# Chairman's Speech

Dear Shareholders,

It is indeed a great pleasure to greet all of you to take stock of a truly momentous year in the annals of our company. A year that witnessed the creation of a global powerhouse in the drinks industry, a year that saw the execution of a vision to create a composite entity that straddles the Indian spirits industry and looks confidently at taking the world stage.

The change of name from McDowell to United Spirits consequent to the court approval for mergers, is symbolic of the wider canvas that we will now address while retaining the positive traditions of the 100 plus years of success behind us.

Operationally, the financial year 2005-06 has seen sales volumes nudging 60 million cases, with strong double-digit growths at the top-end range of our product offerings. This is reflective of both strong upgrading by consumers, as a consequence of higher disposable incomes, as also a conscious effort on the part of management to focus on profitable sales.

I believe that the strong economic performance of the country, and the cultural changes that are making Indians a nation of consumers will result in this trajectory being maintained for several years. Our Company with its commitment to outstanding value is well positioned to take advantage of this movement. Of course, we will continue to service consumers in all price categories. The volumes generated enable us to take advantage of procurement synergies.

India is a young country and the median age of our population is just over 20 years. Less than 40 per cent of our population is today of legal drinking age, but the next five years should see a dramatic increase in the addressable market size as youngsters come of age, and also join the work pool. This demographic bodes well for the future growth prospects of the industry in general, and our Company in particular.

On the flip side, the potential growth is attracting all the international majors to the market, and we anticipate increased competition in the years to come.

While recognising the possible competitive scenario, I view the future with optimism rather than trepidation. Our Company has built up an enviable reputation for quality and value. Our brands have been built over many years of sustained investments such that they evoke great confidence among the public. Our unparalleled bouquet of product offerings give us a great hold over the distribution system. All the foregoing levers are being tweaked in preparation for any emerging scenario.

Simultaneously, our Company is looking at a finely calibrated globalisation of its business. This will involve not only making available to Indian consumers a choice of fine international products, but also the distribution of some of our products in select international markets. We have identified Russia and China as key thrust areas in this regard. We have set up an office in Shanghai to exploit opportunities there, and have come to a mutual access agreement with one of Russia's largest spirits companies that also produces and distributes the country's largest selling vodka.

Friends, wine is emerging as an exciting new category, though the market size is still small. Growth is taking place at a blistering pace. I believe that United Spirits must take a lead role in this emerging segment. To this end, we have already completed the acquisition of a well-known winery in France. Bouvet Ladubay is a company with a provenance going back 150 years and produces sparkling wines of exceptional quality.

We will explore other opportunities both domestic and international, to further strengthen our presence in all emerging segments and categories.

The significantly improved profitability of our Company in the current year is a result of skillfully extracting synergies from the newly acquired companies, and exploiting the benefits of scale in both sourcing and distribution. I believe that despite all the regulatory constraints, we will continue to show sustained increases in profitability, though at a slower pace.

I do see some gradual easing up on the regulatory front. As always, our Company has been in the forefront of efforts to evolve a sustainable framework. I do believe that years of effort are now bearing fruit as witnessed for example by the virtual elimination of the "Thekedari" or private monopoly system. Other steps to reduce cost of doing business and increase retail penetration will inevitably follow, with positive impact on industry profits. The pace of change remains uncertain.

One of the outstanding successes of the year has been the seamless integration of all the merged and newly acquired entities. By following a transparent system, our management has been able to execute a "text book" integration, and I must compliment the team for this.

Another great success was the fundraising through a simultaneous offering of Global Depository Shares, which garnered USD 130 million, and Foreign Currency Convertible Bonds that raised a further USD 100 million. Not only were these issues completed in record time, but we also have the distinction of the First GDS issue in India that has been priced at a premium to market.

The funds raised have gone to pay down a significant part of the acquisition loans.

All in all, I conclude on a note of optimism, which I am sure you will share. The share price of United Spirits, which values the company at almost USD 2 billion, is reflective of market perceptions.

It remains for me to thank all who have contributed to the success of our company - the management and staff, our customers and suppliers, bankers and above all, you dear shareholders.

## DIRECTORS

VIJAY MALLYA,
Chairman

S.R.GUPTE,
Vice Chairman

V.K.REKHI,
Managing Director

M.R.DORAISWAMY IYENGAR

P.K.KAKODKAR

B.M.LABROO

SREEDHARA MENON

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**PRESIDENT & CFO – THE UB GROUP**
RAVI NEDUNGADI

**CHIEF FINANCIAL OFFICER**
P.A.MURALI

**COMPANY SECRETARY**
V.S.VENKATARAMAN

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**AUDITORS**
PRICE WATERHOUSE, CHARTERED ACCOUNTANTS, BANGALORE

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**REGISTERED & CORPORATE OFFICE**
51, RICHMOND ROAD
BANGALORE – 560 025

Your Directors have pleasure in presenting the Annual Report of your Company and the audited accounts for the year ended March 31, 2006.

At the outset, your Directors are happy to report that the consolidation of spirits business through a Composite Scheme of Arrangement providing for demerger of Investment Business of the Company into McDowell India Spirits Limited (now renamed as McDowell Holdings Limited) and amalgamation of Phipson Distillery Limited, United Spirits Limited, Herbertsons Limited, Triumph Distillers & Vintners Private Limited, Baramati Grape Industries Limited, United Distillers India Limited, McDowell International Brands Limited and Shaw Wallace Distilleries Limited with McDowell & Company Limited (now renamed as United Spirits Limited) has been sanctioned by the Hon'ble High Courts of Karnataka and Bombay and the Scheme has become effective on October 5, 2006.

The Demerger takes effect from the opening hours of April 1, 2005 being the Demerger Appointed Date and the Amalgamations take effect from April 1, 2005 being the Merger Appointed Date.

Accordingly, the financial results for the year ended March 31, 2006 include those relating to the amalgamating companies and exclude those relating to Investment Business now demerged.

## FINANCIAL RESULTS

| | Rupees in Millions | |
|---|---|---|
| | **2005-06** | 2004-05 |
| The working of your Company for the year under review resulted in | | |
| • Profit from operations | **921.192** | 584.462 |
| • Exception and other Non-recurring Items | **-** | (101.503) |
| | **921.192** | **482.959** |
| Less: | | |
| • Depreciation | **409.002** | 156.304 |
| • Taxation (including deferred tax) | **91.992** | 59.390 |
| • Profit after tax | **420.198** | 267.265 |
| Profit B/F from previous year | **574.238** | 454.920 |
| Profit available for appropriation | **994.436** | 722.185 |
| Your Directors have made the following appropriations : | | |
| To General Reserve | **50.000** | 30.000 |
| To Capital Redemption Reserve | **464.446** | - |
| Proposed Dividend | | |
| Preference Shares | **6.975** | - |
| Equity Shares | **188.963** | 103.440 |
| Corporate Tax on Proposed Dividend | **27.480** | 14.507 |
| Balance Carried to the Balance Sheet | **256.572** | 574.238 |
| EPS - Basic - Rupees | **4.80** | 5.17 |

Your Directors propose Dividend as under-

(a) On the equity shares including on 34,010,521 equity shares of Rs. 10/- each fully paid up allotted pursuant to the Composite Scheme of Arrangement @ 20%, and

(b) On the 9% Non-Cumulative Non-Convertible Redeemable Preference Shares of Rs. 10/- each fully paid up allotted pursuant to the Composite Scheme of Arrangement @ 9%.

## CAPITAL

During the year under review, the Authorised Share Capital was increased from Rs 600,000,000 to Rs1,200,000,000 divided into 110,000,000 Equity Shares of Rs. 10/- each and 10,000,000 Preference Shares of Rs. 10/- each. The Issued, Subscribed and Paid up Share Capital of the Company also increased from Rs. 517,200,280 to Rs. 604,714,090 upon issue and allotment of 8,751,381 Equity shares of Rs.10/- each representing 17,502,762 Global Depository Shares issued during the year.

In terms of the Composite Scheme of Arrangement sanctioned by the Hon'ble High Courts of Karnataka and Bombay, 34,010,521 Equity shares of Rs.10/- each fully paid and 7,750,000 Preference shares of Rs.10/- each fully paid were issued and allotted on November 6, 2006 to the shareholders of the Transferor Companies in the ratio specified in the Scheme. Consequently, the Issued, Subscribed and Paid up Share Capital stood further increased to Rs.1,022,319,300 divided into 94,481,930 Equity shares of Rs.10/- each and 7,750,000 Preference shares of Rs.10/- each.

## PERFORMANCE OF THE COMPANY

The company has turned in excellent trading results for the year under review resulting in an 90% increase in operating profit compared to the previous year. This is a result of higher market share and extraction of synergies.

## PROSPECTS

Barring exceptional circumstances, your Directors expect good prospects for the Company in the coming financial year. Profit for the six months ended September, 2006 have doubled in comparison to the corresponding period of the previous year.

## COMPOSITE SCHEME OF ARRANGEMENT

In terms of a Composite Scheme of Arrangement (the Scheme) sanctioned by the Hon'ble High Courts of Karnataka and Bombay which became effective on October 5, 2006:

1. The Investment business of the Company was demerged into McDowell India Spirits Limited (since renamed as McDowell Holdings Limited), the Demerger taking effect from the opening hours of April 1, 2005, being the Demerger Appointed Date, and
2. Phipson Distillery Limited, United Spirits Limited, Herbertsons Limited, Triumph Distillers & Vintners Private Limited, Baramati Grape Industries Limited, United Distillers India Limited, McDowell International Brands Limited and Shaw Wallace Distilleries Limited (transferor companies) were amalgamated with the Company, the amalgamation taking effect from April 1, 2005, being the Merger Appointed Date.

Consequent upon the amalgamation as aforesaid, the shareholders of erstwhile Herbertsons Limited, Triumph Distillers & Vintners Pvt. Ltd., Baramati Grape Industries Limited, United Distillers India Limited and Shaw Wallace Distilleries Limited were issued and allotted in aggregate 34,010,521 Equity shares of Rs.10/- each fully paid up and 7,750,000 Preference shares of Rs.10/- each fully paid up were issued to the Preference shareholders of Shaw Wallace Distilleries Limited, in the ratio as specified in the Composite Scheme of Arrangement.

The Equity Shares held by the Company and Phipson Distillery Limited, in Herbertsons Limited were cancelled and hence no Equity Shares were issued on Amalgamation.

In terms of the Scheme, the shares of Phipson Distillery Limited, United Spirits Limited and McDowell International Brands Limited stood cancelled without any exchange of shares of the Company as the entire paid up share capital of these Companies were held either by the Company or one of the Transferor Companies.

In terms of the Scheme, a Trust in the name of "USL Benefit Trust" has been created, which will receive equity shares in the Company in exchange of the shares held by the Company and Herbertsons Limited, in Baramati

Grape Industries Limited and in exchange of shares held by Phipson Distillery Limited in Triumph Distillers & Vintners Private Limited.

Further, in terms of the said Scheme, the beneficial interest in SWDL Benefit Trust created by Shaw Wallace Distilleries Limited stood transferred and vested in the "USL Benefit Trust" and accordingly "USL Benefit Trust" will also receive equity shares in the Company in exchange of the equity shares held by SWDL Benefit Trust in Shaw Wallace Distilleries Limited.

## SUBSIDIARIES

During the current financial year, the following became your subsidiaries:

1. Daffodils Flavours and Fragrances Private Limited
2. McDowell & Co. (Scotland) Ltd
3. Bouvet Ladubay SAS
4. Chapin Landais SAS

Upon amalgamation of United Spirits Limited and Phipson Distillery Limited, the shares held by these companies in Zelinka Limited stood transferred to the Company and consequently the Company now holds the entire paid up equity share capital of Zelinka Limited, which was earlier held by the Company along with United Spirits Limited and Phipson Distillery Limited in the ratio of 4:3:3.

Phipson Distillery Limited, United Spirits Limited, Herbertsons Limited, Triumph Distillers & Vintners Private Limited, McDowell International Brands Limited and Shaw Wallace Distilleries Limited cease to be subsidiaries upon their amalgamation with the Company under the Scheme. McDowell India Spirits Limited (since renamed as McDowell Holdings Limited) ceases to be a subsidiary upon allotment of its equity shares to the equity shareholders of the Company in terms of the Scheme.

Consequent upon the amalgamation of United Distillers India Limited with the Company, in terms of the Scheme, Primo Distributors Private Limited, a wholly owned subsidiary of United Distillers India Limited, (which ceased to be a subsidiary of the Company earlier) became a wholly owned subsidiary of the Company as on March 31, 2006.

An application has been made to the Government of India pursuant to Section 212(8) of the Companies Act, 1956 for exemption from attaching the Balance Sheet, Profit & Loss Account, Directors' Report, Auditors' Report and other particulars relating to Primo Distributors Private Limited, a subsidiary of the Company.

In terms of the approval received from the Government of India pursuant to Section 212(8) of the Companies Act, 1956, the Balance Sheet, Profit & Loss Account, Directors' Report, Auditors' Report and other particulars of the remaining subsidiary companies have not been attached with the accounts of the Company. The documents/details will be made available to any Member of the Company and its subsidiaries upon request to the Company. The annual accounts of the subsidiary Companies will also be kept for inspection by any member at the Registered Office of the Company and that of the subsidiary Companies concerned.

Pursuant to a Scheme of amalgamation, Bhankerpur Simbhaoli Beverages Pvt. Ltd., Shaw Wallace Spirits Limited, Highland Distilleries Limited, Shaw Wallace Liquor Brands Pvt. Ltd. and Shaw Wallace Beer Brands Pvt. Ltd., subsidiaries of Shaw Wallace Distilleries Limited and ultimately subsidiaries of the Company were amalgamated with Shaw Wallace Distilleries Limited and consequently ceased to be subsidiaries of the Company.

While Bhankerpur Simbhaoli Beverages Pvt. Ltd., Shaw Wallace Spirits Limited and Highland Distilleries Limited stand dissolved without winding up, in the case of Shaw Wallace Liquor Brands Pvt. Ltd. and Shaw Wallace Beer Brands Pvt. Ltd., Orders for dissolution without winding up are awaited.

The Company withdrew the Scheme of Amalgamation of Asian Opportunities and Investments Limited and Zelinka Limited, both wholly owned subsidiaries of the Company, with the Company due to Business needs.

Under a Scheme of Amalgamation, Shaw Wallace Financial Services Limited (SWFSL) is proposed to be amalgamated with Shaw Wallace Breweries Limited (SWBL). While the Scheme has been sanctioned by the Hon'ble High Court of Calcutta in the case of SWFSL, similar sanction by the Hon'ble High Court of Bombay in the case of SWBL is awaited. Both SWFSL and SWBL are subsidiaries of Shaw Wallace & Company Limited and ultimately subsidiaries of the Company.

The Company with its wholly owned subsidiary Phipson Distillery Limited has divested 968,000 equity shares (10.17%) in Herbertsons Limited, a subsidiary of Phipson Distillery Limited and ultimately a subsidiary of the Company, in terms of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, as the Promoters holding was required to be reduced to 75%. Consequent to the Divestment, the Company's holdings along with Phipson Distillery Limited in Herbertsons Limited stood reduced from 61.01 to 50.84%, the balance 24.16% held by other promoter companies.

The Accounting year of McDowell Nepal Limited (MNL), your Company's Subsidiary in Nepal is from mid-July to mid-July every year. Accordingly, Accounting year of 2004-05 of MNL ended on July 15, 2005 and the Accounting Year 2005-06 ended on July 15, 2006, i.e., after the end of the close of the financial year of the Company which ended on March 31, 2006. For the purpose of compliance under Accounting Standard – 21, relating to "Consolidated Financial Statement," the Accounts of MNL has been drawn up to March 31, 2006.

For the purpose of compliance under Accounting Standard – 21, "Consolidated Financial Statement" presented by the Company includes the financial information of its subsidiaries.

## CHANGE OF NAME OF COMPANY

As part of the Scheme, the name of your Company has been changed from McDowell & Company Limited to **United Spirits Limited**, with effect from October 17, 2006.

## DEPOSITORY SYSTEM

The trading in the equity shares of your Company is under compulsory dematerialisation mode. As of date, equity shares representing 92.64% of the equity share capital are in dematerialised form. As the depository system offers numerous advantages, members are requested to take advantage of the same and avail of the facility of dematerialisation of the Company's shares.

## DIRECTORS

Mr. Sreedhara Menon was appointed as Additional Director on July 14, 2006 and will hold office in terms of Section 260 of the Companies Act, 1956 up to the date of this Annual General Meeting.

A Notice in writing has been received by your Company from a member signifying his intention to propose the appointment of Mr. Sreedhara Menon as Director at the Annual General Meeting.

Mr. V K Rekhi was re-appointed as Managing Director of the Company for a period of five years with effect from April 19, 2006. The re-appointment of and remuneration payable to Mr. V K Rekhi as Managing Director is being placed for the approval of the members at this Annual General Meeting.

Mr. P K Kakodkar and Mr. B M Labroo retire by rotation and being eligible, offer themselves for re-appointment.

## AUDITORS

M/s. Price Waterhouse, your Company's Auditors, are eligible for re-appointment at the Annual General Meeting and it is necessary to fix their remuneration.

## LISTING OF SHARES OF THE COMPANY

The equity shares of your Company are listed on Bangalore Stock Exchange Limited, Bombay Stock Exchange Limited, National Stock Exchange of India Limited, Madras Stock Exchange Limited, The Delhi Stock Exchange Association Limited, The Calcutta Stock

Exchange Association Limited and Ahmedabad Stock Exchange Limited. The listing fees for the year 2006-07 have been paid to all these Stock Exchanges. 34,010,521 Equity shares of Rs.10/- each issued and allotted in terms of the Scheme will be listed on all the Stock Exchanges where the existing equity shares of the Company are presently listed and necessary steps have been taken up by your Company in this regard.

## ISSUE OF GLOBAL DEPOSITARY SHARES

In the year under review, your Company issued 17,502,762 Global Depositary Shares (GDSs) representing 8,751,381 Equity Shares par value Rs. 10/- each, ranking pari-passu in all respects with the existing paid up equity shares, 2 GDSs representing 1 equity share of Rs.10/- each, at US$7.4274 per GDS aggregating to US$ 130 Mn. These GDSs are listed on the Luxembourg Stock Exchange.

The Company allotted 8,751,381 equity shares of Rs. 10/- each fully paid up at a premium of Rs. 650/- per share. The equity shares have been listed on all the stock exchanges, where the Company's shares are presently listed.

As on date there is an outstanding of 1,204,054 GDSs representing 602,027 equity shares.

## ISSUE OF FOREIGN CURRENCY CONVERTIBLE BONDS

In the year under review, your Company issued US$100,000,000 2% Convertible Bonds Due 2011 convertible into equity shares or Global Depositary Shares (GDSs) (2 GDSs representing 1 equity share) at a conversion price of Rs.858/- share. These Convertible bonds are listed on the Singapore Exchange Securities Trading Limited (SGX).

As on date, no Bonds has been converted into equity shares or GDSs.

## ANNUAL GENERAL MEETING

The Company has obtained from The Registrar of Companies, Karnataka, Bangalore extension of time for holding the Annual General Meeting for the financial year ended March 31, 2006 upto December 30, 2006

## CORPORATE GOVERNANCE

A report on Corporate Governance is annexed separately as part of the report along with a certificate of compliance from a Company Secretary in practice. Necessary requirements of obtaining certifications/declarations in terms of Clause 49 have been complied with.

## MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to clause 49 of the listing agreement with the stock exchanges, Management Discussion and Analysis Report is annexed and forms an intergral part of the Annual report.

## FIXED DEPOSITS

Fixed Deposits from the public and shareholders, stood at Rs 713.204 million as at March 31, 2006. Matured deposits for which disposal instructions had not been received from concerned depositors stood at Rs.21.158 million as at March 31, 2006. Of this a sum of Rs. 5.876 million has been since paid as per instructions received after the year-end.

## TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

Pursuant to the provisions of Section 205A(5) and 205C of the Companies Act, 1956, the Unclaimed Dividend, Debentures and Deposits, remaining unclaimed and unpaid for more than 7 years, have been transferred to the Investor Education and Protection Fund.

## HUMAN RESOURCES

Employee relations remained cordial at all Company's locations.

