
- (f) the material contracts referred to in paragraph 9 of this Part IV;
- (g) the written consents of Smith & Williamson and Brewin Dolphin referred to in paragraph 18 of this Part IV.

This document will be available free of charge to the public during normal business hours on any week day (excluding Saturdays, Sundays and public holidays) at the offices of Brewin Dolphin referred to above for the period referred to above.

Dated 15 February 2001

END OF DOCUMENT