

31st October 2016

Western Gate Private Investments Limited

Statement re: ongoing poor Corporate Governance at Stock Spirits

Highlights

- Stock Spirits investor day cancelled
- Questions asked of the Company remain unanswered
- Board of nine costing £1.36m a year – 2017 NED salaries to exceed £550,000, a 60% increase from 2015 and 108% above median of peer group, 107% above average
- Independent non-executive directors voted onto the Board in May by the shareholders continue to be excluded from committees and unable to play full role
- Western Gate urges Company to update all investors on trading in November having not had an update since August

Luis Amaral said:

“By cancelling its investor day, we wonder whether Stock Spirits is trying to avoid answering difficult questions from shareholders about the conduct of the company and its performance.”

“We do now know that the Board has ignored shareholders’ express wishes by excluding the two new independent non-executive directors appointed in May 2016 from joining any of the four Board Committees.”

“Western Gate looks forward to the Company’s November Q3 trading update, so that shareholders can judge the impact of its turnaround programme for the core Polish business. Shareholders will have waited two years for this turnaround since the Company’s first disastrous profit warning on 5 November 2014. We also ask that the update explains what the Company is doing to address its excessive head office costs, which if anything look to be increasing now the Board has been expanded to nine people.”

Key facts:

Cancelled investor day

Western Gate and other shareholders were invited to an investor day by the Company on 19 September 2016. In order to maximise the value of this investor day Western Gate sent the Company a list of questions which it wanted addressed, these are outlined below.

In response to our list of questions the Company informed us that the investor day was cancelled. The reasoning given for this was the Company:

“decided that such an event is unnecessary at the present time. This is due to the fact that, having had extensive engagement with our shareholders since the company’s interim results in August, we have received the feedback that our strategy and investment case are well understood.”

Knowing that our questions bother not only us but also other shareholders, we asked the Company to answer in public. Taking into consideration current weak share price performance we asked the Company to publish answers before the end of this week, this has not happened. Shareholders deserve transparency and clear communication from the Company, so once again we ask them to respond to all our questions.

As the largest individual shareholder in Stock Spirits holding an interest in 9.7% of the Company’s outstanding share capital, we do not consider the engagement to have been extensive, we have no feel for current trading aside from the ongoing poor Nielsen market share data and we do not understand how shareholders will derive value from the strategy.

Unanswered questions

Western Gate sent the Company a list of 10 questions, outlined below. When Western Gate were notified of the cancellation of the investor day it asked the Company, once again, to respond to its questions by the close of play on 28th October 2016. Western Gate is extremely disappointed not to have received a response to its questions despite affording the Company numerous opportunities to do so.

1. Outline the current organizational structure, including the Head Office in UK and other regional offices in Poland, Czech Republic, Italy and others?
 - a. Please outline the total headcount per location as well as the roles fulfilled by staff in those locations
2. Why do you continue to believe it is necessary to have a Group CEO, CFO and Marketing Director in addition to the regional Managing Directors and other regional personnel fulfilling those functions already?
3. How is the reorganization of the sales force in Poland going? Can you outline the benefits you are seeing from implementing these changes?
4. Please provide an update on recent New Product Development initiatives and an update on the results of key initiatives implemented in the last 3 years

5. We would like to understand the issue you are experiencing in relation to the Saska trademark. The Head Office in the UK and, presumably lawyers on these sorts of issue, cost a lot of money so how can they have failed to register the required trademarks before launching the brand?
 - a. Are there any other brand trademarks not registered?
6. Please can you explain when you are going to review the independence of the two NEDs elected to the Board at the May AGM.
 - a. What is the criteria to evaluate them as being independent or non-independent? From our perspective we feel that shareholders, and a number of leading governance advisors, sent a very clear message on this point.
7. In relation to question 6 above, are you still looking for new NEDs and, if so, why? Do you truly believe the Board is not sufficiently competent (or large enough) already?
 - a. What is the annual cost of all current NEDs compared to other companies with similar market capitalization? How will it look after hiring additional NEDs?
8. Please provide an overview of the rationale of the recent acquisition in the Czech Republic and how you see it benefitting the business going forward?
9. Please can you outline the trends in market share development that you are witnessing across all your key categories including: vodka, flavored vodka, whisky and NPD across the various channels
10. Please can you outline the Company's strategy going forward?
 - a. In particular please outline any material changes you have made since the changes in management were implemented and as a result of your competitors' actions/response to your actions in your key Polish market

Exclusion of key Board members from committees

At the AGM on 23rd May 2016 Alberto Da Ponte and Randy Pankevicz were appointed to the Board as non-executive Directors by the shareholders in an open vote. Proxy Advisers and Heidrick & Struggles considered both candidates to be independent. Despite this clear mandate for change, both directors have been prevented from joining any of the four Board Committees. This ignores the express wishes of shareholders that the new Directors play a full role in helping to turn the Company's fortunes around.

Increased Board costs

As a result of the three new non-executive Directors being appointed to the Board earlier this week, the Board now stands at nine individuals and we estimate the NED salaries for 2017 will exceed £550,000, a 60% increase from 2015 and 108% above the median of its peer group and 107% above the average.

These costs are excessive and only add to the €16m of costs associated with the UK based Head Office.

Ends

Contact

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