The Company during the year under review introduced a Voluntary Retirement Scheme for the permanent employees of the Company, in order to rationalise the manpower. The implementation of the same is in progress.

Particulars of employees drawing an aggregate remuneration of Rs. 2,400,000 or above per annum or Rs. 200,000 or above per month, as required under Section 217 (2A) of the Companies Act, 1956 are annexed.

### EMPLOYEE STOCK OPTION SCHEME

The Company has not offered any stock option to the Employees during the year 2005- 2006 either under the McD ESOP Scheme or McD- Employee Stock Option Scheme – 2002.

### CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION ETC.

In accordance with the provision of Section 217(1) (e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors), Rules, 1998 the required information relating to Conservation of Energy, Technology Absorption and Foreign Exchange earnings and outgo is annexed.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, in relation to financial statements for the year 2005-06, the Board of Directors reports that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit of the Company for the year ended March 31, 2006;
- proper and sufficient care have been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis.

### THANK YOU

Your Directors place on record their sincere appreciation for the continued support from shareholders, customers, suppliers, banks and financial institutions and other business associates. A particular note of thanks to all employees of your Company, without whose contribution, your Company could not have achieved the year's performance.

By Authority of the Board

Chennai **Dr. VIJAY MALLYA**
November 6, 2006 Chairman

UNITED SPIRITS

## ANNEXURE TO DIRECTORS' REPORT

(Additional information given pursuant to requirement of Section 217(1) (e) of the Companies Act, 1956).

## CONSERVATION OF ENERGY

Energy Consumption & Cost Reduction

Steps taken to reduce energy consumption & reduce cost of production:

- Upgradation of anaerobic digestor for increased methane gas generation and utilization in boiler to conserve fuel
- Commissioning of Steam Turbines to produce electricity at new locations and upgrading existing ones for increased electricity generation
- Upgradation of composting system to ensure full utilisation of multipressure distillation plant resulting in substantial saving in steam consumption
- Replacement of existing Furnace Oil Fired Boilers with alternate biofuel (husk, bagass) fired to reduce fuel cost
- Reduction in steam consumption in distillation process by optimizing the operating parameters namely, reflux ratios.

## RESEARCH AND DEVELOPMENT (R & D)

As an ongoing process the Company carries out research in its State-of-the-art in-house Research and Development Centre for development of new-age products, new innovative packaging materials and analytical method for quality management.

| Expenditure on R & D: | | (Rupees in Millions) |
|---|---|---|
| (a) | Capital- | 3.361 |
| (b) | Recurring- | 12.920 |
| **(c)** | **Total** | **16.281** |

(d) Total R & D expenditure as a percentage of total turnover – 0.05%

## TECHNOLOGY ABSORPTION

Technology imported during the last 5 years:

| Technology imported | Year of Import | Status |
|---|---|---|
| None **-** | **-** | |

## FOREIGN EXCHANGE EARNINGS/OUTGO

(Rupees in Millions)

| | | 2005-06 | 2004-05 |
|---|---|---|---|
| 1 | Exports & Foreign Exchange earnings | 109.370 | Nil |
| 2 | Imports/Expenditure in Foreign Currency | 726.241 | 124.080 |

By Authority of the Board

Chennai
November 6, 2006

**Dr. VIJAY MALLYA**
Chairman

## ANNEXURE TO DIRECTORS' REPORT

STATEMENT OF PARTICULARS OF EMPLOYEES AS REQUIRED UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 AND COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

| SL. NO. | NAME | AGE | DESIGNATION/ NATURE OF DUTIES | REMUNERATION | QUALIFICATION | EXPERIENCE IN YEARS | DATE OF COMMENCEMENT OF EMPLOYMENT | PARTICULARFS OF PREVIOUS EMPLOYMENT |
|---|---|---|---|---|---|---|---|---|
| 1 | Ashok Capoor | 53 | Chief Operating Officer | 5,905,907 | B.A.(Hons), M.B.A. | 31 | 1-Apr-05 | Chief Operating Officer- erstwhile Herbertsons Limited |
| 2 | Alok Gupta | 40 | Executive Vice President - Marketing & Brand India | 4,348,172 | B.Com, PGDM | 18 | 21-Feb-95 | Deputy General Manager - Shaw Wallace & Company Limited |
| 3 | Anant Iyer | 46 | Divisional Vice President - INST & Trade Marketing | 3,905,816 | M.Sc., M.M.S. | 22 | 15-Jun-92 | Controller- Marketing, Consolidated Distilleries Limited |
| 4 | Anil Kumar Kush* | 50 | Chief Executive - VMSRF | 4,012,363 | Phd, MBA | 22 | 13-May-05 | Scientific Director - Genesis Management Consultants |
| 5 | Ashwin Malik | 48 | Chief Operating Officer | 5,392,011 | B.A. (Eco), MBA | 26 | 1-Nov-88 | VP Sales & Marketing, Carew Phipson Limited |
| 6 | Capt Sharma V K | 63 | Exe Director - Chairman's Off. | 4,456,818 | B.Com.,M.A.,L.L.B | 32 | 1-Apr-05 | Exe Director - Chairman's Off. erstwhile Herbertsons Limited |
| 7 | Dr. Subrata Bhattacharya | 67 | Divisional Vice President -Research & Development | 2,492,818 | M.Sc, Phd | 35 | 1-Apr-05 | Vice President -Research & Development erstwhile Shaw Wallace Distilleries Limited (SWDL) |
| 8 | Banerjee D | 47 | Senior Vice President | 2,906,161 | B.Tech(IIT), PGDM(IIM-C) | 25 | 1-Apr-05 | Chief Operating Officer- erstwhile Herbertsons Limited |
| 9 | Chandrashekar C | 51 | Divisional Vice President - Materials | 2,667,793 | MBA | 30 | 25-Apr-83 | Buyer, Hindusthan Motors Ltd. |
| 10 | Deepak Roy* | 55 | President & Managing Director - Truimph Distillers and Vintners Private Limited | 7,421,038 | B.A(Hons) Dip in Mgmt Science | 31 | 18-Dec-02 | President - India/ South Asia, Russia & Baltics, Guiness UDV |
| 11 | Gerald G D'Souza | 57 | Senior Vice President - HR | 3,950,961 | MA (Pers.Mgmt) | 32 | 16-Aug-90 | Manager- Pers. & Mip., -Pfizer Ltd |
| 12 | Harish Bhat A | 52 | Executive Vice President - Corporate Finance | 5,334,566 | CA | 28 | 22-Nov-90 | Manager Treasury - Digital Equipment (I) Ltd |
| 13 | Lalla S D | 63 | Joint President | 4,289,820 | L.C.& S.E., AMIE (Civil) | 44 | 1-Apr-05 | Managing Director erstwhile Herbertsons Limited |
| 14 | Mathew Xavier | 42 | Divisional Vice President - Marketing & Innovations | 3,313,828 | B.Com / PGDM | 17 | 1-Apr-05 | Vice President-Marketing erstwhile SWDL |
| 15 | Murali P A* | 48 | Executive Vice President & Chief Financial Officer | 3,596,927 | B.Com, ACA | 25 | 5-Jul-93 | Executive Vice President, -Finance & Accounts United Breweries Ltd. |
| 16 | Navratan Dugar | 63 | Executive Vice President - Procurement Planning & Manufacturing | 6,069,654 | M.Com, MBA, MCIM | 37 | 1-May-01 | Adviser - Balaji Group Companies |
| 17 | Philip Sargunar A B | 57 | Chief Operating Officer | 5,197,944 | MA (Eco.) | 36 | 20-Nov-02 | Executive Director & Chief Reputation Officer, The Empee Distilleries Ltd. |

STATEMENT OF PARTICULARS OF EMPLOYEES AS REQUIRED UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 AND COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

| SL. NO. | NAME | AGE | DESIGNATION/ NATURE OF DUTIES | REMUNERATION | QUALIFICATION | EXPERIENCE IN YEARS | DATE OF COMMENCEMENT OF EMPLOYMENT | PARTICULARFS OF PREVIOUS EMPLOYMENT |
|---|---|---|---|---|---|---|---|---|
| 18 | Poddar P N | 53 | Senior Vice President-Manufacturing | 2,791,927 | M.Tech, DMS | 30 | 1-Jan-88 | Production -Manufacturing Manager, Union Carbide (I) Ltd. |
| 19 | Raghunathan A | 54 | Executive Vice President - Finance & Accounts | 5,034,700 | B.Com.,ACA | 31 | 1-Apr-05 | Executive Vice President - Finance & Accounts erstwhile Herbertsons Limited |
| 20 | Rajsekher N R | 50 | Chief Operating Officer | 3,311,644 | B.Sc | 27 | 1-Apr-05 | Vice President - Sales erstwhile SWDL |
| 21 | Rastogi S K | 54 | Divisional Vice President - Q A | 2,522,183 | M.Sc., | 34 | 14-Nov-82 | Q C Officer - Jagatjit Industries Limited |
| 22 | Ravi Nedungadi.A.K. | 49 | President and Chief Financial Officer - The UB Group | 17,145,491 | B.Com (Hons) AICWA, ACA | 27 | 1-Jan-90 | Group Finance Director, UB International Ltd., U.K. |
| 23 | Rekhi V.K | 61 | Managing Director | 19,823,432 | MBA | 34 | 3-Jan-72 | Regional Director, UB International Ltd., U.K. |
| 24 | Shamsuddin A K M A* | 59 | President | 8,736,978 | B.Com, MBA | 39 | 1-Apr-05 | President - Liquor erstwhile SWDL |
| 25 | Srikumar Sen* | 54 | Vice President -Central Purchase | 2,820,547 | B.Sc.(CHEM) | 33 | 1-Apr-05 | Vice President - Central Purchase erstwhile SWDL |
| 26 | Subba Rao P V* | 69 | President - Research | 2,356,296 | M.Sc, Phd | 47 | 1-Apr-96 | Chairman, Dept. of Bio-Chemistry, Indian Institute of Science |
| 27 | Subramanian T K | 55 | Divisional Vice President - Systems | 2,770,127 | B.Sc., DMS | 34 | 16-Mar-83 | Controller-Systems, UBICS Ltd. |
| 28 | Subramanian T V | 51 | Assistant Vice President - Business Development | 2,454,889 | M.Com., ICWA | 28 | 16-Jun-86 | Manager Branch Services - Deccan Marketing Ltd. |
| 29 | Surendra Choudhary | 52 | Divisional Vice President - Finance | 2,779,771 | B.Com, LLB, CA | 28 | 1-Apr-05 | Vice President - Finance erstwhile SWDL |
| 30 | Suresh Menon I P | 49 | Senior Vice President - Planning & Control | 3,183,521 | B.A., MMS | 28 | 1-Apr-85 | Secretary & Finance Manager, UB Electronic Instruments Ltd. |
| 31 | Venkataraman V S | 52 | Company Secretary and Senior Vice President | 3,044,740 | B.Com. (Hons), ACS | 34 | 20-Aug-82 | Deputy Company Secretary, United Breweries Ltd. |
| 32 | Vivek Prakash | 46 | Senior Vice President - CSD Sales | 2,919,452 | L L B, B .Com | 24 | 15-Jun-98 | Deputy General Manager - Shaw Wallace & Company Limited |

* Employed part of the year.

NOTES:
No employee is on contract employment. Other terms and conditions are as per service rules of the Company from time to time.
None of the above mentioned employees is related to any Director of the Company.
Remuneration as shown above includes salary, house rent allowance, Company's contribution to PF and Superannuation Fund, value of residential accommodation, bonus, medical and other facilities.

By Authority of the Board

Chennai
November 6, 2006

**Dr. VIJAY MALLYA**
Chairman

**1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE**

United Spirits Limited, your Company acknowledges the importance of good Governance and is committed to the highest standards of Corporate Governance. Your Company firmly believes that the basic tenets of integrity, transparency, accountability and responsibility in all its activities are key drivers of sustainable growth and long term value creation for all stakeholders. Your Company pursues growth by adopting best corporate practices and continuously benchmarking against such practices.

**2. BOARD OF DIRECTORS**

The Board of Directors comprises a Non - Executive Chairman, a Managing Director and five other Non Executive Directors.

During the financial year under review, Twelve Board Meetings were held i.e., on April 27, 2005, June 14, 2005, July 27,2005, August 12, 2005, September 22, 2005, September 23, 2005, September 29, 2005, October 26, 2005, January 31, 2006, February 21, 2006, March 16, 2006 and March 29, 2006

Attendance of each Director at the Board Meetings and the last Annual General Meeting and details of number of outside Directorship and Committee position held by each of the Directors as on date are given below:

| Name of Director | Category of Directorship | No. of Board Meetings attended | Attendance at last AGM held on 23.9.2005 | No. of other Companies in which Director | No of committees (other than the company) in which Chairman/ Member |
|---|---|---|---|---|---|
| Dr. Vijay Mallya | Non Executive Chairman | 7 | Yes | 20 | 1 (Chairman of 1) |
| Mr.S.R.Gupte | Non Executive Vice Chairman | 10 | Yes | 12 | 6 (Chairman of 4) |
| Mr. V.K.Rekhi | Executive/ Managing Director | 10 | Yes | 1 | Nil |
| Mr. M.R. Doraiswamy Iyengar | Independent Non-Executive Director | 11 | Yes | 3 | Nil |
| Mr. P.K. Kakodkar | Independent Non- Executive Director | 6 | No | 1 | Nil |
| Mr. B.M. Labroo | Independent Non- Executive Director | 10 | Yes | 10 | Nil |
| Mr. Sreedhara Menon | Independent Non- Executive Director | NA | NA | 1 | Nil |

**NOTE:** The above details are in respect of their Directorship only in Indian Companies.

a) Out of 20 other Companies in which Dr. Vijay Mallya is a Director, 7 are Private Limited Companies and 2, Section 25 Companies.

b) Out of 12 other Companies in which Mr. S.R. Gupte is a Director, 2 are Private Limited Companies and 1, Section 25 Company.

c) 3 other Companies in which Mr. M.R. Doraiswamy Iyengar is a Director, 2 are Private Limited Companies.

d) Out of 10 other Companies in which Mr. B.M. Labroo is a Director, 6 are Private Limited Companies.

e) Mr. Sreedhara Menon was appointed as Additional Director with effect from July 14, 2006

**DISCLOSURES REGARDING APPOINTMENT AND RE-APPOINTMENT OF DIRECTORS**

**Directors retiring by rotation and being reappointed**

**Mr. P K Kakodkar**

Mr. P K Kakodkar, aged 81 years, had his early higher education in Portuguese followed by B.A. (Hons.) of Bombay University. Mr. Kakodkar had a distinguished career in the Pharmaceutical Industry and was for about 19 years the Managing Director of Roussel India Ltd., a leading Pharmaceutical Company. Apart from General Management in that position, his special areas of expertise were marketing and Product Portfolio Development.

Mr. Kakodkar was honoured by the Government of France with the Knighthood of the National Order of Merit

| Other Directorships | Position Held |
|---|---|
| Indoco Remedies Limited | Director |

Mr. Kakodkar is a member of the Committe of Directors, Audit Committee, Compensation Committee and the Chairman of Shareholders/ Investors Grievance Committee of the Company.

**Mr. B M Labroo**

Mr. B M Labroo, aged 75 years, is an Industrialist and has wide experience in marketing, finance and corporate governance. Mr. Labroo is an M.A. in Political Science from Punjab University and is the promoter and Chairman of Asahi India Glass Ltd.

| Other Directorships | Position Held |
|---|---|
| Asahi India Glass Limited | Chairman |
| Ajay Handicrafts & Garments (P) Limited | Director |
| Allied Fincap Services Private Limited | Director |
| Flavours & Food (India) Private Limited | Director |
| Maltex Malsters Limited | Director |
| North-West Distilleries Private Limited | Director |
| Samir Paging Systems Limited | Director |
| Shield Autoglass Limited | Chairman |
| Sunny International Private Limited | Director |
| Nishi Electronics Private Limited | Director |

Mr. B M Labroo is a member of the Audit Committee, Shareholders/Investors Grievance Committee, and Chairman of Compensation Committee.

**NEW DIRECTOR**

**Mr. Sreedhara Menon**

Mr. Sreedhara Menon, aged 70 years, is currently Chairman of the Board and Strategic Advisor of VITEOS Capital Market Services Limited, a Business Process Outsourcing Company in India with a branch located at Somerset, New Jersey, USA. Mr. Menon has previously held senior positions as Deputy President and Member of the Board of Directors of American Express Bank Limited, Chairman of the Board of Directors of American Express Bank International, Managing Director, Emerging Markets Group at Lehman Brothers Inc., New York and General Partner and Vice Chairman of RRE Ventures, LLC. Mr. Menon has served as a Member of the Board of Directors of U.S.-India Business Council, Asean-U.S. Business Council, President of India-America Chamber of Commerce in New York, etc. Mr. Menon holds Masters Degree in Economics from Maharaja's College of the University of Kerala, India. He resides in Short Hills, New Jersey, U.S.A.

Mr. Menon is Director in Viteos Capital Markets Services Limited.

**3. AUDIT COMMITTEE**

The Audit Committee constituted on April 19, 2001 to meet the requirements under both the Listing Agreement and Section 292A of the Companies Act, 1956, comprises the following Directors:

| | |
|---|---|
| Mr. M.R. Doraiswamy Iyengar (Chairman) | Non Executive Independent Director |
| Mr. P.K. Kakodkar | Non Executive Independent Director |
| Mr. B.M. Labroo | Non Executive Independent Director |
| Mr. S.R. Gupte | Non Executive Director |

The terms of reference of the Audit Committee covers all matters specified under the Listing Agreement as well as the provisions of Section 292A of the Companies Act, 1956 and inter alia includes the following.

a) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.

c) Reviewing with management the annual financial statements before submission to the Board, focusing primarily on:
   - Any changes in accounting policies and practices
   - Major accounting entries based on exercise of judgment by management
   - Qualifications in draft audit report
   - Significant adjustments arising out of audit
   - Compliance with Stock Exchange and legal requirements concerning financial statements
   - Disclosures of any related party transactions.

d) Reviewing with the management, external and internal auditors, the adequacy of internal control systems.

e) Reviewing the adequacy of internal audit function including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

f) Discussion with internal auditors any significant findings and follow up thereon.

g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

h) Discussion with statutory auditors before the audit commences nature and scope of audit as well as have post-audit discussions to ascertain any area of concern.

i) To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

The Committee, *inter alia,* has reviewed the financial statements including Auditors' Report for the year ended March 31, 2006 and has recommended its adoption. In addition, the Committee has also reviewed quarterly results for June 30, 2005, quarterly and half yearly results for September 30, 2005, quarterly results for December 31, 2005 and quarterly results for March 31, 2006, which were subjected to a Limited Review by the Statutory Auditors of the Company.

During the financial year, five meetings were held on i.e., April 27, 2005, July 27, 2005, August 12, 2005, October 26, 2005 and January 27, 2006. The details of attendance by members of the Committee are as below:

| Name of the Director | No. of Meetings | Meetings attended |
|---|---|---|
| Mr. M.R. Doraiswamy Iyengar (Chairman) | 5 | 5 |
| Mr. S.R. Gupte | 5 | 5 |
| Mr. B.M. Labroo | 5 | 5 |
| Mr. P.K. Kakodkar | 5 | 2 |

**4. COMPENSATION COMMITTEE**

The Compensation Committee constituted by the Company comprises the following Directors.

Mr. B.M. Labroo Chairman
Mr. S.R. Gupte
Mr. M.R. Doraiswamy Iyengar
Mr. P.K. Kakodkar

The Committee is authorised, *inter alia* to deal with the matters related to compensation by way of salary, perquisites, benefits etc. to the Managing/Whole Time Directors of the Company, and set guidelines for salary, performance pay and perquisites to other senior employees from the level of Executive Vice President and above.

The Committee is also empowered to formulate and implement the Scheme for grant of Stock Option to employees.

During the financial year, three meetings were held on i.e. May 8, 2005, August 12, 2005 and January 30, 2006. The details of attendance by members of the Committee are as below:

| Name of the Director | No. of Meetings | Meetings attended |
|---|---|---|
| Mr. B.M. Labroo (Chairman) | 3 | 3 |
| Mr. S.R. Gupte | 3 | 3 |
| Mr. M.R. Doraiswamy Iyengar | 3 | 3 |
| Mr. P.K. Kakodkar | 3 | 3 |

**Remuneration of Directors:**

The details of Remuneration paid/payable to the Directors during the Financial Year April 1, 2005 to March 31, 2006 are given below:

**a) Executive Directors**

**Managing Director: Mr. V.K.Rekhi**

| Salary & Allowances | Performance Linked incentive | Perquisites | Retirement Benefits |
|---|---|---|---|
| Rs.11,083,149 | Rs.4,490,901 | Rs.2,373,470 | Rs.2,825,118 |

Notes:

1. Mr. V.K.Rekhi was appointed as the Managing Director of the Company for a period of five years with effect from April 19, 2001.The terms and conditions of appointment and remuneration of Mr. V.K.Rekhi is as set out in the resolution and as per the rules of the company as applicable approved by the shareholders of the Company at the Annual General Meeting held on September 22, 2001.

   Mr.V.K. Rekhi has been reappointed for a further period of 5 years with effect from April 19, 2006. The reappointment and the remuneration payable are subject to approval of the Members at this Annual General Meeting.
2. The employment of Mr. V.K.Rekhi is terminable on either side by giving six months notice as per the rules of the Company.
3. There is no severance fee.
4. No stock option was granted during the year.

b) **Non – Executive Directors**

Sitting Fees are paid to Non-Executive Directors for attending Board/ Committee Meetings. They are also entitled to reimbursement of actual travel expenses, boarding and lodging, conveyance and incidental expenses incurred for attending such meetings.

| Name of the Director | Sitting fees |
|---|---|
| Dr Vijay Mallya | Nil |
| Mr. S.R. Gupte | 235,000 |
| Mr. V.K.Rekhi | Nil |
| Mr. M.R.Doraiswamy Iyengar | 305,000 |
| Mr. P.K. Kakodkar | 135,000 |
| Mr. B.M. Labroo | 180,000 |
| Mr. Sreedhara Menon | NA |

Non Executive Directors are also eligible for Commission on Profits as approved by the shareholders at the Annual General Meeting held on September 22, 2001. Such Commission may be apportioned amongst the Directors in any manner they deem fit. A fresh resolution in this regard has been passed at the Annual General Meeting held on September 23, 2005 to remain in force for a period of 5 years from April 1, 2006.

The commission of Rs.5,517,195 on profits for the year ended March 31, 2006 will be paid after adoption of Accounts by Shareholders at the Annual General Meeting to be held on December 28, 2006 and apportioned amongst the Directors in any manner they deem fit.

c) **Particulars of Equity Shares of the Company currently held by the Directors, are furnished below**:

| Name of the Director | No. of Shares held |
|---|---|
| Dr Vijay Mallya | 10 |
| Mr. S.R. Gupte | Nil |
| Mr. V.K.Rekhi | 6100 |
| Mr. M.R.Doraiswamy Iyengar | 21 |
| Mr. P.K. Kakodkar | Nil |
| Mr. B.M. Labroo | 116,200 |
| Mr. Sreedhara Menon | Nil |

5. **SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE**

A Shareholders/Investors Grievance Committee was constituted on April 19, 2001, to operate in terms of the provisions related thereto in the Listing Agreements with the Stock Exchanges and /or the provisions as prescribed or as may be prescribed in this regard by the Companies Act, 1956.

The Committee comprises the following Directors:

Mr. P.K. Kakodkar, Chairman

Mr. B.M. Labroo

Mr. V.S. Venkataraman, Company Secretary is the Compliance Officer.

During the financial year three meetings were held on August 12, 2005, October 26, 2005 and January 30, 2006 attended by both the members of the Committee.

The Company/ Company's Registrars received 305 complaints during the financial year, all of which were resolved to the satisfaction of shareholders/ investors.

The company had 18 transfers pending at the close of the financial year, owing to signature difference and these have been registered subsequently within the stipulated time.

The Company also has a Committee of Directors with authority delegated by the Board of Directors, *inter alia*, to approve transfer and transmission of shares, issue of new share certificates on account of certificates lost, defaced, etc., and for other routine operations such as issue of powers of attorney, operation of bank accounts etc.

The Committee comprises the following Directors:

Mr. S.R. Gupte
Mr. M.R.Doraiswamy Iyengar
Mr. V.K.Rekhi and
Mr. P.K. Kakodkar

## 6. GENERAL BODY MEETINGS

The details of the last three Annual General Meetings held are furnished as under:

| Financial Year ended | Date | Time | Venue |
|---|---|---|---|
| March 31, 2003 | Sept. 26, 2003 | 10.00 a.m. | Dr. B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore 560 052 |
| March 31, 2004 | Sept. 29, 2004 | 11.00 a.m. | Dr. B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore 560 052 |
| March 31, 2005 | Sept. 23, 2005 | 12.15 p.m. | Dr. B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore 560 052 |

All the resolutions set out in the Notices, relating to the previous 3 Annual General Meetings, including Special Resolutions were passed by the Shareholders.

### POSTAL BALLOT

During the year 2005-06, pursuant to Section 192A of the Companies Act, 1956, the Company had conducted the postal ballot exercise following the provisions and rules framed under the Act for conducting Postal Ballot.

The details/results of the postal ballot exercise so conducted are as under:

| Date of Notice of Postal Ballot | Date of scrutinizer's report | Description | Result |
|---|---|---|---|
| October 26, 2005 | December 13, 2005 | Special Resolution under Section 17 of the Companies Act, 1956, to amend Clause III.(B) of the Objects Clause of the Memorandum ofAssociation of Company by inserting a new clause | Carried with requisite majority. Number of Votes cast in favour 27,070,369 and Number of Votes cast against 20,885 |

The postal ballot exercise, under section 192A, was conducted by Mr. M R Gopinath, a Company Secretary in practice, scrutinizer appointed for the purpose and his reports were filed with the Office of Registrar of Companies, Karnataka, Bangalore.

No Special Resolution is proposed to be passed through Postal Ballot at present.

## 7. DISCLOSURES

During the financial year ended March 31, 2006 there were no materially significant related party transactions with its promoters, the Directors or the management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the Company at large. Details of related party transactions form part of Notes on Accounts.

The Company has complied with all the statutory requirements comprised in the Listing Agreements/ Regulations/Guidelines/Rules of the Stock Exchanges/SEBI/other statutory authorities.

There were no instances of non-compliance by the Company nor have any penalties, strictures been imposed by Stock Exchanges or SEBI or any other statutory authority since incorporation of the Company on any matter related to capital markets.

**8. MEANS OF COMMUNICATION**

The unaudited quarterly and half-yearly results are sent to all the Stock Exchanges where the shares of the Company are listed. The results are normally published in 'The Asian Age', Business Standard and 'Kannada Prabha'. The results are displayed on the Company's Website www.clubmcdowell.com.

The results are also posted in the website www.sebiedifar.nic.in of the Securities and Exchange Board of India.

**Management Discussion and Analysis forms part of the Annual Report.**

**9. GENERAL SHAREHOLDER INFORMATION**

| | | |
|---|---|---|
| a) | AGM Date, Time and Venue | Thursday, December 28 , 2006 at 11.00 a.m at Dr.B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore 560 052 |
| b) | Financial Year | April 1 to March 31 |
| | First Quarterly Results | By July 31 |
| | Second Quarterly Results | By October 31 |
| | Third Quarterly Results | By January 31 |
| | Fourth quarterly Results | By April 30 |
| c) | Date of Books closure | December 12, 2006 to December 14, 2006 |
| d) | Dividend payment date | After December 28, 2006 |
| e) | Listing on Stock Exchanges: | The shares of the Company are listed on the following Stock Exchanges: |

1. Bangalore Stock Exchange Limited (BgSE)
2. Bombay Stock Exchange Limited, (BSE)
3. National Stock Exchange of India Limited (NSE)
4. Madras Stock Exchange Limited (MSE)
5. The Delhi Stock Exchange Association Ltd. (DSE)
6. The Calcutta Stock Exchange Association Ltd. (CSE)
7. Ahmedabad Stock Exchange Limited (ASE)

The listing fees for the years 2005–2006 and 2006-07 have been paid to all the Stock Exchanges.

| | | |
|---|---|---|
| f) | Stock Code | |
| | BSE | Demat 532432 Physical 32432 |
| | NSE | SYMBOL-McDOWELL-N |
| | DSE | 13044 |
| | ASE | 36311 |
| | MSE | McDowell |
| | CSE | 23926 & 10023926 |
| | BgSE | McDowell |
| g) | ISIN No. | INE854D01016 |
| h) | Market price data | (As per Annexure A) |
| i) | Stock performance in comparison to BSE sensex | (As per Annexure B) |
| j) | Registrar and Transfer Agents | Alpha Systems Private Limited<br>Registered Office:<br>30, Ramana Residency, 4th Cross, Sampige Road, Malleswaram, Bangalore 560 003 |
| k) | Share Transfer System | The power to consider and approve share transfers / transmission / transposition / consolidation/ subdivision etc., has been delegated to a Committee of Directors as indicated under the heading Shareholders/ Investors Grievance Committee. The Committee meets generally once in a fortnight.<br>The requirements under the Listing Agreement / Statutory regulations in this regard are being followed. |
| l) | Distribution of Shareholding as on March31, 2006 | As per Annexure C |
| m) | Dematerialisation of shares | 92.64% of equity paid up share capital is held in dematerialised form |
| n) | Outstanding GDRs/ ADRs / Warrants or any other Convertible instruments | 17,502,762 Global Depositary Shares (GDSs) representing 8,751,381 equity shares of Rs.10/- each as on March 31, 2006, 2 GDSs representing 1 equity share of Rs.10/-. |
| o) | Plant Locations | 1. Cherthala (Kerala)<br>2. Hyderabad (Andhra Pradesh)<br>3. Ponda (Goa) |

4. Hathidah (Bihar)
5. Kumbalgodu (Karnataka)
6. Rosa (Uttar Pradesh)
7. Udaipur (Rajasthan)
8. Serampore (West Bengal)
9. Bhopal - I (Madhya Pradesh)
10. Bhopal - II (Madhya Pradesh)
11. Asansol (West Bengal)
12. Nasik - I (Maharashtra)
13. Nasik - II (Maharashtra)
14. Pondicherry (Pondicherry)
15. Alwar (Rajasthan)
16. Aurangabad (Maharashtra)
17. Meerut (Uttar Pradesh)
18. Hospet (Karnataka)
19. Pathankot (Punjab)
20. Palwal (Haryana)
21. Gopalpur-on-sea (Orissa)
22. Palakkad (Kerala)
23. Baddi (Himachal Pradesh)
24. Bhadrakali (West Bengal)
25. Baramati (Maharashtra)
26. Zuari Nagar (Goa)

p) Address for correspondence

Shareholder correspondence should be addressed to the Company's Registrars and Transfer Agents:

Alpha Systems Private Limited
Registered Office:
30, Ramana Residency, 4th Cross, Sampige Road,
Malleswaram, Bangalore 560 003
Tel. Nos. (080) 2346 0815-818
Fax No.080 2346 0819

Investors may also write or contact the Company Secretary, Mr. V.S. Venkataraman or Assistant Company Secretary and Manager Investor Relations, Mr. B Santhosh Kumar, at the Registered Office of the Company at No.51, Richmond Road, Bangalore 560 025
Tel. Nos. (080) 2227 4452, 2227 4458, 2221 0705
Fax No. (080) 2227 2973

**NON MANDATORY REQUIREMENTS**

| | | |
|---|---|---|
| a) | Chairman of the Board | Dr. Vijay Mallya |
| | Whether Chairman of the Board is entitled to maintain a Chairman's Office at the Company's expenses and also allowed reimbursement of expenses incurred in performance of his duties | The Company maintains the Chairman's office at the Company's expenses and also reimburses the expenses incurred in performance of his duties. |
| b) | Remuneration Committee | The Company has formed a Compensation Committee. |
| c) | Shareholders Rights: | |
| | The half-yearly declaration of financial performance including summary of the significant events in the last 6 months should be sent to each household of shareholders. | The Company's half-yearly results are published in English and Kannada Newspapers. Hence the same are not sent to the shareholders. |

The Company has not adopted Whistle Blower Policy being non-mandatory.

## ANNEXURE A: MARKET PRICE PERFORMANCE

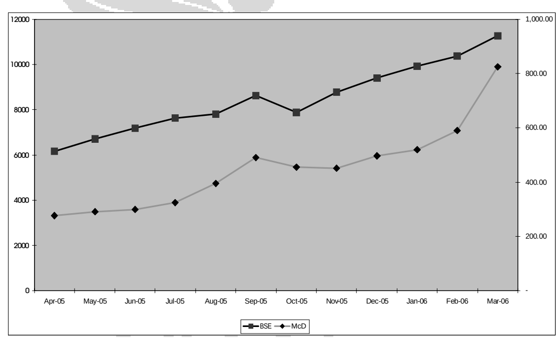
**United Spirits Limited - Monthly BSE**

| Month | High | Low | Volume |
|---|---|---|---|
| Mar-06 | 841.00 | 575.00 | 147,243 |
| Feb-06 | 620.85 | 500.05 | 90,990 |
| Jan-06 | 551.00 | 491.25 | 78,384 |
| Dec-05 | 503.85 | 431.00 | 79,667 |
| Nov-05 | 488.90 | 436.10 | 77,096 |
| Oct-05 | 510.40 | 410.00 | 150,230 |
| Sep-05 | 503.00 | 375.50 | 255,970 |
| Aug-05 | 416.70 | 303.45 | 101,531 |
| Jul-05 | 339.00 | 282.00 | 78,682 |
| Jun-05 | 313.70 | 266.85 | 80,671 |
| May-05 | 320.00 | 265.25 | 125,813 |
| Apr-05 | 326.50 | 243.00 | 122,829 |

**United Spirits Limited - Monthly NSE**

| Month | High | Low | Volume |
|---|---|---|---|
| Mar-06 | 840.00 | 575.00 | 20,498,671 |
| Feb-06 | 619.20 | 501.05 | 16,792,347 |
| Jan-06 | 549.75 | 490.00 | 14,889,244 |
| Dec-05 | 504.00 | 432.00 | 14,489,737 |
| Nov-05 | 489.25 | 379.50 | 13,662,167 |
| Oct-05 | 510.25 | 370.00 | 28,016,246 |
| Sep-05 | 503.00 | 375.80 | 63,580,775 |
| Aug-05 | 416.70 | 303.55 | 28,282,997 |
| Jul-05 | 340.00 | 282.00 | 20,325,480 |
| Jun-05 | 313.80 | 271.25 | 18,423,429 |
| May-05 | 319.90 | 265.55 | 32,265,150 |
| Apr-05 | 327.80 | 243.75 | 35,967,535 |

## ANNEXURE B: STOCK PERFORMANCE IN CAMPARISION WITH BSE SENSEX




## ANNEXURE C : DISTRIBUTION OF HOLDINGS AS ON MARCH 31, 2006

**Valuewise**

| Shareholding of nominal value of Rs. | | Shareholders | | Share Capital | |
|---|---|---|---|---|---|
| | | Number | % to Total | In Rs. | % to Total |
| (1) | | (2) | (3) | (4) | (4) |
| Upto — | 5,000 | 59,874 | 95.75 | 66,922,410 | 11.07 |
| 5,001 — | 10,000 | 1,311 | 2.10 | 10,350,610 | 1.71 |
| 10,001 — | 20,000 | 652 | 1.04 | 9,348,920 | 1.55 |
| 20,001 — | 30,000 | 257 | 0.41 | 6,244,680 | 1.03 |
| 30,001 — | 40,000 | 94 | 0.15 | 3,341,520 | 0.55 |
| 40,001 — | 50,000 | 91 | 0.15 | 4,221,910 | 0.70 |
| 50,001 — | 100,000 | 115 | 0.18 | 8,179,680 | 1.35 |
| 100,001 — | and above | 140 | 0.22 | 496,104,360 | 82.04 |
| | Total | 62,534 | 100.00 | 604,714,090 | 100.00 |

**Categorywise**

| Category | No. of shares | % of Equity |
|---|---|---|
| Promoter Group | 22,099,004 | 36.54 |
| Resident Body Corporate | 1,289,458 | 2.13 |
| Banks/FI/FII/MF/Trust | 16,665,430 | 27.56 |
| NRI/OCB/FFI | 1,285,326 | 2.13 |
| GDS | 8,751,381 | 14.47 |
| Resident Individuals | 10,380,810 | 17.17 |
| Total | 60,471,409 | 100.00 |

UNITED SPIRITS

## Certificate on Corporate Governance

The Members of,
United Spirits Limited

We have examined the compliance of conditions of Corporate Governance by United Spirits Limited (formerly known as McDowell & Company Limited), for the year ended on March 31, 2006, as stipulated in Clause 49 of the Listing Agreement, as amended with effect from December 31, 2005 of the said company with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended on March 31, 2006, no grievances are pending against the company as per records maintained by the company and presented to the Shareholders'/Investors' Grievance Committee.

We further state that such compliance is neither an assurance as to future viability of the company nor the efficiency of effectiveness with which the management has conducted the affairs of the company.

M. R.GOPINATH
COMPANY SECRETARY
(in practice)

FCS 3812 CP 1030

Bangalore
November 6, 2006

# CEO / CFO Certificate

In terms of the requirement of the amended Clause 49, the certificates from CEO/CFO have been obtained.

On behalf of the Board of Directors

Chennai
November 6, 2006

V K REKHI
Managing Director

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## Declaration regarding affirmation of Code of Conduct

In terms of the requirement of the amended Clause 49 of the Listing Agreement, Code of Conduct as approved by the Board of Directors of the Company on December 30, 2005 had been displayed at the Company's website www.clubmcdowell.com. All the members of the Board and the senior management personnel had affirmed compliance with the Code for the period March 31, 2006.

Chennai
November 6, 2006

V K REKHI
Managing Director

UNITED SPIRITS

## MANAGEMENT DISCUSSION & ANALYSIS REPORT

**A. INDUSTRY OVERVIEW:**

India, with its GDP of $ 518 per head is the 10th largest economy in the world. Out of its population of over 1.1 billion, around 600 million are below 25 years of age and 320 million live in urban areas. The average economic growth for the fiscal year 2005-06 was an impressive 8.4% - the 3rd straight year in which growth was 7.5% or above. While the services sector, which grew by 10.3%, was the main driver of economic activity, the industry sector also performed well, growing by 7.6%.

The Alcoholic Beverages Industry comprises the segments of Beer, Indian Made Foreign Liquor (IMFL), Wine, Country Liquor and Bottled in Origin (BIO) spirits. Currently your Company operates primarily in the IMFL space with marginal interests in Wine and Country Liquor. The IMFL industry during 2005-06 is estimated to be marginally above 133 mn cases of 9 bulk litres (BL) each. This represents a growth of around 9% over the previous fiscal year. The year under review has seen a de-growth in the volume sold to the defence forces through the Canteen Stores Department (CSD) owing to reduction in supply quotas and stringent supply control measures.

The Country Liquor segment is an unorganized business area and at best 'guesstimates' of the market size alone are available. These 'guesstimates' place the size of this segment of the industry at between 200 and 225 mn cases of 9 BL each.

Brown spirits continue to dominate the IMFL Industry - Whisky at 56%, Brandy at 16% and Rum at 24% - aggregating to 96%; White Spirits – comprising the Gins, White Rums & Vodkas are a mere 4% of the Industry. 'Browns' in India are also growing y-o-y which is in sharp contrast to global trends, where they are stagnant/de-growing.

The real indicator of the potential Indian market for alcoholic drinks is the extremely low per capita consumption level – this is estimated at 1.48 litres per annum in 2005. Industry estimates place this per capita consumption at 22% higher than in the year 2000. In a country with such a vast population, even small percentage increases in per capita consumption will see a rise in the total sales of alcoholic beverages in both volume and value terms. Changing consumer perception to potable alcohol, increased buying power and increased awareness of global trends are all likely to be the drivers of growth for this industry. The increase in buying power as well as the regulatory changes will also bring about an upgradation from the country liquor segment to the branded segment of the industry.

**B. REGULATORY ENVIRONMENT:**

Under the Constitution of India, the Alcoholic Beverages Industry is a State subject. In reality, the industry is regulated both by the Union and the State Governments. While licensing greenfield units or sanctioning capacities for production of alcohol lies in the Central Government's domain, the authority to impose taxes, regulate storage, distribution and marketing, lies with the States.

Multiplicity of laws and regulations legislated by different governments has contributed to a highly complex and fragmented regulatory environment with significantly different requirements across different States.

The two-tier regulatory control on the industry makes for a quixotic situation that rules which are applicable to industry at large are not automatically applicable to this Industry. The recent legislation relating to the coverage under VAT, and the 'MODVATability' of Excise Duty paid / Service Tax on inputs against the Excise Duty paid on the output, are cases in point.

The industry also has to cope with a ban on advertising thus depriving it of a potent form of brand building, communication and reaching out to consumers.

The irrational, and often shifting, policies of various Governments towards the IMFL industry in particular and the Alcoholic Beverages Industry at large, have seen a growth in cheaper, non-standard products to the detriment of consumers.

**C. BUSINESS ANALYSIS:**

**Highlights:** After the unprecedented rise in the prices of Molasses / Rectified Spirit / Extra Neutral Alcohol as a result of a combination of factors viz. a failed sugarcane crop and Govt. legislation necessitating increased dosage of alcohol in fuel, FY06 saw a climb-down in prices of the industry's primary raw material from the high levels of FY05. However, costs for the year have nevertheless seen a quantum step-up from the average levels of the previous years.

At the same time, rising fuel prices have had a strong and negative impact on the business through increase in costs of furnace oil both in our factories as also in those of our suppliers of glass containers-another major item and cost. The sharp rise in the price of oil has also impacted both inward and outward freight costs.

During the period of high raw material prices in 2005, your Company had consciously decided to discontinue production and sale of brands whose profitability was seriously eroded on account of the cost push. This decision continued to remain in force in FY06, with the result that despite a 3.7 million cases drop in sales of its low end products, overall volumes have risen by 3.4 mn cases.

The growth in the Company's main line brands was 15% - however with the deliberate de-emphasis of the lower end of the product range, overall growth was only 6%.

As a result of the operational merger of the various Spirits Companies of the UB Group, the resultant Company United Spirits Limited (USL) sold an unprecedented 59.4 mn cases during FY06.

The Company has always had a strong presence in every flavour and in most price segments. With the addition of the brand portfolios from its erstwhile subsidiary companies M/s Herbertsons Ltd. and Triumph Distillers & Vintners Ltd., and the erstwhile Shaw Wallace Distilleries Ltd., the position in several flavour and price segments have been further strengthened. For example, Royal Challenge Whisky from the Shaw Wallace stable with its sales of nearly a million cases reinforced the nearly half a million cases volume of Signature Whisky in the premium whisky category. Antiquity Rare Whisky and its premium offering Antiquity Blue Whisky today represent the Super Premium Whisky portfolio. Gilbey's Green Label from the Triumph Distillers & Vintners' stable and Director's Special Whisky and Old Tavern Whisky from the Shaw Wallace stable reinforced the 12 mn cases of Bagpiper and Gold Riband Whisky in the regular whisky category. Haywards Whisky with its sales of nearly 3 mn cases was a welcome addition to the portfolio in the medium whisky segment. John Ex-Shaw Brandy and Golconda Brandy with sales of over 2 mn cases reinforced the dominance of your Company in the brandy flavour where No.1 McDowell's Brandy and Honey Bee Brandy sell nearly 6.5 mn cases. Similarly White Mischief Vodka of Shaw Wallace, at nearly 9 lac cases and Alcazar Vodka of Triumph Distillers at nearly 1.5 lac cases together with Romanov of Herbertsons whose sales were nearly 6 lac cases completed the dominance of the Vodka flavour.

This presence across geographies, flavours and price segments makes the Company indispensable to the trade who are able to deal with a single window for their entire range. Together with the Beer offerings from the United Breweries Ltd. portfolio, the value of your Company and indeed, that of the UB Group, to the trade can be readily appreciated.

**D. MARKETING:**

Your Company's Flagship brand McDowell's No.1 offered in 4 flavours – Whisky, Brandy, Rum & White Rum – sold over 17 mn cases during the year, a 12% growth. Bagpiper Whisky became the world's largest selling whisky in calendar year 2005 – a fact certified by Impact International, the US-based publication that is viewed as the authentic databank of the alcoholic beverages industry worldwide. With a 38% growth in volumes during the fiscal year 2006, Bagpiper ended the year with sales of about 11 mn cases.

Among the new brands introduced during the year was Antiquity Blue Whisky – a Super-Premium offering which is today the most expensive whisky in the IMFL space. Its unique bottle design and its excellent blend has caught the fancy of the market and is being well received in all the markets where it is being progressively launched as part of a phased national roll out.

Packaging of key brands has been continuously revamped in keeping with the international trends to make the Company's product offerings 'best-of-class'.

The Company's association with sporting events like the Inter-Club Golf Championships has grown in popularity and today sees the largest participation of any Golf event in the country.

**E. MANUFACTURING:**

The integration of the manufacturing facilities of Shaw Wallace, Herbertsons & Triumph with those of McDowell was a mammoth task. Today, after rationalization of facilities to achieve economies of scale, while at the same time maintaining the least delivered cost in the market place, your products roll out from 65 manufacturing facilities across the country. Of these, 26 are owned by your Company and one by Shaw Wallace & Company Ltd., a company in which United Spirits hold majority control. Procurement of material and ensuring quality at each of these 64 locations demonstrates the Company's sophisticated processes and control systems.

The Company's products received various accolades during the year. The Monde Selection Awards 2006 saw your Company's products walk away with 11 awards including the 'Grand Gold' awarded to Signature Rare Aged Whisky.

The Gold Medal at the Reader's Digest Trusted Brand Awards were conferred on Royal Challenge Whisky, No.1 McDowell's Whisky and Bagpiper Whisky. These 3 were the only beverage alcohol brands to make the grade.

The quality of your Company's products was acknowledged through awards by the International Taste & Quality Institute, Brussels and at The International Wine & Spirit Competition 2005 as also at Concours Mondial de Bruxelles 2005.

**F. MERGERS:**

In terms of a Composite Scheme of Arrangement sanctioned by the Hon'ble High Courts of Karnataka & Bombay, the following companies have been amalgamated with McDowell & Company Limited on October 5, 2006 (Effective Date)

1. Phipson Distillery Limited
2. United Spirits Limited
3. Herbertsons Limited
4. Triumph Distillers & Vintners Private Limited

5. Baramati Grape Industries Limited
6. United Distillers India Limited
7. McDowell International Brands Limited
8. Shaw Wallace Distilleries Limited

The amalgamation of these companies takes effect from April 1, 2005 being the 'merger appointed date'. The transferor companies listed above have been dissolved without winding up, pursuant to the orders of the Hon'ble High Courts of Karnataka & Bombay.

Further, and as per the terms of the Composite Scheme of Arrangement, the name of the Company has been changed from McDowell & Company Limited to United Spirits Limited.

As per Clause 14 of the Composite Scheme of Arrangement, approved by the Hon'ble High Courts of Karnataka and Bombay, *inter alia*, the entire business and whole of the undertaking of the Transferor Companies as a **going concern** including duties and obligations, all properties and assets, excise licenses and registrations, buildings, plant and machinery, labels and brand registrations, copy rights, patterns, trade marks, trade names and other industrial or intellectual property rights, contracts, all statutory licenses, permissions, approvals or consents to carry on the operations of the Transferor Companies, etc., stand vested in and transferred to McDowell & Company Limited, now re-named as United Spirits Limited. Accordingly, all the manufacturing units, depots and all other establishments of the transferor companies stand transferred to and vested with **United Spirits Limited**.

Simultaneously, in accordance with the terms of the Composite Scheme of Arrangement, the investment business of the erstwhile McDowell & Company Limited has been spun-off into a separate company now named McDowell Holdings Limited. This company with a Share Capital of Rs.121.44 million has taken steps for listing, inter alia, on the National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

**G. REVIEW OF OPERATIONS:**

As a result of the above merger, the financial statements of the Company for FY06 incorporate the accounts of all the transferor companies that have merged into it. However, the comparative figures for FY05, as published, reflect the figures of the standalone McDowell & Company Limited only. In this note, therefore, the comparisons for FY06 are made against a similar aggregation of figures for FY05 so as to make comparisons more meaningful.

The Company's revenues from operations at Rs.33,409 mn reflect an increase of 94% over the previous year. Members are aware that the company's products are manufactured and sold by various associate and contract distilleries under 'tie-up manufacturing' and license / usership agreements. The income arising from such sale is reflected under the head 'Income from tie-up manufacturing agreements' and 'Income from brand franchise'. The total amount under these heads stands at Rs.2,513 mn from a gross turnover of Rs. 19,948 mn. In fact, therefore, if the turnover from the sale of all its products were to be aggregated, your Company's estimated gross turnover would be in excess of Rs. 53,357 mn.

The operations of the Company resulted in EBITDA of Rs. 2,588 mn, an increase of 186% over the previous year of Rs. 906 mn.

**H. BORROWINGS / FINANCE COSTS:**

Members are aware that towards the end of FY05, the Company had taken on various loans to fund the acquisition of the business of

Herbertsons from the K R Chhabria Group, buy out the remnant share holding in Triumph Distillers and to fund the open offer made to the shareholders of Shaw Wallace & Company Ltd.

The borrowings on the above account total Rs.13,897 mn.

Towards the end of FY06, the company made an issue of 17,502,762 Global Depository Shares(GDS) representing 8,751,381 Equity Shares, 2 GDSs representing 1 equity share of par value of Rs.10 each, at US $ 7.4274 per GDS aggregating to US Dollars 130 Million and US$ 100 mn in Foreign Currency Convertible Bonds due in 2011. The funds raised from the two issues were used to repay the borrowings made in 2005.

At the end of the year, borrowings were Rs. 15,322 mn and interest costs for the year were Rs. 1,666 mn.

**I. RISKS & CONCERNS, OPPORTUNITIES & THREATS:**

Favourable demographies, increasing prosperity and disposable income coupled with attitudinal changes towards consumption indicate strong and sustained demand for many years ahead. The “feel good” factor among young Indians translates into steady up-trading. The Company has witnessed double digits growth in the 1st line range of products. This trend is expected to continue. There is a clearly visible, though slow process of deregulation taking place and over time it is expected that these will result in increased retail penetration as also elimination of several infructuous regulations that add to the cost of doing business.

The Alcoholic Beverages industry is the favourite whipping boy of the Governments, both Central & State, when they need to balance their budgets. As a result, the industry suffers from the twin impact of over-regulation and excessive taxation. Nearly 2/3 of the price of a bottle of alcohol goes to the State and local Governments towards taxes and duties. The unreasonable levels of taxation show no sign of abatement and continue to impede profitability despite continuing growth in market demand.

The Govt. of India, in keeping with its commitment to the WTO, has been consistently reducing the import tariff on Bottled in Origin (BIO) spirits. The State Governments however, offer some measure of protection, to the domestic industry through the levy of countervailing duties on BIO products. Service Tax on the industry’s manufacturing arrangements continues to be a contentious issue. Legal opinion obtained by the Company indicates that the Central Govt. would be outside its jurisdiction in attempting to impose service tax on the ‘tie-up manufacturing’ arrangements under which the products are manufactured by contract manufacturers across the country.

It has been mentioned earlier in this report that the prices of Molasses / Rectified Spirits / Extra Neutral Alcohol have seen a quantum jump from the levels of the previous years. This is despite a drop in 2005-06 from the ‘high’ of FY05. A process of dialogue with the State Governments to enable movement of spirit from surplus states to deficit states as also through selective imports and strategic stock build-up, helped the Company cushion the impact of this rise in input costs. In view of its considerably reinforced position as the industry leader, the Company was able to force price increases in the market place. However the duty structure and continuing reluctance on the part of State monopolies to give price increases will continue to pose serious challenges to the industry. It is hoped that over time, buoyancy of tax collection and consumer demand will lead to a less intrusive role of Governments.

**J. OUTLOOK:**

In a market where over 50% of the volume is sold to Government agencies who administer the prices of your Company's products, price increases, even to cover normal inflation, are difficult to come about. This has a bearing on the Company's profits. The Company has through a judicious mix of strategy and cost control/ cost cutting been able to ensure a rise in overall profitability.

**K. INTERNAL CONTROL SYSTEM:**

The Company has a robust system of internal control which have been incorporated in the enterprise-wide SAP system, which post the end of the fiscal year has been rolled out to the merging companies also.

Additional checks of the Company's systems are carried out by the independent auditors as also by the Company's own Operations Review team and by the UB Group's Internal Audit Department.

**L. INTERNATIONAL OPERATIONS:**

During the current year, the Company launched its international operations with the acquisition of M/s Bouvet-Ladubay S.A., a 3.2 mn bottle winery in the Saumur Valley in the Loire region of France. This Company is now a subsidiary of your Company. The Company's products are well received in France, Germany and other European markets as also in the U.S. Plans are underway to expand the reach of its products including into the Indian market in BIO form. The expertise of M/s Bouvet-Ladubay is also being obtained by the Company to set up a state-of-the-art winery in Western India.

**M. HUMAN RESOURCES:**

The integration of 2 giant organizations which traditionally have had their daggers drawn in the fiercely competitive market place was a mammoth task. To the credit of the Company this has been achieved successfully with very little turbulence. The HR Dept. is geared to lend its support to the effort to make the Company a 'preferred employer of choice' in the Indian market place.

The Company's human capital now exceeds 7,000 employees including factory workmen. There has been no loss of production at any of the manufacturing facilities due to industrial unrest.

**FORWARD LOOKING STATEMENTS:**

This Report contains forward-looking statements that involve risks and uncertainities. When used in this Report, the words "would", "makes", "indispensable" and other similar expressions as they relate to your Company and/or its businesses are intended to identify such forward-looking statements. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from these expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

By Authority of the Board

Chennai
November 6, 2006

**Dr. VIJAY MALLYA**
Chairman

# Auditors' Report to the Members of United Spirits Limited

1. We have audited the attached Balance Sheet of **United Spirits Limited** (formerly McDowell & Company Limited)**,** as at March 31, 2006, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto (in which are incorporated the accounts of the erstwhile Phipson Distillery Limited, McDowell International Brands Limited, Baramati Grape Industries Limited, Herbertsons Limited and United Distillers India Limited for the year ended March 31, 2006 which have been audited by their auditors and whose reports have been considered by us), which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the 'Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:

4.1. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;

4.2. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

4.3. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

4.4. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;

4.5. On the basis of written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors of the Company, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;

UNITED SPIRITS

4.6. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements, together with the notes thereon and attached thereto, give, in the prescribed manner, the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:

i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;

ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**J. Majumdar**
Partner
Membership Number-F 51912
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
October 30, 2006

# Annexure to the Auditors' Report

**[Referred to in paragraph 3 of the Auditors' Report of even date to the Members of United Spirits Limited (formerly known as McDowell & Company Limited) on the Financial Statements for the year ended March 31, 2006.**

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

   (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.

   (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.

2. (a) The inventory (except those in transit at the year-end and those with third parties aggregating to Rs. 292.15 Million) has been physically verified by the management during the year. In respect of inventory lying with third parties, these have been confirmed by them. In our opinion, the frequency of verification is reasonable.

   (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   (c) In our opinion, and according to the information and explanations given to us, the Company is maintaining proper records of inventory. The discrepancies between the physical inventory and the book records as noticed on physical verification are not material and have been properly dealt with in the books of account.

3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act and, accordingly, sub clauses (b), (c) and (d) of clause (iii) of Paragraph 4 of the Order are not applicable.

   (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act and accordingly sub clauses (f) and (g) of clause (iii) of Paragraph 4 of the Order are not applicable.

4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.

5. (a) In our opinion and according to the

information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time except for sale of goods aggregating to Rs.316.978 Million and purchase of services amounting to Rs.19.500 Million as there are no market prices comparable to those sold/ purchased, which, however, are considered to be of special nature as explained by the management of the Company.

6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.

7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.

8. According to the information and explanations given to us, the Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the Company.

9. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess, and any other material statutory dues, as may be applicable, with the appropriate authorities.

(b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess as at March 31, 2006, as may be applicable, that have not been deposited on account of a dispute, are given in Appendix-1.

10. The Company has neither accumulated losses as at March 31, 2006 nor has it incurred any cash loss either during the financial year ended on that date or in the immediately preceding financial year.

11. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.

12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. The provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to the Company.

14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.

15. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.

16. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained except for certain term loans for capital expenditure/general purposes/ working capital aggregating to Rs. 3,500 Million, which have been put in general pool of funds, where end-use is not ascertainable.

17. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.

18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.

19. The Company has not issued any debenture during the year.

20. The management has disclosed the end use of money raised, during the year, by issue of 2% Convertible Bonds in Foreign Currency and Global Depository shares in Note 6 of Schedule 18 which have been verified by us.

21. During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

**J. Majumdar**
Partner
Membership Number-F 51912
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
October 30, 2006

## Appendix 1 to the Auditor's Report

[Referred to in paragraph 9(b) of the Annexure to the Auditors' report of even date to the members of United Spirits Limited (formerly McDowell & Company Limited) on the financial statements for the year ended March 31, 2006.]

| Name of the Statute (Rs.Million) | Amount* | Forum where dispute is pending | Year To Which The Amount Relates |
|---|---|---|---|
| **The Income-Tax Act, 1961** | 1.876 | Commissioner of Income-Tax Appeals | 2004-05 |
| **The Wealth-Tax Act, 1957** | 0.514 | Commissioner | 1993-94, 1995-96, 1997-98. |
| **Central and Respective State Sales Tax Acts** | 155.024 | High Court | 1982-83,1984-85,1985-86,1988-89, 1989-90,1991-92,1993-94,1994-95, 1995-96,1996-97,2003-04,2005-06. |
| | 116.245 | Appellate Tribunal | 1974-75 to 1975-76,1984-85, 1985-86,1986-87,1987-88,1988-89, 1989-90,1990-91,1991-92,1992-93, 1993-94,1994-95,1995-96,1996-97, 1997-98,1998-99,1999-00 to 2000-01,2002-03. |
| | 0.964 | Joint Commissioner | 1982-83, 1983-84, 2001-2002 |
| | 40.016 | Deputy Commissioner | 1984-85,1985-86,1986-87,1987-88, 1988-89,1990-91,1991-92,1992-93, 1993-94,1994-95,1995-96,1997-98, 1998-99,1999-00,2000-01,2002-03, 2003-04,2004-05. |
| | 3.585 | Assistant Commissioner | 1974-75 to 1975-76,1995-96, 1996-97,1999-00, 2002-03,2003-04. |
| | 1.302 | Assessing Officer | 1985-86 |
| | 0.637 | Appellate and Revisional Court | 1993-94 |
| **Respective State Excise Acts** | 4.560 | Supreme Court | 1971-72,1973-74,1977-78,1978-79, 1979-80,1980-81,1981-82 to 2005-06. |
| | 31.121 | High Court | 1972-73,1973-74,1985-86, 1986-87, 1987-88, 1988-89, 1989-90, 1990-91,1991-92,1993-94, 1995-96 to 1999-00, 2000-01, 2001-02,2002-03,2004-05, 2005-06. |
| | 0.425 | Board of Revenue | 1976-77,1977-78,1984-85,1985-86, 1986-87. |
| | 258.020 | Excise Commissioner | 1974-75 to 1980-81,1981-82 to 1983-84,1984-85,1985-86,1986-87, 1987-88,1988-89,1989-90,1991-92 to 1995-96 to 1997-98, 1999-00, 2000-01,2001-02 to 2005-06. |
| | 12.170 | The Assistant District Judge | 1981-82 to 1983-84 |
| | 1.631 | Superintendent of Excise | 1999-00 |
| | 0.387 | Distillery Officer | 1988-89 |
| | 8.158 | Collector | 1994-95 |
| **The Central Excise Act, 1944** | 16.752 | High Court | 1989-90 to 1996-97,2004-05 |
| | 8.883 | Customs, Excise and Service Tax Appellate Tribunal | 1996-97 |
| | 1.348 | Commisioner of Central excise | 1995-96 |
| | 0.481 | Assistant Commissioner of Customs | 1995-96 |

* Net of amounts paid under protest or otherwise.

# Balance Sheet as at March 31, 2006

UNITED SPIRITS

| | Schedule | 2006 | Rs. Million 2005 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' Funds** | | | |
| Share Capital | 1 | **604.714** | 517.200 |
| Share Capital Suspense | 1A | **417.605** | - |
| Reserves and Surplus | 2 | **7,938.654** | 2,357.606 |
| **Loan Funds** | | | |
| Secured Loans | 3 | **10,047.313** | 5,056.666 |
| Unsecured Loans | 4 | **5,274.693** | 682.696 |
| **Deferred Tax Liability (Net)** [Schedule 18 Note 18(b)] | | **70.569** | 13.685 |
| | | **24,353.548** | 8,627.853 |
| **APPLICATION OF FUNDS** | | | |
| **Fixed Assets** | 5 | | |
| Gross Block | | **5,637.160** | 2,829.798 |
| Less: Depreciation | | **1,038.428** | 678.147 |
| Net Block | | **4,598.732** | 2,151.651 |
| Capital Work in Progress | | **26.021** | 42.890 |
| | | **4,624.753** | 2,194.541 |
| **Investments** | 6 | **7,022.648** | 3,803.203 |
| **Current Assets, Loans and Advances** | | | |
| Inventories | 7 | **2,818.605** | 1,406.224 |
| Sundry Debtors | 8 | **2,971.657** | 1,792.618 |
| Cash and Bank Balances | 9 | **2,234.415** | 424.888 |
| Other Current Assets | 10 | **637.783** | 141.708 |
| Loans and Advances | 11 | **11,251.944** | 1,644.266 |
| | | **19,914.404** | 5,409.704 |
| **Less: Current Liabilities and Provisions** | 12 | | |
| Liabilities | | **6,798.438** | 2,541.773 |
| Provisions | | **409.819** | 237.822 |
| | | **7,208.257** | 2,779.595 |
| **Net Current Assets** | | **12,706.147** | 2,630.109 |
| | | **24,353.548** | 8,627.853 |
| Statement on Significant Accounting Policies | 17 | | |
| Notes on Accounts | 18 | | |

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Balance Sheet referred to in our report of even date

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
October 30, 2006

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director

Mumbai
October 30, 2006

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer

# Profit and Loss Account for the year ended March 31, 2006

| | Schedule | 2006 | Rs. Million 2005 |
|---|---|---|---|
| INCOME | | | |
| Sales (Gross) | | **33,408.555** | 17,203.605 |
| Less: Excise Duty | | **15,442.860** | 6,285.005 |
| | | **17,965.695** | 10,918.600 |
| Income arising from Sale by Manufacturers under 'Tie-up' agreements (tie-up units) | | **1,730.713** | 499.741 |
| Income from Brand Franchise | | **782.326** | 136.436 |
| Other Income | 13 | **489.771** | 274.939 |
| | | **20,968.505** | 11,829.716 |
| **EXPENDITURE** | | | |
| Materials | 14 | **10,504.868** | 7,375.982 |
| Manufacturing and Other Expenses | 15 | **7,876.156** | 3,548.037 |
| Interest and Finance charges | 16 | **1,666.289** | 321.235 |
| | | **20,047.313** | 11,245.254 |
| **Profit before Depreciation and Taxation** | | **921.192** | 584.462 |
| Depreciation | | **409.002** | 156.304 |
| **Profit before Exceptional and Other Non-Recurring Items and Taxation** | | **512.190** | 428.158 |
| Exceptional and Other Non-Recurring Items (Net) [Schedule 18 Note 12] | | **-** | (101.503) |
| **Profit before Taxation** | | **512.190** | 326.655 |
| Provision for Taxation: | | | |
| Current Tax | | **93.502** | 146.200 |
| Deferred Tax | | **(63.622)** | (86.810) |
| Fringe Benefit Tax | | **62.112** | - |
| **Profit after Taxation** | | **420.198** | 267.265 |
| Profit brought forward from previous year | | **574.238** | 454.920 |
| | | **994.436** | 722.185 |
| **Appropriations:** | | | |
| Proposed Dividend: | | | |
| Preference Shares | | **6.975** | - |
| Equity Shares | | **188.963** | 103.440 |
| Corporate tax on Proposed Dividend | | **27.480** | 14.507 |
| Transfer to Capital Redemption Reserve | | **464.446** | - |
| Transfer to General Reserve | | **50.000** | 30.000 |
| **Profit carried to Balance Sheet** | | **256.572** | 574.238 |
| Basic and Diluted Earnings Per Share (Rs.) | | **4.80** | 5.17 |
| Statement on Significant Accounting Policies | 17 | | |
| Notes on Accounts | 18 | | |

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Profit and
Loss Account referred to
in our report of even date

| | | | |
|---|---|---|---|
| **J. MAJUMDAR**<br>Partner<br>For and on behalf of<br>**Price Waterhouse**<br>Chartered Accountants | **V.S.VENKATARAMAN**<br>Company Secretary | **VIJAY MALLYA**<br>Chairman<br><br>**M.R.DORAISWAMY IYENGAR**<br>Director | **V.K.REKHI**<br>Managing Director<br><br>**P.A.MURALI**<br>Chief Financial Officer |
| Bangalore<br>October 30, 2006 | | Mumbai<br>October 30, 2006 | |

# Cash Flow Statement for the Year Ended March 31, 2006

Rs. Million

| | | 2006 | | 2005 |
|---|---|---|---|---|
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Net profit/(loss) before Tax and Exceptional & Non- recurring items | | **512.190** | | 428.158 |
| Adjustments for : | | | | |
| Depreciation | **409.002** | | 156.304 | |
| Unrealised Foreign Exchange Loss / (Gain) | **(33.299)** | | 6.412 | |
| Bad Debts/ Advances written off | **16.765** | | 12.634 | |
| Loss/(Gain) on Fixed Assets Sold/Written Off (Net) | **(27.148)** | | 8.731 | |
| Loss/(Gain) on Sale of Investments (Net) | **(79.582)** | | (0.205) | |
| Liabilities no longer required written back | **(141.020)** | | (123.111) | |
| Provision for Doubtful Debts | **137.827** | | - | |
| Provision for diminution in value of Investments written back | **-** | | (0.060) | |
| Provision - Others | **16.857** | | 5.812 | |
| Interest and Finance Charges | **1,733.055** | | 369.378 | |
| Income from investments | **(42.893)** | | (44.407) | |
| Interest Income | **(66.766)** | **1,922.798** | (48.143) | 343.345 |
| **Operating profit before working capital changes** | | **2,434.988** | | 771.503 |
| (Increase)/decrease in Trade and other receivables | **(525.668)** | | (181.735) | |
| (Increase)/decrease in Inventories | **(410.046)** | | (118.771) | |
| Increase/(decrease) in Trade payables | **783.321** | **(152.393)** | 342.513 | 42.007 |
| **Cash generated from operations** | | **2,282.595** | | 813.510 |
| Direct taxes paid | | **(265.633)** | | (171.948) |
| Fringe Benefit taxes paid | | **(35.383)** | | - |
| **Cash flow before Exceptional and Non - recurring items** | | **1,981.579** | | 641.562 |
| Exceptional and Non - recurring items | | | | |
| Turnover Tax [Schedule 18 Note 12] | | **-** | | (146.637) |
| **Cash flow before & after extraordinary items and net cash from operating activities** | | **1,981.579** | | 494.925 |
| **B. CASH FLOW FROM INVESTING ACTIVITIES :** | | | | |
| Purchase of fixed assets | **(346.971)** | | (165.042) | |
| Sale of fixed assets | **75.994** | | 7.710 | |
| Finance Lease Payments | **(1.195)** | | - | |
| Purchase of long term investments | **(4.627)** | | (0.576) | |
| Purchase of current investments | **(327.762)** | | - | |
| Sale of long term investments | **69.036** | | 329.211 | |

UNITED SPIRITS

Rs. Million

| | | 2006 | | 2005 |
|---|---|---|---|---|
| Sale of current investments | **327.200** | | - | |
| Investments in Subsidiaries | **(10,548.691)** | | (2,874.420) | |
| Disposal of Investments in Subsidiaries | **4,876.097** | | | |
| Loan given to: | | | | |
| Subsidiaries | **(9,457.197)** | | (1,135.287) | |
| Inter Corporate Deposits | **-** | | (140.000) | |
| Realisation of Loan from: | | | | |
| Subsidiaries | **2,191.662** | | 1,298.822 | |
| Inter Corporate Deposits | **-** | | 340.000 | |
| Interest received | **68.218** | | 48.389 | |
| Dividend received | **42.893** | | 44.407 | |
| **Net cash used in investing activities** | | **(13,035.343)** | | (2,246.786) |
| **C. CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issue of rights shares by a subsidiary company | **535.559** | | - | |
| Proceeds from Preference Shares of a subsidiary company | **500.000** | | - | |
| Redemption of Preference Shares of a subsidiary company | **(1,000.000)** | | - | |
| Proceeds from issue of Global Depositary Shares (GDS) | **5,796.051** | | - | |
| Proceeds from issue of 2% Foreign Currency Convertible Bonds (FCCB) | **4,458.500** | | - | |
| Expenses incurred on issuance of GDS & FCCB | **(242.569)** | | - | |
| Expenses relating to Amalgamation | **(306.192)** | | | |
| Proceeds/(Repayment) of long term loans | | | | |
| Proceeds | **9,805.724** | | 2,621.511 | |
| Repayment | **(9,058.807)** | | (213.671) | |
| Proceeds/(Repayment) of fixed deposits | **17.610** | | 80.496 | |
| Proceeds/(Repayment) of Inter Corporate Deposits | | | | |
| Proceeds | **-** | | - | |
| Repayment | **(207.370)** | | - | |
| Working Capital Loan / Cash Credit from Banks (net) | **748.085** | | 22.104 | |
| Interest and Finance Charges paid (including on Finance Lease Rs 0.125 Million) | **(1,709.140)** | | (357.087) | |
| Dividends paid | **(142.274)** | | (102.531) | |
| Corporate Tax on distributed profit | **(14.507)** | | (13.253) | |
| **Net cash used in financing activities** | | **9,180.670** | | 2,037.569 |
| **Net (Decrease)/Increase in cash and cash equivalents** | | **(1,873.094)** | | 285.708 |
| **Cash and cash equivalents as at March 31, 2005** | | **424.888** | | 139.180 |
| Cash and Cash Equivalents of Transferor companies as at April 1, 2005 | | **3,682.621** | | - |
| **Cash and cash equivalents as at March 31, 2006** | | **2,234.415** | | 424.888 |
| | | **(1,873.094)** | | 285.708 |

**See Notes Below**

**Notes :**

1. The above Cash Flow Statement has been compiled from and is based on the Balance Sheet as at March 31, 2006 and the related Profit and Loss Account for the year ended on that date.
2. The above cash flow statement has been prepared under the indirect method as set out in the Accounting Standard - 3 on Cash Flow Statements issued by The Institute of Chartered Accountants of India and reallocation required for this purpose are as made by the Company.
3. In view of amalgamation and demerger described in Note 2 on Schedule 18, the figures for the Current year are not comparable with those of previous year.
4. Previous year's figures have been regrouped wherever necessary in order to conform to this year's presentation.

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This is the Cash Flow Statement referred to in our report of even date.

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
October 30, 2006

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director

Mumbai
October 30, 2006

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer

UNITED SPIRITS

| | 2006 | 2005 |
|---|---|---|
| | | Rs. Million |
| **1. CAPITAL** | | |
| **Authorised** | | |
| 110,000,000 (2005: 60,000,000) Equity Shares of Rs.10/- each | **1,100.000** | **600.000** |
| 10,000,000 (2005: Nil) Preference Shares of Rs.10/- each | **100.000** | **-** |
| | **1,200.000** | **600.000** |
| **Issued, Subscribed and Paid-up** | | |
| 60,471,409 (2005: 51,720,028) Equity Shares of Rs.10/- each fully paid up. | **604.714** | 517.200 |
| | **604.714** | **517.200** |

**Notes:**

Of the above,

1. 51,719,968 Equity Shares were allotted as fully paid up on July 9, 2001 to the shareholders of the erstwhile McDowell & Co. Ltd., pursuant to the schemes of Amalgamation.

2. 8,751,381 (2005: Nil) Equity shares of Rs.10/- each fully paid up represents 17,502,762 (2005: Nil) Global Depository Shares issued pursuant to Global Depository Share issue of the Company, during the year. [Schedule 18 Note 6(a)]

| | 2006 | 2005 |
|---|---|---|
| **1A. SHARE CAPITAL SUSPENSE** | | |
| **Equity Share Suspense** | | |
| 34,010,521 Equity Shares of Rs.10/- each to be issued as fully paid up to the equity shareholders of Transferor Companies pursuant to the Scheme of Amalgamation for consideration other than cash [Schedule 18 Note 2 (III)(a)] | **340.105** | - |
| **Preference Share Suspense** | | |
| 7,750,000 9% Non-Cumulative Non-Convertible Redeemable Preference shares of Rs.10/- each to be issued as fully paid up to 9% Non-Cumulative Non-Convertible Redeemable Preference Shareholders of erstwhile Shaw Wallace Distilleries Limited pursuant to the Scheme of Amalgamation for consideration other than cash [Schedule 18 Note 2 (III)(b)] | **77.500** | - |
| The above 7,750,000 9% Non-Cumulative Non-Convertible Redeemable Preference shares of Rs.10/- each to be issued will be redeemable at par on July 11, 2007. | | |
| | **417.605** | **-** |

Rs. Million

| 2. RESERVES AND SURPLUS | | 2006 | | 2005 |
|---|---|---|---|---|
| Central Subsidy | | | | |
| Received during the year | | **1.500** | | - |
| Capital Redemption Reserve | | | | |
| Transferred from the Profit and Loss Account on redemption of Preference Shares | | **464.446** | | - |
| Securities Premium Account | | | | |
| Addition during the year: | | | | |
| (a) On issue of Global Depository Shares | **5,708.537** | | - | |
| (b) On conversion of 6,500,000 9% Cumulative Convertible Preference shares of Rs. 10/- each fully paid in Shaw Wallace Distilleries Limited, a Transferor Company | **41.786** | | - | |
| | **5,750.323** | | - | |
| Less: Adjustments during the year | | | | |
| (a) Expenses incurred on issuance of Global Depository Shares (GDS) and 2% Convertible Bonds in Foreign Currency (FCCB) | | | | |
| Legal and Professional Fees | **(116.760)** | | - | |
| Underwriting Fee and Other costs | **(141.122)** | | - | |
| Miscellaneous Income | **15.313** | | - | |
| (b) Premiuim payable on Redemption of FCCB | **(1.979)** | **5,505.775** | - | - |
| Contingency Reserve | | | | |
| As per last Balance Sheet | | **110.000** | | 110.000 |
| General Reserve | | | | |
| As per last Balance Sheet | **1,673.368** | | 1,643.368 | |
| Add: Addition during the year: | | | | |
| (a) Reserve arising on appreciation (net of diminution) in value of certain assets of the Company [Schedule 18 Note 2(VI)(e)] | **770.650** | | - | |
| (b) Transferred from Profit and Loss Account | **50.000** | | 30.000 | |
| | **2,494.018** | | 1,673.368 | |
| Less: | | | | |
| (a) Adjustments relating to Demerger [Schedule 18 Note 2(V)] | **(435.758)** | | - | |
| (b) Adjustments on Amalgamation [Schedule 18 Note 2(VI)(d)] | **(151.707)** | | - | |
| (c) Expenses relating to Amalgamation [Schedule 18 Note 2(VI)(f)] | **(306.192)** | **1,600.361** | - | 1,673.368 |
| Surplus in Profit and Loss account | | **256.572** | | 574.238 |
| | | **7,938.654** | | 2,357.606 |

| | 2006 | 2005 |
|---|---|---|
| | | Rs. Million |
| **3. SECURED LOANS** | | |
| Term Loans | | |
| From Banks [Note (i)] | **6,286.876** | 2,775.242 |
| [Repayable within one year: Rs. 425.318 Million (2005: Rs.264.368 Million)] | | |
| From Others [Note (ii)] | **375.000** | 500.514 |
| [Repayable within one year: Rs.42.500 Million (2005: Rs.51.914 Million)] | | |
| Working Capital Loan / Cash Credit from Banks [Note (iii)] | **3,359.090** | 1,769.714 |
| Finance Lease [Note (iv)] | **12.390** | - |
| Interest accrued and due | **13.957** | 11.196 |
| | **10,047.313** | 5,056.666 |
| **Notes:** | | |
| (i) Out of the above loans: | | |
| (a) Secured by charge on certain fixed assets of the Company including Land and Building, | **1,678.527** | 1,747.889 |
| (b) Secured by brands, a second charge on the fixed assets of the Company, pledge of certain shares held by the Company and also by pledge of certain shares and properties of other companies, | **3,021.000** | 1,000.000 |
| (c) Foreign Currency External Commercial Borrowings secured by charge on Fixed Assets, specific Investments, Brands and Corporate Guarantee and properties of other companies, | **1,561.350** | - |
| (d) Secured by hypothecation of specific fixed assets acquired under respective agreements. | **25.999** | 27.353 |
| (ii) Out of the above loans: | | |
| (a) Secured by a charge on certain fixed assets of the Company and pledge of certain shares and properties of other companies, | **320.000** | 320.000 |
| (b) Secured by charge on certain fixed assets of the Company including Land and Building, | **55.000** | 180.000 |
| (c ) The balance term loans are secured by hypothecation of specific fixed assets acquired under respective agreements. | **-** | 0.514 |
| (iii) (a) Secured by charge on certain fixed assets of the Company including Land and Building and hypothecation of inventories, book debts and other current assets, | | |
| (b) Includes Foreign Currency Non-Resident [FCNR(B)] Loans. | **841.515** | 814.229 |
| (iv) Secured against assets acquired under lease agreements. | | |
| **4. UNSECURED LOANS** | | |
| Fixed Deposits | **713.204** | 581.951 |
| [Repayable within one year: Rs. 196.371 Million (2005: Rs. 341.898 Million)] | | |
| From Banks | **100.000** | 100.000 |
| [Repayable within one year Rs.100.000 Million (2005: Rs.100.000 Million)] | | |
| 2% Convertible Bonds in Foreign Currency [Schedule 18 Note 6 (b)] | **4,461.000** | - |
| Interest accrued and due | **0.489** | 0.745 |
| | **5,274.693** | 682.696 |

UNITED SPIRITS UB GROUP

# Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

## 5. FIXED ASSETS

Rs. Million

| | GROSS BLOCK | | | | | | DEPRECIATION | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | Revaluation (Note 1) | Amalgamation (Note 2) | Additions | Deletion/ Adjustments | 2006 | 2005 | For the year | Deletion/ Adjustments | 2006 | 2006 | 2005 |
| **Tangible** | | | | | | | | | | | | |
| Land: | | | | | | | | | | | | |
| Freehold | 341.958 | 874.570 | 299.469 | 13.085 | 3.728 | **1,525.354** | - | - | - | - | **1,525.354** | 341.958 |
| Leasehold | 110.303 | 12.492 | 90.232 | - | - | **213.027** | - | - | - | - | **213.027** | 110.303 |
| Buildings (Note 3, 4 & 5 below) | 672.550 | (27.357) | 478.407 | 52.540 | 1.654 | **1,174.486** | 73.402 | 90.381 | 0.004 | **163.779** | **1,010.707** | 599.148 |
| Plant & Machinery | 1,367.767 | (44.998) | 802.028 | 256.123 | 43.195 | **2,337.725** | 423.140 | 262.265 | 14.031 | **671.374** | **1,666.351** | 944.627 |
| Furniture & Fixture and Office Equipments: | | | | | | | | | | | | |
| Finance Lease | - | - | - | 13.585 | - | **13.585** | - | 1.132 | - | **1.132** | **12.453** | - |
| Others (Note 6 below) | 200.308 | (3.045) | 9.202 | 32.524 | 43.210 | **195.779** | 89.431 | 27.381 | 27.482 | **89.330** | **106.449** | 110.877 |
| Vehicles | 136.912 | - | 21.362 | 26.299 | 7.369 | **177.204** | 92.174 | 27.843 | 7.204 | **112.813** | **64.391** | 44.738 |
| | **2,829.798** | **811.662** | **1,700.700** | **394.156** | **99.156** | **5,637.160** | **678.147** | **409.002** | **48.721** | **1,038.428** | **4,598.732** | **2,151.651** |
| 2005 | 2,680.984 | - | - | 187.827 | 39.013 | 2,829.798 | 538.875 | 156.304 | 17.032 | **678.147** | | |
| Capital Work-in-Progress (including Advances) | | | | | | | | | | | 26.021 | 42.890 |
| | | | | | | | | | | | **4,624.753** | 2,194.541 |

Notes:

1. Gross Block include Rs. 887.062 Million (2005: Nil) being the amount revaluation of Land and is net of Rs. 75.400 Million (2005: Nil) being the amount reduced on revaluation of Buildings, Plant and Machinery, Furniture and Fixtures and Office Equipments and Vehicles as at April 1, 2005. [Schedule 18 Note 2 (VI)(e)]
2. Acquired pursuant to the composite scheme of Arrangement referred to in Schedule 18 Note 2.
3. Cost of buildings includes the following payments made for the purpose of acquiring the right of occupation of Mumbai godown space :
   i) 660 equity shares (unquoted) of Rs. 100 each fully paid in Shree Madhu Industrial Estate Limited Rs. 0.066 Million (2005: Rs. 0.066 Million). Application has been made for duplicate Share certificates and the same is in the process.
   ii) 199 6 % Debentures (unquoted) of Rs. 1,000 each fully paid in Shree Madhu Industrial Estate Limited Rs.0.199 Million (2005: Rs.0.199 Million). Application has been made for duplicate Debentures certificates and the same is in the process.
   iii) Deposit with Shree Madhu Industrial Estate Limited Rs. 0.132 Million (2005: Rs. 0.132 Million)

4) Includes Rs. Nil (2005: Rs. 41.737 Million) being the value of property jointly used with Herbertons Limited, an erstwhile ultimate subsidiary company since amalgamated with the Company.
5) Includes value of fully paid shares Rs 0.003 Million (2005: Rs 0.003 Million) held in Co-operative Housing Societies.
6) Includes Rs. Nil (2005: Rs. 8.531 Million) assets jointly owned with Herbertons Limited, and erstwhile ultimate subsidiary company since amalgamated with the Company.

UNITED SPIRITS

## 6. INVESTMENTS

Rs. Million

| Particulars | Face Value Rs. | Nos. | 2006 | Nos. | 2005 |
|---|---|---|---|---|---|
| **CURRENT** | | | | | |
| **Quoted Investments** | | | | | |
| **Units (Fully Paid)** | | | | | |
| SBI Mututal funds Investments | 10 | **56,051** | **0.562** | - | - |
| **Total Current Investments** | | | **0.562** | | - |
| **LONG TERM** | | | | | |
| **Quoted Investments** | | | | | |
| **A. Trade** | | | | | |
| **Fully Paid Equity Shares** | | | | | |
| Aventis Pharma Limited | 10 | **-** | **-** | 17,550 | 8.205 |
| Castle Breweries Limited | 10 | **-** | **-** | 11,350 | 0.023 |
| Mangalore Chemicals & Fertilizers Limited (Note 3) | 10 | **6,150** | **0.032** | 7,026,828 | 35.345 |
| UB Engineering Limited | 10 | **-** | **-** | 326,620 | 3.168 |
| United Breweries (Holdings) Limited (Rs. 419 ) | 10 | **267** | **0.000** | 2,630,001 | 284.014 |
| United Breweries Limited (Rs.279) | 10 | **178** | **0.000** | 969,934 | 104.743 |
| **In Subsidiary Company** | | | | | |
| Herbertsons Limited | 10 | **-** | **-** | 459,809 | 25.172 |
| Shaw Wallace & Company Limited | 10 | **15,072,311** | **4,888.877** | - | - |
| | | | **4,888.909** | | 460.670 |
| **B. Non-Trade** | | | | | |
| **Fully Paid Equity Shares** | | | | | |
| Corporation Bank | 10 | **-** | **-** | 3,100 | 0.234 |
| H.D.F.C Bank Limited | 10 | **-** | **-** | 500 | 0.128 |
| Housing Development Finance Corporation Limited | 10 | **-** | **-** | 1,680 | 0.297 |
| State Bank of Bikaner & Jaipur | 100 | **-** | **-** | 1,380 | 0.376 |
| State Bank of Travancore | 100 | **-** | **-** | 2,335 | 0.517 |
| Vijaya Bank | 10 | **42,100** | **0.466** | 97,200 | 0.972 |
| Whirlpool of India Limited | 10 | **150** | **0.001** | - | - |
| Bank of India Limited | 10 | **9,000** | **0.405** | - | - |
| Premier Fertilizers Limited | 100 | **300** | **0.001** | - | - |
| Radico Khaitan Limited | 10 | **107,570** | **2.043** | - | - |
| Khaitan Chemicals & Fertilizers Limited (Note 4) | 10 | **13,880** | **0.725** | - | |
| Rampur Fertilizers Limited (Note 4) | 10 | **27,760** | **0.527** | - | - |

**6. INVESTMENTS (Contd.)**

Rs. Million

| Particulars | Face Value Rs. | Nos. | 2006 | Nos. | 2005 |
|---|---|---|---|---|---|
| IndusInd Bank Limited | 10 | **10,400** | **0.468** | - | - |
| Indo Lowenbraw Breweries Limited (Note 3) | 10 | **18** | **0.000** | - | - |
| Hero Honda Motors Limited | 2 | **175** | **0.035** | - | - |
| Rampur Engineering Co., Limited (Note 3) | 10 | **1,001** | **0.010** | - | - |
| Shree Synthetics Limited (Rs.350 ) (Note 3) | 10 | **35** | **0.000** | - | - |
| Gammon India Limited (Note 3) | 10 | **1,000** | **0.000** | - | - |
| Ashok Leyland Limited (Rs. 117 ) | 10 | **10** | **0.000** | - | - |
| Crompton Greaves Limited | 10 | **40** | **0.005** | - | - |
| Daewoo Motors Limited | 10 | **50** | **0.001** | - | - |
| Exide Industries Limited (Rs. 132 ) | 10 | **2** | **0.000** | - | - |
| Gec Alsthom (I) Limited (Rs. 387 ) | 10 | **6** | **0.000** | - | - |
| Harrisons Malayalam Limited | 10 | **20** | **0.002** | - | - |
| Hindustan Motors Limited (Rs. 51 ) | 10 | **2** | **0.000** | - | - |
| Indian Rayon and Industries Limited | 10 | **10** | **0.003** | - | - |
| MRF Limited | 10 | **5** | **0.004** | - | - |
| Nirlon Limited (Rs. 254 ) | 10 | **12** | **0.000** | - | - |
| Rallis India Limited | 10 | **28** | **0.003** | - | - |
| Siemens (India) Limited | 10 | **15** | **0.008** | - | - |
| **Units (Fully Paid)** | | | | | |
| Unit Trust of India (Note 1) | | | | | |
| 6.75% Tax Free US 64 Bonds | 100 | **312,246** | **31.224** | 312,246 | 31.224 |
| US 2002 | 10 | **426,318** | **2.712** | 426,318 | 2.712 |
| | | | **38.643** | | 36.460 |
| **Total Quoted Investments (A + B)** | | | **4,927.552** | | 497.130 |
| **Unquoted Investments** | | | | | |
| **C. Trade** | | | | | |
| **Fully paid Equity Shares** | | | | | |
| Asian Age Holdings Limited | 10 | **-** | **-** | 14,650 | 73.617 |
| Baramati Grape Industries Limited | 100 | **-** | **-** | 38,220 | 3.822 |
| Goa Fruit Distilleries Pvt Limited | 100 | **350** | **0.035** | 350 | 0.035 |
| Madhav Co-operative Housing Society Limited (Rs. 250 ) | 50 | **5** | **0.000** | 5 | 0.000 |
| North West Distilleries Pvt Limited | 10 | **1,000** | **0.010** | 1,000 | 0.010 |
| Phipson & Co. (Pakistan) Limited (Note 2) | 100 | **3,942** | **0.000** | 3,942 | 0.000 |
| Sangam Bhavan Cooperative Housing Society Limited | 50 | **10** | **0.001** | 10 | 0.001 |
| Utkal Distilleries Limited | 100 | **10,700** | **7.448** | 10,700 | 7.448 |

UNITED SPIRITS

**6. INVESTMENTS (Contd.)**

Rs. Million

| Particulars | Face Value Rs. | Nos. | 2006 | Nos. | 2005 |
|---|---|---|---|---|---|
| U.B. Electronics Instruments Limited | 100 | **1,996** | **0.129** | 1,991 | 0.127 |
| Baramati Teluka Fruits Growers Fed Limited | 100 | **5,000** | **0.500** | - | - |
| Shaw Scott Distilleries Private Limited | 100 | **1** | **0.001** | - | - |
| Stridewell Leather India Private Limited (Rs. 20 ) | 10 | **2** | **0.000** | - | - |
| Ashoka Securities Private Limited | 10 | **25** | **0.003** | - | - |
| McDowell Holdings Limited [Schedule 18 Note 2] | 10 | **50,000** | **0.500** | - | - |
| **In Subsidiary Companies** | | | | | |
| Asian Opportunities & Investments Limited | US$1 | **4,998,706** | **301.000** | 4,998,706 | 301.000 |
| McDowell International Brands Limited | 10 | **-** | **-** | 50,000 | 0.499 |
| McDowell Nepal Limited | NRS 100 | **67,716** | **65.626** | 63,966 | 65.367 |
| McDowell Holdings Limited [Schedule 18 Note 2] | | **-** | **-** | 50,000 | 0.500 |
| Phipson Distillery Limited | 10 | **-** | **-** | 50,000 | 0.500 |
| Primo Distributors Private Limited | 10 | **3,920,010** | **1,030.000** | - | - |
| Zelinka Limited | CYP 1 | **1,000** | **0.101** | 400 | 0.040 |
| **Fully paid Preference Shares** | | | | | |
| 11% Redeemable Preference Shares of Ganges Soap Works Private Limited | 100 | **2,000** | **0.000** | - | - |
| 9.3% Cumulative Redeemable Preference Shares of Rampur Engineering Company Limited | 10 | **25,000** | **0.250** | - | - |
| **In Subsidiary Companies** | | | | | |
| 8% Reedemable Preference Shares of Phipson Distillery Limited | 10 | - | - | 1,435,000 | 2,870.000 |
| | | | **1,405.604** | | 3,322.966 |
| **D. Non-Trade** | | | | | |
| **In Government Securities** | | | | | |
| Indira Vikas Patra | | | **0.003** | | 0.003 |
| National Savings/Plan/Def. Certificates (Deposited with Govt.Authorities) | | | **0.812** | | 1.302 |
| **In Fully Paid Debentures** | | | | | |
| Non-Redeemable | | | | | |
| 6.5% Bengal Chamber of Commerce & Industry | | | **0.002** | | 0.002 |
| 5% Woodland Hospital & Medical Centre Limited | | | **0.007** | | 0.007 |
| **Fully paid Equity Shares** | | | | | |
| McDowell & HRB Emp. Co-op Society Limited | 200 | **10** | **0.002** | 10 | 0.002 |
| Koel Manufacturing and Investment (P) Limited | 10 | **1** | **0.002** | - | - |
| Janata Sahakari Bank Limited., Pune | 100 | **4,750** | **0.475** | - | - |

**6. INVESTMENTS (Contd.)** Rs. Million

| Particulars | Face Value Rs. | Nos. | 2006 | Nos. | 2005 |
|---|---|---|---|---|---|
| Maltings Limited | 10 | **695** | **0.000** | - | - |
| Central Investment ( P) Limited | 10 | **305** | **0.000** | - | - |
| Consolidated Breweries Limited | 10 | **750** | **0.000** | - | - |
| Goa Urban Co-Operative Bank Limited | 50 | **199** | **0.010** | - | - |
| Mapusa Urban Co-Operative Bank Limited (Rs.130) | 25 | **5** | **0.000** | - | - |
| The Cosmas Co-op Bank Limited | 20 | **71,875** | **1.438** | - | - |
| Baramati Sahakari Bank Limited | 100 | **9** | **0.001** | - | - |
| Thane Janta Sahakari Bank Limited | 50 | **10** | **0.001** | - | - |
| Rupee Co- op Bank Limited | 25 | **40** | **0.001** | - | - |
| | | | **2.753** | | 1.316 |
| **E. Others** | | | | | |
| Interest as Sole Beneficiary in USL Benefit Trust (Note 6) | | | **687.001** | | - |
| | | | **687.001** | | - |
| **Total Unquoted Investments (C+D+E)** | | | **2,095.359** | | 3,324.282 |
| **Total Long Term Investments (A+B+C+D+E)** | | | **7,022.911** | | 3,821.412 |
| **Total Current and Long Term Investments** | | | **7,023.473** | | 3,821.412 |
| Less: Provision for diminution in the value of investments | | | **0.825** | | 18.209 |
| **Total** | | | **7,022.648** | | 3,803.203 |
| Aggregate value of Quoted Investments: | | | | | |
| - Book value | | | **4,927.289** | | 495.339 |
| - Market value | | | **2,824.094** | | 1,013.606 |
| Aggregate Book value of Unquoted Investments | | | **2,095.359** | | 3,307.864 |

**Notes:**

1. Investments in units of Unit Trust of India amounting to Rs.33.936 Million represent those made under Rule 3A of the Companies (Acceptance of Deposit) Rules, 1975.
2. The erstwhile amalgamating Carew Phipson Limited has submitted its claim to Custodian of Enemy Property for India towards the full payment of the value of shares of which 25% was received and the balance value of investment was written off in the books in 1977, retaining a token amount of Re.1 in the books pending disposal of the representation to the custodian for final payment in this regard.
3. An application has been made for duplicate certificate.
4. Quotations are not available.
5. Also Refer Schedule 18 Note 9.
6. Refer Schedule 18 Notes 2(IV)(a) and 2(VI)(c).

## Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **7. INVENTORIES** | | |
| Raw Materials including materials in transit | **564.244** | 381.279 |
| Packing Materials, Stores and Spares | **294.537** | 154.938 |
| Finished goods including goods in transit | **1,207.853** | 332.959 |
| Work-in-Progress | **751.971** | 537.048 |
| | **2,818.605** | 1,406.224 |
| **8. SUNDRY DEBTORS** | | |
| (Unsecured) | | |
| Exceeding six months | | |
| Considered Good | **27.383** | 170.150 |
| Considered Doubtful | **282.812** | 182.920 |
| | **310.195** | 353.070 |
| Others - Considered Good* | **2,944.274** | 1,622.468 |
| | **3,254.469** | 1,975.538 |
| Less: Provision for Doubtful debts | **282.812** | 182.920 |
| | **2,971.657** | 1,792.618 |
| *Includes Rs.20.444 Million (2005: Rs. Nil), due from a Subsidiary Company | | |
| **9. CASH AND BANK BALANCES** | | |
| Cash on Hand | **5.824** | 2.756 |
| Remittance in Transit/ Cheques on Hand | **117.903** | 33.199 |
| Balances with Scheduled Banks: | | |
| On Current Accounts [Note (i)] | **614.967** | 333.072 |
| On Unpaid Dividend Account | **18.881** | 16.718 |
| On Deposit Account [Notes (ii), (iii) and (iv)] | **1,476.840** | 39.143 |
| | **2,234.415** | 424.888 |

**Notes:**

(i) includes Rs. 28.438 Million (2005: Nil) in Exchange Earners Foreign Currency (EEFC) Account and Rs.0.611 Million (2005: Rs. Nil) in Foreign Currency.

(ii) includes Rs. 3.899 Million (2005: Rs. Nil) pledged with Government Departments.

(iii) includes Rs.6.433 Million (2005: Rs. Nil) kept as margin against letter of credit and Rs. 0.692 Million (2005: Rs. Nil ) as margin against Bank Guarantee.

(iv) includes Rs. 1,114.625 Million (2005: Rs. Nil) deposits in Foreign Currency.

# Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **10. OTHER CURRENT ASSETS** | | |
| (Unsecured, Considered Good except otherwise stated) | | |
| Income accrued on Investments and Deposits | **2.390** | 1.452 |
| Other Deposits - Considered Good | **632.603** | 134.716 |
| - Considered Doubtful | **7.125** | - |
| Fixed assets held for sale | **2.790** | 5.540 |
| | **644.908** | 141.708 |
| Less:Provision for Doubtful Deposits | **7.125** | - |
| | **637.783** | 141.708 |
| **11. LOANS AND ADVANCES** | | |
| (Unsecured, considered good except otherwise stated) | | |
| Inter-corporate Deposits | **1.109** | - |
| Loans and advances to Subsidiaries | **8,594.955** | 280.461 |
| Advances recoverable in cash or in kind or for value to be received | | |
| Advances to Tie-up units - Considered Good | **977.955** | 614.160 |
| - Considered Doubtful | **19.448** | - |
| Advance Income Tax (Net of Provisions) | **294.029** | - |
| Other Advances - Considered Good | **1,383.896** | 749.645 |
| - Considered Doubtful | **11.362** | - |
| | **11,282.754** | 1,644.266 |
| Less:Provision for Doubtful Advances | **30.810** | - |
| | **11,251.944** | 1,644.266 |

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| **12. CURRENT LIABILITIES AND PROVISIONS** | | |
| **A. Liabilities** | | |
| Acceptances * | **512.486** | 529.808 |
| Sundry Creditors | | |
| Due to Small Scale Industrial (SSI) undertakings [Schedule 18 Note 10] | **99.983** | 91.401 |
| Others | **5,052.182** | 1,520.630 |
| Dues to Directors | **5.960** | 3.461 |
| Investors Education and Protection Fund [Schedule 18 Note 11] | | |
| Unclaimed Debentures | **8.570** | - |
| Unclaimed Dividends | **18.809** | 16.654 |
| Unclaimed Fixed Deposits | **21.158** | 5.183 |
| Security Deposit | **224.900** | 72.253 |
| Advances Received from Customers | **245.193** | 118.860 |
| Interest accrued but not due | **58.603** | 35.314 |
| Other Liabilities | **550.594** | 148.209 |
| | **6,798.438** | 2,541.773 |

* Includes bills drawn against inland letters of credit of Rs. 331.696 Million (2005: Rs.331.000 Million) and secured by a charge on debtors, inventories and other current assets.

| | 2006 | 2005 |
|---|---|---|
| **B. Provisions** | | |
| Taxation (Net of Advance Tax) | **-** | 32.992 |
| Fringe Benefit Tax (Net of Payments) | **26.729** | - |
| Proposed Dividend | | |
| Preference Shares | **6.975** | - |
| Equity Shares | **188.963** | 103.440 |
| Corporate Tax on Proposed Dividend | **27.480** | 14.507 |
| Retirement Benefits | **159.672** | 86.883 |
| | **409.819** | 237.822 |

UNITED SPIRITS

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **13. OTHER INCOME** | | |
| Income from Investments: | | |
| Dividend income from Subsidiary (Gross) [Tax deducted at source Rs. 0.799 Million (2005: Rs. 1.999 Million)] | **30.484** | 43.030 |
| Dividend income from trade investments (Gross) | **2.185** | 0.739 |
| Dividend income from other investments (Gross) | **10.224** | 0.638 |
| Lease Rent | **-** | 10.800 |
| Profit on Sale of Fixed Assets (Net) | **35.134** | 2.336 |
| Profit on Sale of Investments | **79.582** | 0.205 |
| Liabilities no longer required written back | **141.020** | 123.111 |
| Provision for Diminution in Value of Investment written back | **-** | 0.060 |
| Bad debts/advances recovered | **0.591** | 1.812 |
| Scrap Sales | **64.860** | 35.128 |
| Insurance Claims | **0.195** | 0.091 |
| Export Incentive | **7.034** | - |
| Miscellaneous | **118.462** | 56.989 |
| | **489.771** | 274.939 |
| **14. MATERIALS** | | |
| Raw Materials Consumed | **4,532.828** | 2,322.529 |
| Purchase of Finished Goods | **1,562.709** | 2,655.778 |
| Packing Materials Consumed | **4,534.553** | 2,400.517 |
| Movement in Stocks: | | |
| Opening Stock: | | |
| Work-in-Progress | **537.048** | 530.870 |
| Finished Goods | **332.959** | 333.744 |
| | **870.007** | 864.614 |
| Add : Taken over on Amalgamation | | |
| Work-in-Progress | **225.080** | - |
| Finished Goods | **444.677** | - |
| | **669.757** | - |
| Closing Stock: | | |
| Work-in-Progress | **751.971** | 537.048 |
| Finished Goods | **1,207.853** | 332.959 |
| | **1,959.824** | 870.007 |
| (Increase)/ Decrease in Stocks | **(420.060)** | (5.393) |
| Excise Duty on Opening/Closing Stock of Finished Goods (Net) | **294.838** | 2.551 |
| | **10,504.868** | 7,375.982 |

Rs. Million

| 15. MANUFACTURING AND OTHER EXPENSES | 2006 | 2005 |
|---|---|---|
| Employee Cost: | | |
| Salaries, Wages and Bonus | **1,313.108** | 651.071 |
| Contribution to Provident and Other Funds | **242.253** | 134.960 |
| Workmen and Staff Welfare | **93.677** | 52.210 |
| Voluntary Retirement Scheme Compensation | **15.600** | - |
| Power and Fuel | **189.473** | 64.316 |
| Stores and Spares Consumed | **74.984** | 20.949 |
| Repairs and Maintenance: | | |
| Buildings | **13.883** | 8.363 |
| Plant and Machinery | **66.271** | 19.575 |
| Others | **88.878** | 34.424 |
| Rent | **105.535** | 56.165 |
| Rates and Taxes | **169.440** | 105.780 |
| Insurance | **46.639** | 24.009 |
| Travelling and Conveyance | **535.641** | 363.866 |
| Legal and Professional | **292.309** | 69.503 |
| Freight Outwards | **531.278** | 265.400 |
| Advertisement and Sales Promotion | **2,234.419** | 859.522 |
| Commission on Sales | **326.943** | 149.315 |
| Royalty | **189.504** | - |
| Brand Fee | **26.861** | - |
| Cash Discount | **221.347** | 107.707 |
| Sales Tax | **96.131** | 62.941 |
| Fixed Assets Written Off | **7.986** | 11.067 |
| Directors' Remuneration : | | |
| Sitting Fee | **0.855** | 0.709 |
| Commission [Schedule 18 Note 20] | **5.517** | 3.018 |
| Exchange Loss (Net) | **27.004** | 18.022 |
| Bad Debts and Advances Written Off | **16.765** | 12.634 |
| Provision for Doubtful Debts/ Advances/Deposits | **137.827** | - |
| Research and Development | **12.920** | 11.878 |
| Others : | | |
| Personnel and Administration | **156.852** | 180.312 |
| Selling and Distribution | **384.693** | 188.528 |
| Miscellaneous | **251.563** | 71.793 |
| | **7,876.156** | 3,548.037 |

| 16. INTEREST AND FINANCE CHARGES | 2006 | 2005 |
|---|---|---|
| Interest on: | | |
| Fixed Loans | **978.680** | 256.127 |
| Others Loans | **278.591** | 51.881 |
| Finance Charges (Including Bill Discounting) | **475.784** | 61.370 |
| | **1,733.055** | 369.378 |
| Less : Interest Income: | | |
| On Investments (Gross) | **2.121** | 2.118 |
| On Deposits and Other Accounts (Gross) [Tax Deducted at Source Rs.8.907 Million (2005: Rs.6.294 Million)] | **64.560** | 44.666 |
| On Income Tax Refunds | **0.085** | 1.359 |
| | **1,666.289** | 321.235 |

## 17. STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES

**1. Basis of preparation of Financial Statements**

The Financial Statements of the Company have been prepared under historical cost convention, except as otherwise stated, in accordance with the Generally Accepted Accounting Principles (GAAP) in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

**2. Fixed Assets**

(a) Fixed assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses related to acquisition and installation of the assets concerned, except amounts adjusted on revaluation and amalgamation. Interest on borrowings attributable to qualifying assets are capitalised and included in the cost of fixed assets as appropriate.

(b) The costs of Fixed Assets acquired in amalgamations are determined at their fair values, on the date of acquisition or nearer thereto, or as approved under the schemes of amalgamation.

(c) Assets held for disposal are stated at their net book value or estimated net realisable values, whichever is lower.

**3. Leases**

Assets acquired under Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Such leases are capitalised at the inception of the lease at lower of the fair value or the present value of the minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.

Assets acquired as leases where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the Profit and Loss Account on accrual basis.

**4. Depreciation and Amortisation**

a) Depreciation is provided on the Straight Line Method, including on assets revalued, at rates prescribed in Schedule XIV to the Companies Act, 1956 except for the following, which are based on management's estimate of useful life of the assets concerned:

   i) Computers and Vehicles over a period of three and five years respectively;

   ii) In respect of certain items of Plant and Machinery eligible for triple shift allowance, depreciation is provided for the full year on triple shift basis.

b) Fixed assets acquired on amalgamation over the remaining useful life computed based on rates prescribed in Schedule XIV to the Companies Act, 1956, as below:

| | |
|---|---|
| Buildings | 10 to 30 years |
| Plant & Machinery | 1 to 20 years |
| Vehicles | 1 to 4 years |
| Computers | 1 to 2 years |

c) Assets taken on finance lease are depreciated over its estimated useful life or the lease term whichever is lower.

d) Leasehold Land are not amortised.

e) Goodwill arising on amalgamation is charged to the Profit and Loss Account in the year of amalgamation.

Depreciation charged as above is not less than the minimum specified as per Schedule XIV to the Companies Act, 1956.

**5. Impairment**

Impairment loss, if any, is provided to the extent, the carrying amount of assets exceeds their recoverable amount.

Recoverable amount is higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

**6. Investments**

Long-term Investments are stated at cost to the Company. Provision for diminution in the value is made to recognise a decline, other than temporary, in the value of long-term investments.

Current investments are valued at cost or market value, whichever is less.

**7. Inventories**

Inventories are valued at lower of cost and net realisable value. The costs are, in general, ascertained under Weighted Average Method. Finished goods and Work-in-Progress include appropriate manufacturing overheads and borrowing costs, as applicable. Excise/Customs duty payable on stocks in bond is added to the cost. Due allowance is made for obsolete and slow moving items.

**8. Revenue Recognition**

Sales are recognised when goods are despatched from distilleries / warehouses of the Company in accordance with the terms of sale except where such terms provide otherwise, where sales are recognised based on such terms. Gross Sales are inclusive of excise duty but are net of trade discounts and sales tax, where applicable.

Income arising from sales by manufacturers under "Tie-up" agreements (Tie-up units) and income from brand franchise are recognised in terms of the respective contracts on sale of the products by the Tie-up unit/Franchisees. Income from brand franchisee is net of service tax, where applicable.

Dividend income on investments are recognised and accounted for when the right to receive the payment is established.

**9. Foreign Currency Translation**

Transactions in foreign currency are recognised at the rates of exchange prevailing on the dates of the transactions.

Liabilities/ assets in foreign currencies are reckoned in the accounts as per the following principles:

Foreign currency liabilities contracted for acquiring fixed assets from a country outside India are restated at the rates ruling at the year end and all exchange differences arising as a result of such restatement are adjusted to the cost of fixed assets.

All other monetary assets and liabilities denominated in foreign currency are restated at the rates ruling at the year end and all exchange gains/ losses arising therefrom are adjusted to the Profit and Loss Account, except those covered by forward contracted rates where the premium or discount arising at the inception of such forward exchange contract is amortised as expense or income over the life of the contract.

Exchange differences on forward contracts are recognised in the Profit and Loss Account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year.

**10. Retirement Benefits**

Contributions to Provident and Superannuation funds are made at the applicable rates and charged to Profit and Loss Account as incurred. Accrued liability on account of Gratuity is ascertained based on actuarial valuation at the year-end and is funded in the approved Gratuity Funds. Leave encashment payable at the time of retirement is actuarially ascertained at the year-end and provided for in the accounts.

Pension payable to employees of erstwhile Herbertsons Limited who have opted for early retirement, taking their assumed age of superannuation as per the scheme, is fully provided for in the year of retirement.

**11. Expenditure on account of Voluntary Retirement Scheme**

Expenditure on account of Voluntary Retirement Scheme of employees is expensed in the period in which it is incurred.

**12. Research and Development**

Revenue expenditure on research and development is charged to Profit and Loss Account in the period in which it is incurred. Capital Expenditure is included as part of fixed assets and depreciated on the same basis as other fixed assets.

**13. Taxes on Income**

Provision for income tax comprises current taxes and deferred taxes. Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognised and carried forward to the extent that there is a reasonable / virtual certainty that sufficient future taxable income will be available against which such deferred tax asset can be realised.

Fringe Benefit Tax is determined at current applicable rates on expenses falling within the ambit of "Fringe Benefit" as defined under the Income Tax Act, 1961.

**14. Earnings per Share**

Earning per equity share (basic/diluted) is arrived at based on Net Profit after taxation available to equity shareholders to the basic/weighted average number of equity shares.

**15. Provisions**

A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

**16. Contingencies**

Liabilities which are material and whose future outcome cannot be ascertained with reasonable certainty are treated as contingent and, to the extent not provided for are disclosed by way of notes on the accounts.

**17. Share / Foreign Currency Convertible Bonds [FCCB] issue expenses and Premium on Redemption of FCCB :**

Share/ Foreign Currency Convertible Bonds issue expenses incurred are expensed in the same year and premium payable on FCCBs is expensed over the currency of FCCBs. Both are adjusted to the Securities Premium Account as permitted by Section 78(2) of the Companies Act, 1956.

**18. Expenditure**

Expenses are net of taxes recoverable, where applicable.

## 18. NOTES ON ACCOUNTS

### 1. Contingent Liabilities

(Rs. Million)

| | | 2006 | 2005 |
|---|---|---|---|
| a) | (i) Guarantee given on behalf of other bodies corporate (including performance guarantees). | **250.000** | 1,683.750 |
| | (ii) Guarantees given by the Company's bankers for which Counter Guarantees have been given by the Company. | **75.778** | 67.785 |
| b) | Disputed claims against the Company not acknowledged as debts, currently under appeal / sub judice: | | |
| | (i) Excise demands for excess wastages and distillation losses. | **181.650** | 291.031 |
| | (ii) Other miscellaneous claims. | **232.904** | 78.829 |
| | (iii) Income Tax demand (including interest) under appeal. | **44.407** | 70.847 |
| | (iv) Sales Tax demands under appeal in various states. | **387.331** | 639.487 |
| c) | Bills Receivables discounted – since fully settled. | **120.899** | 153.341 |
| d) | Co-accepted bills of Tie-up Units - since fully settled. | **67.940** | 105.670 |
| e) | Claims from suppliers not acknowledged as debts. | **45.865** | - |

The Management is hopeful of succeeding in the above appeals /disputes based on legal opinions / legal precedents. Further, the balance of Rs.110 Million in the Contingency Reserve Account will be available to meet any eventuality.

### 2. The Composite Scheme of Arrangement

(I) A Composite Scheme of Arrangement under Section 391 to 394 of the Companies Act, 1956 (the Scheme) between Phipson Distillery Limited ('PDL'), United Spirits Limited ('erstwhile USL'), Herbertsons Limited ('HL'), Triumph Distillers & Vintners Private Limited ('TDV'), Baramati Grape Industries Limited ('BGIL'), United Distillers India Limited ('UDIL'), McDowell International Brands Limited ('MIBL') and Shaw Wallace Distilleries Limited, after giving effect to the Scheme of Amalgamation detailed in Note 3 below, ('SWDL') (together 'Transferor Companies'), McDowell Holdings Limited (formerly known as McDowell India Spirits Limited) ('Resulting Company' or 'MHL') and United Spirits Limited (formerly known as McDowell & Company Limited) ('the Company' or 'Transferee Company' or 'USL') and their respective shareholders has been sanctioned by Hon'ble High Courts of Karnataka and at Mumbai. Upon necessary filings with the respective Registrar of Companies, the scheme has become effective on October 5, 2006. Consequently, in terms of the Scheme:

a) The entire investment business [more specifically stated in Note 9 below] of the Transferee Company stands transferred to and vested in MHL (hereinafter referred to as 'Demerger') with effect from the opening hours of April 1, 2005 being the Demerger Appointed Date.

b) The entire business and undertaking of Transferor Companies including all assets and liabilities, as a going concern, stand transferred to and vested in the Company (hereinafter referred to as 'Amalgamation') with effect from April 1, 2005 being the Merger Appointed Date.

c) The Transferor Companies stand dissolved without being wound up. Consequently, Phipson Distillery Limited, United Spirits Limited, Herbertsons Limited, Triumph Distillers & Vintners Private Limited, McDowell International Brands Limited and Shaw Wallace Distilleries Limited ceased to be subsidiaries of the Company.

d) All Transferor Companies were primarily engaged in the business of manufacture, purchase and sale of Beverage Alcohol (Spirits & Wines).

e) The name of the Company has been changed from McDowell & Company Limited to United Spirits Limited, with effect from October 17, 2006.

f) The name of the resulting company has been changed from McDowell India Spirits Limited to McDowell Holdings Limited, with effect from October 17, 2006. MHL ceased to be a subsidiary of the Company.

(II) In consideration of the Demerger, MHL will issue, one Equity Share of Rs10/- each fully paid for every five Equity shares of Rs.10/- fully paid up held in the Company on October 26, 2006 being the Demerger Record Date.

(III) In consideration of the amalgamation, the Company will issue:

a) 34,010,521 equity shares of Rs.10/- each aggregating to Rs.340.105 Million [also refer Note 2 (IV) below] :

| **In the ratio of :** | **Number of equity shares to be issued** |
|---|---|
| 2 (Two) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 3 (Three) equity shares of Rs.10/- each held in HL | 3,120,493 |
| 83 (Eighty Three) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 4 (Four) equity shares of Rs.10/- each held in TDV | 2,075,000 |
| 31 (Thirty One) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 20 (Twenty) equity shares of Rs.100/- each held in BGIL | 338,435 |
| 3 (Three) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 100 (Hundred) equity shares of Rs.10/- each held in UDIL | 360,000 |
| 7 (Seven) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 20 (Twenty) equity shares of Rs.10/- each held in SWDL | 28,116,593 |
| | **34,010,521** |

October 27, 2006 has been fixed as the Merger Record Date for determining the shareholders of the transferor companies who will be eligible for the shares of the transferee company as per the ratios specified in the Scheme. Applications have been made to the Stock Exchanges where the existing equity shares of the Company are currently listed, for their 'in principle' approval.

Pending issue of these Equity Shares, a sum of Rs. 340.105 Million has been shown under Equity Share Capital Suspense.

b) 7,750,000 9% Non-Cumulative Non-Convertible Redeemable Preference shares of Rs.10/- each aggregating to Rs.77.500 Million in the ratio of 1 (one) fully paid up 9% Non-Cumulative Non-Convertible Redeemable Preference Share of Rs.10/- each for every 1 (one) 9% Non-Cumulative Non-Convertible Preference Share of Rs.10/- each held in SWDL. These Preference Shares will not be listed on the Stock Exchanges.

Pending issue of these Preference Shares, a sum of Rs.77.500 Million has been shown under Preference Share Capital Suspense.

(IV) Pursuant to the Scheme, equity shares issued as above include:

a) i) The equity shares held by PDL in TDV and equity shares held by HL and the Company in BGIL are, without any further application, act, instrument or deed, to be issued to a corporate trust, established on September 20, 2006 for the purpose, named as USL Benefit Trust. Further, the beneficial interest in the existing SWDL Benefit trust, which had been established for the benefit of SWDL the Transferor Company, shall upon the scheme becoming effective be transferred and vested in the USL Benefit Trust for the benefit of the company. Consequently, SWDL Benefit Trust is deemed to have been dissolved, with USL benefit trust being the sole trustee of the shares held by both SWDL Benefit trust and itself held for the benefit of the Company.

ii) 5,652,660 equity Shares of Rs.10/- each fully paid up to be issued to USL Benefit Trust, who shall hold such shares with all additions or accretions thereto in trust for the benefit of the Company, in respect of the 100,000 Equity Shares of Rs.10/- each fully paid up held by PDL in the share capital of TDV, 11,883 and 38,220 Equity Shares of Rs.100/- each fully paid up held by HL and the Company, respectively, in the share capital of BGIL, 10,000,000 Equity Shares of Rs.10/- each fully paid up held by SWDL Benefit Trust in the share capital of SWDL for the benefit of SWDL, which, in terms of the Scheme, stand transferred to and vested with USL Benefit Trust.

b) 10,282,553 and 1,306,431 Equity Shares of Rs.10/- each fully paid up to be issued to Shaw Wallace & Company Limited (SWCL) and Primo Distributors Private Limited

(PDPL), subsidiaries of the Company in respect of 29,378,724 and 3,732,660 equity Shares of Rs.10/- each fully paid up held by SWCL and PDPL, respectively, in the share capital of SWDL.

(V) Accounting of Demerger

In terms of the Scheme, the value of net assets of the Investment Business aggregating to Rs. 435.758 Million has been debited to the General Reserve of the Company.

(VI) Accounting for Amalgamation

The amalgamation of Transferor Companies with the Company is accounted on the basis of the Purchase Method as envisaged in the Accounting Standard (AS) -14 on Accounting for Amalgamations issued by the Institute of Chartered Accountants of India and in terms of the Scheme, as below:

a) All assets except investments and all liabilities of the Transferor Companies at their respective fair values.

b) The investments held by the Company in the Transferor Companies as well as investments held by the Transferor Companies inter-se [other than those to be held by USL Benefit Trust ] stand cancelled and debited to the General Reserve of the Company.

c) The interest in the USL Benefit Trust is accounted in the books of the Company as investment, at the book values of relevant investments and the interest in the relevant trust as per the books of the concerned Transferor Company or the Company, as the case may be, aggregating to Rs. 687.001 Million.

d) Rs. 151.707 Million being the difference between the value of net assets of the Transferor Companies transferred to the Company (determined as stated above) and the face value of equity shares and preference shares to be issued and after adjusting for investments cancelled is debited to General Reserve of the Company. This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been credited to Capital Reserve to the extent of Rs. 1,709.084 Million; and debited to Goodwill to the extent of Rs. 1,860.791 Million, which would have been charged to the Profit and Loss Account for the year as per the accounting policy of the Company, with a corresponding impact on the net profit for the year.

e) The Company, based on the reports by Independent valuers, has revalued, at their respective fair values, Land at all locations and other fixed assets being Buildings, Plant and Machinery, Furniture and Fixtures and Office Equipment and Vehicles, at two locations as at April 1, 2005 by an amount of Rs. 811.662 Million (net of reduction) and an equivalent amount has been credited to General Reserve. The Company has also assessed value of its current assets as on the Merger Appointed Date and debited the diminution in value of such current assets aggregating to Rs. 41.012 Million to General Reserve. This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been: Rs. 887.062 Million being appreciation in value of Land would have been credited to Revaluation Reserve instead of General Reserve; Rs. 75.400 Million being diminution in value of certain fixed assets would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year; Rs. 41.012 Million being diminution in value of certain current assets would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year;

f) All costs and expenses (including those of the Transferor Companies) incidental with the finalisation of the Scheme and to put it into operation, including expenses in connection with excise and label re-registrations, all advisory fees, stamp duty charges, meeting expenses, professional fees, consultant fees including expenses and other expenses or charges attributable to the implementation of the Scheme (expenses relating to amalgamation), aggregating to Rs. 306.192 Million are debited to General Reserve in the books.

This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year.

(VII) Pursuant to the Scheme, the bank accounts, agreements, licences and certain immovable properties are in the process of being transferred in the name of the Company.

(VIII) Board of Directors of the erstwhile Central Distilleries & Breweries Limited (CDBL) (amalgamated with SWDL in an earlier year) on April 29, 1986 decided to issue 134,700 Equity Shares of Rs.10 each and allotment whereof was stayed by the Hon'ble High Court of Delhi on September 13,1988. The Hon'ble High Court of Delhi has vacated its order and has ordered to keep in abeyance the allotment on 72,556 shares and the matter is subjudice. The holders, in exchange of these shares will be entitled to 17,776 equity shares of Rs.10 each of the Company pursuant to the Scheme. Necessary adjustments in this respect will be carried out on disposal of the matter pending before the aforesaid Court.

(IX) In respect of 100,000,000 5% Non-Cumulative Non-Convertible Redeemable Preference Shares of Rs. 10/- each (Rs. 5 paid up) in SWDL, no preference share are to be issued, as these have been fully called up and redeemed during the year.

3. Under a separate scheme of amalgamation, Shaw Wallace Spirits Limited, Highland Distilleries Limited, Bhankerpur Simbhaoli Beverages Private Limited, Shaw Wallace Liquor Brands Limited and Shaw Wallace Beer Brands Limited, wholly owned subsidiaries of Shaw Wallace Distilleries Limited (SWDL) amalgamated with SWDL with effect from April 1, 2005.

4. The Company along with its subsidiaries PDL and erstwhile USL, since amalgamated with the Company as explained in Note 2 above, ("Acquirers") together with United Breweries Holdings Limited (UBHL) (Person Acting in Concert), made a voluntary open offer by public announcement published on February 23, 2005 to acquire up to 12,001,518 fully paid equity shares representing 25% of the paid up equity share capital of SWCL at Rs. 250/- per equity share under Regulation 10 of Securities & Exchange Board of India (Substantial Acquisition of Shares & Takeover), Regulation 1997 ("SEBI Regulations"). In the mean time, Acquirers along with Zelinka Limited (ZL), a subsidiary of the Company, entered into a Purchase Agreement, on March 21, 2005, with the Promoter Group of SWCL inter alia to acquire up to 54.54% of the fully paid up equity share capital of SWCL. Consequently, the above open offer was made under Regulation 10 and 12 of the SEBI Regulations and the open offer price was revised to Rs. 260 per share.

   Pursuant to the open offer, erstwhile USL acquired 12,001,518 equity shares representing 25% of the paid up equity share capital of SWCL on May 17, 2005 and in terms of the purchase agreement dated March 21, 2005 and subsequent amendments thereto, the financial closure took place on June 14, 2005. Currently, 36,004,555 equity shares representing 75% of the equity share capital of SWCL are held by the Company and its subsidiaries.

   SWDL a subsidiary of SWCL, after amalgamation of its subsidiaries with SWDL as explained in Note 3 above, has been amalgamated with the Company as explained in Note 2 above.

5. a) Kingfisher Radio Limited [(formerly known as Variegate Trading Limited) ("Acquirer")] made a Public Announcement on December 26, 2005 to the public shareholders of HL, a subsidiary company since amalgamated with the Company as explained in Note 2 above, to acquire 14,15,026 equity shares which represented 14.86% of the fully paid up shares of HL, for the purpose of delisting the equity shares of HL, in terms of SEBI (Delisting of Securities) Guidelines 2003, the orders of the Hon'ble Supreme Court dated 7th March, 2005 and 4th May, 2005 in Civil Appeal No.D17807 of 2003 and other allied matters between the Kishore Chhabria Group and the UB Group (referred to in the Hon'ble Supreme Court orders as private parties) and SEBI. The Company together with its wholly owned subsidiary, PDL, since amalgamated with the Company, were persons acting in concert with Kingfisher Radio Limited. Subsequently, a Corrigendum to the Public Announcement was issued on January 19, 2006. The Discovered price determined from the reverse book-building process as per the Guidelines was Rs.350 per

share. As the Acquirer was under no obligation to accept the Discovered price, the same was rejected. Therefore, the Acquirer was under no obligation to acquire any shares tendered and the Delisting proposal was not to be proceeded with. A public announcement to this effect was made on January 25, 2006.

b) Before the Scheme referred to in Note 2 above became effective, the Company along with its wholly owned subsidiary PDL, since amalgamated with the Company as explained in Note 2 above, divested 9,68,000 shares in HL, in terms of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003. The Profit on Sale of shares (net) in HL aggregating to Rs. 89.028 Million is included in the Profit and Loss Account for the year.

6. a) On March 29, 2006, the Company had issued 17,502,762 Global Depository Shares (GDSs) representing 8,751,381 Equity shares (two GDSs representing one equity share of par value Rs.10 each) at US $ 7.4274 per GDS aggregating to US Dollars 130 Million. These GDSs are listed on Luxembourg Stock Exchange. The net proceeds of Rs.5,654.928 Million, from the issue of GDS has been utilised for the repayment of debt to fund acquisitions and for other general corporate purposes, except for Rs. 1,119.731 Million which, pending utilisation, has been kept in bank deposit account outside the country at the year-end. The proceeds have since been fully utilised for the purpose stated above.

b) (i) Simultaneously, the Company had issued 100,000, 2% Convertible Bonds in Foreign Currency (FCCB) denominated in Bond certificates of US$1,000 each aggregating US$ 100 Million. The FCCBs are, at the option of FCCB holders, convertible into fully paid Equity Shares of Rs.10/- of the Company (Equity Shares) or GDS, with two GDS representing one fully paid Equity Shares of Rs.10/- of the Company, at any time on or after May 9, 2006 upto the close of business on March 15, 2011 at an initial conversion price of Rs.858 per share with a fixed rate of exchange on conversion of Rs.44.43 equal to US$ 1.00, subject to adjustments in the manner specified in the Offering Circular (OC) dated March 29, 2006 upon occurrence of certain events.The Company, subject to fulfillment of certain conditions, has an option to mandatorily convert these FCCBs into Equity Shares, in whole but not in part, at any time on or after September 29, 2007 but not less than seven business days prior to the Maturity Date (March 30, 2011), at a conversion price to be determined in the manner specified in the OC. The Company, subject to fulfilment of certain conditions and obtaining requisite approvals, has an option to redeem these FCCBs, in whole but not in part, at an Early Redemption Amount, to be determined in the manner specified in the OC so that together with any interest and unpaid interest it represents a gross yield of 6.50 percent to the FCCB holders, on a semi annual basis, together with accrued or unpaid interest. The outstanding FCCBs on the Maturity Date (March 30, 2011) will be redeemed at 127.07 percent of the principal amounts of the FCCBs.

(ii) Since the market price of the Company's Equity Shares is less than the initial conversion price of FCCB, the option embedded in the said FCCB to subscribe to Equity Shares is, at the year-end, anti-dilutive.

(iii) The net proceeds of Rs.4,369.330 Million from the issue of FCCB has been utilised for the repayment of debts.

7. **Fixed Assets**

Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) – Rs. 12.688 Million (2005: Rs**.** 8.374 Million).

**8. Current Assets, Loans and Advances**

a) Loans and Advances include:

i) Rs. 7,604.592 Million (2005: Rs. 268.891 Million) given as loan to the subsidiaries. Out of the above, loan of Rs. 248.403 Million (2005: Rs. 249.732 Million) is interest bearing.

ii) Rs. 958.286 Million (2005: Rs. Nil) given as an advance to a subsidiary, which is also a tie up unit.

iii) An amount of Rs 307.873 Million (2005: Rs. 257.641 Million) due from a Tie-up Unit secured by the assets of the Tie-up unit.

iv) Rs. 3 Million (2005: Rs. Nil) being amount paid to BDA Limited (BDA) towards reassignment of certain Liquor Brands/ Trade Marks pursuant to a Memorandum of Understanding dated March 20, 1992. Pending execution of the deed for such assignments and judicial resolutions of various disputes with BDA pertaining to control of BDA and ownership of the 'Officers Choice' and other brands currently subjudice at the various courts, the advance given to the party has been provided for as a matter of prudence. All consequential adjustments arising out of the above matters will be made as and when ascertained.

v) Due from an Officer of the Company Rs. 0.974 Million (2005: Rs. 0.822 Million). Maximum amount outstanding at any time during the year Rs.0.974 Million (2005: Rs. 0.822 Million).

vi) Due from the Managing Director of the Company Rs. 2.359 Million (2005: Rs. 1.950 Million). Maximum amount outstanding at any time during the year Rs. 2.359 Million (2005: Rs.1.950 Million).

b) Certain confirmation of balances from Sundry Debtors, Loans and Advances, Deposits and Sundry Creditors are awaited and the account reconciliations of some parties where confirmations have been received are in progress. Adjustment for differences, if any, arising out of such confirmations/reconciliations would be made in the accounts on receipt of such confirmations and reconciliation thereof. The Management is of the opinion that the impact of adjustments, if any, is not likely to be significant. In the opinion of the management, all current assets, loans and advances including advances on capital accounts would be realised at the values at which these are stated in the accounts, in the ordinary course of business.

## 9. Investments

(a)

| | Face Value | Purchased during the year | | Acquired on amalgamation | | Sold during the year | | Transferred/Cancelled pursuant to scheme of amalgamation/ demerger (Note 1) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs.Million |
| **CURRENT** | | | | | | | | | |
| **Units (Fully Paid)** | | | | | | | | | |
| SBI Mutual funds Investments | 10 | 32,670,055 | 327.762 | - | - | 32,614,004 | 327.200 | - | - |
| **LONGTERM** | | | | | | | | | |
| **A Quoted** | | | | | | | | | |
| **Fully paid Equity Shares** | | | | | | | | | |
| **Trade** | | | | | | | | | |
| Aventis Pharma Limited | 10 | - | - | - | - | - | - | 17,550 | 8.205 |
| Castle Breweries Limited | 10 | - | - | - | - | - | - | 11,350 | 0.023 |
| Mangalore Chemicals & Fertilizers Limited | 10 | - | - | 6,150 | 0.032 | - | - | 7,026,828 | 35.345 |
| UB Engineering Limited | 10 | - | - | - | - | - | - | 326,620 | 3.168 |
| United Breweries (Holdings) Limited | 10 | - | - | 267 | 0.000 | - | - | 2,630,001 | 284.014 |
| United Breweries Limited | 10 | - | - | 178 | 0.000 | - | - | 969,934 | 104.743 |
| **In Subsidiary Company** | | | | | | | | - | - |
| Herbertsons Limited | 10 | - | - | 508,200 | 139.725 | 968,000 | 164.895 | 9 | 0.002 |
| Shaw Wallace & Company Limited | 10 | 15,124,631 | 4,905.933 | - | - | 52,320 | 17.056 | - | - |
| **Non Trade** | | | | | | | | | |
| Corporation Bank | 10 | - | - | - | - | - | - | 3,100 | 0.234 |
| H.D.F.C Bank Limited | 10 | - | - | - | - | - | - | 500 | 0.128 |
| Housing Development Finance Corporation. Limited | 10 | - | - | - | - | - | - | 1,680 | 0.297 |
| State Bank of Bikaner & Jaipur | 100 | - | - | - | - | - | - | 1,380 | 0.376 |
| State Bank of Travancore | 100 | - | - | - | - | - | - | 2,335 | 0.517 |
| Vijaya Bank | 10 | - | - | 42,100 | 0.466 | - | - | 97,200 | 0.972 |
| Whirlpool of India Limited | 10 | - | - | 150 | 0.001 | - | - | - | - |
| Bank of India Limited | 10 | - | - | 9,000 | 0.405 | - | - | - | - |
| Premier Fertilizers Limited | 100 | - | - | 300 | 0.001 | - | - | - | - |
| Radico Khaitan Limited | 10 | - | - | 107,570 | 2.043 | - | - | - | - |
| Khaitan Chemicals & Fertilizers Limited | 10 | - | - | 13,880 | 0.725 | - | - | - | - |
| Rampur Fertilizers Limited | 10 | - | - | 27,760 | 0.527 | - | - | - | - |
| IndusInd Bank Limited | 10 | - | - | 10,400 | 0.468 | - | - | - | - |
| Indo Lowenbraw Brewries Limited | 10 | - | - | 18 | - | - | - | - | - |
| Hero Honda Motors Limited | 2 | - | - | 175 | 0.035 | - | - | - | - |
| Rampur Engeeineering Co. Limited | 10 | - | - | 1,001 | 0.010 | - | - | - | - |
| Shree Synthetics Limited | 10 | - | - | 35 | 0.000 | - | - | - | - |

## 9. Investments (Contd.)

(a)

| | Face Value | Purchased during the year | | Acquired on amalgamation | | Sold during the year | | Transferred/Cancelled pursuant to scheme of amalgamation/ demerger (Note 1) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs.Million |
| Gammon India Limited | 10 | - | - | 1,000 | - | - | - | - | - |
| Ashok Leyland Limited | 10 | - | - | 10 | 0.000 | - | - | - | - |
| Crompton Greaves Limited | 10 | - | - | 40 | 0.005 | - | - | - | - |
| Daewoo Motors Limited | 10 | - | - | 50 | 0.001 | - | - | - | - |
| Exide Industries Limited | 10 | - | - | 2 | 0.000 | - | - | - | - |
| Gec Alsthom (I) Limited | 10 | - | - | 6 | 0.000 | - | - | - | - |
| Harrisons Malayalam Limited | 10 | - | - | 20 | 0.002 | - | - | - | - |
| Hindustan Motors Limited | 10 | - | - | 2 | 0.000 | - | - | - | - |
| Indian Rayon and Industries Limited | 10 | - | - | 10 | 0.003 | - | - | - | - |
| MRF Limited | 10 | - | - | 5 | 0.004 | - | - | - | - |
| Nirlon Limited | 10 | - | - | 12 | 0.000 | - | - | - | - |
| Rallis India Limited | 10 | - | - | 28 | 0.003 | - | - | - | - |
| Siemens (India) Limited | 10 | - | - | 15 | 0.008 | - | - | - | - |
| Genelec Limited | 10 | - | - | 100,000 | 1.325 | 100,000 | 1.325 | - | - |
| United Van Der Horst Limited | 10 | - | - | 1,007,906 | 10.079 | 1,007,906 | 10.079 | - | - |
| **B. Unquoted** | | | | | | | | | |
| **Fully paid Equity Shares** | | | | | | | | | |
| **Trade** | | | | | | | | | |
| Asian Age Holdings Limited | 10 | - | - | - | - | 14,650 | 73.617 | - | - |
| Baramati Grape Industries Limited (Note 2) | 100 | 11,883 | 2.053 | - | - | - | - | 50,103 | 5.875 |
| U.B. Electronics Instruments Limited | 100 | - | - | 1,996 | 0.129 | - | - | 1,991 | 0.127 |
| Baramati Teluka Fruits Growers Fed Limited | 100 | - | - | 5,000 | 0.500 | - | - | - | - |
| Shaw Scott Distilleries Private Limited | 100 | - | - | 1 | 0.001 | - | - | - | - |
| Stridewell Leather India Private Limited | 10 | - | - | 2 | 0.000 | - | - | - | - |
| Ashoka Securities Private Limited | 10 | - | - | 25 | 0.003 | - | - | - | - |
| **In Subsidiary Company** | | | | | | | | | |
| McDowell International Brands Limited | 10 | - | - | - | - | - | - | 50,000 | 0.499 |
| McDowell Nepal Limited | NRS 100 | - | - | 3,750 | 0.259 | - | - | - | - |
| United Spirits Limited | 10 | - | - | 50,000 | 0.500 | - | - | 50,000 | 0.500 |
| Shaw Wallace Spirits Limited (Erstwhile CDBL Breweries Limited) | 10 | - | - | 100,000 | 1.000 | - | - | 100,000 | 1.000 |
| Bhankerpur Simbhaoli Beverages Private Limited | 10 | - | - | 559,000 | 5.590 | - | - | 559,000 | 5.590 |
| Phipson Distillery Limited | 10 | - | - | - | - | - | - | 50,000 | 0.500 |
| Primo Distributors Private Limited (Note 3) | 10 | 3,920,010 | 1,030.000 | - | - | - | - | - | - |

## 9. Investments (Contd.)

(a)

| | Face Value | Purchased during the year | | Acquired on amalgamation | | Sold during the year | | Transferred/Cancelled pursuant to scheme of amalgamation/ demerger (Note 1) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs. Million | Nos | Rs.Million |
| Zelinka Limited | CYP1 | - | - | 600 | 0.061 | - | - | - | - |
| **Fully paid Preference Shares** | | | | | | | | | |
| 11% Redeemable Preference Shares of Ganges Soap Works Private Limited | 100 | - | - | 2,000 | - | - | - | - | - |
| 9.3% Cumlative Redeemable Preference Shares of Rampur Engineering Company Limited | 10 | - | - | 25,000 | 0.250 | - | - | - | - |
| **In Subsidiary Companies** | | | | | | | | | |
| 8% Redeemable Preference Shares of Phipson Distillery Limited | 10 | - | - | - | - | - | - | 1,435,000 | 2,870.000 |
| 8% Redeemable Preference Shares of United Spirits Limited | 10 | - | - | 1,633,000 | 3,266.000 | - | - | 1,633,000 | 3,266.000 |
| **Non-Trade Other Investments** | | | | | | | | | |
| National Savings/Plan/Def. Certificates (Deposited with Govt.Authorities) | - | - | 2.228 | | 0.206 | - | 2.924 | - | - |
| **Fully paid Equity Shares** | | | | | | | | | |
| Koel Manufacturing and Investment (P) Limited | 10 | - | - | 1 | 0.002 | - | - | - | - |
| Janata Sahakari Bank Limited, Pune | 100 | - | - | 4,750 | 0.475 | - | - | - | - |
| Maltings Limited | 10 | - | - | 695 | 0.000 | - | - | - | - |
| Central Investment (P) Limited | 10 | - | - | 305 | 0.000 | - | - | - | - |
| Consolidated Brewries Limited | 10 | - | - | 750 | 0.000 | - | - | - | - |
| Triumph Distillers & Vintners Private Limited (Note 2) | 10 | - | - | 1,00,000 | 147.661 | - | - | 1,00,000 | 147.661 |
| Goa Urban Co-Operative Bank Limited | 50 | - | - | 199 | 0.010 | - | - | - | - |
| Mapusa Urban Co-Operative Bank Limited | 25 | - | - | 5 | 0.000 | - | - | - | - |
| The Cosmos Co-op Bank Limited | 20 | - | - | 71,875 | 1.438 | - | - | - | - |
| Baramati Sahakari Bank Limited | 100 | - | - | 9 | 0.001 | - | - | - | - |
| Thane Janta Sahakari Bank Limited | 50 | - | - | 10 | 0.001 | - | - | - | - |
| Rupee Co- op Bank Limited | 25 | - | - | 40 | 0.001 | - | - | - | - |
| **Total** | | | 6,267.976 | | 3,579.956 | | 597.096 | | 6,735.776 |
| Interest as sole Beneficiary in SWDL Benefit Trust (Note 2) | - | - | - | | 533.465 | | - | | 533.465 |
| Interest as Sole Beneficiary in USL Benefit Trust (Note 2) | | | - | | 687.001 | | - | | - |
| | | | 6,267.976 | | 4,800.422 | | 597.096 | | 7,269.241 |
| Less: Provision for diminution in the value of investments | | | - | | 2.428 | | 17.421 | | 2.391 |
| | | | 6,267.976 | | 4,797.994 | | 579.675 | | 7,266.850 |

**Note:**

1. Includes transferred pursuant to scheme of Demerger during the year:

Rs. Million

| | Nos. | 2006 Cost |
|---|---|---|
| **Long Term** | | |
| Aventis Pharma Limited | 17,550 | 8.205 |
| Castle Breweries Limited | 11,350 | 0.023 |
| Mangalore Chemicals & Fertilizers Limited | 7,026,828 | 35.345 |
| UB Engineering Limited | 326,620 | 3.168 |
| United Breweries (Holdings) Limited | 2,630,001 | 284.014 |
| United Breweries Limited | 969,934 | 104.743 |
| Corporation Bank | 3,100 | 0.234 |
| H.D.F.C Bank Limited | 500 | 0.128 |
| Housing Development Finance Corporation Limited | 1,680 | 0.297 |
| State Bank of Bikaner & Jaipur | 1,380 | 0.376 |
| State Bank of Travancore | 2,335 | 0.517 |
| Vijaya Bank | 97,200 | 0.972 |
| U.B. Electronics Instruments Limited | 1,991 | 0.127 |
| | | **438.149** |
| Less: Provision for diminution in the value of investments | | 2.391 |
| | | **435.758** |

2. Refer Note 2(IV)(a) above
3. Purchased and sold during the year 3,920,010 4,612.758

(b) The carrying cost of investment in Shaw Wallace & Company Limited (SWCL), a subsidiary Company acquired during the year as explained in Note 4 above, as at March 31, 2006, amounting to Rs. 4,888.877 Million, substantially exceeds the net worth and the market value of shares in SWCL. Considering that the acquisition of the Shaw Wallace Group has given to the Company access to very valuable brands, critical distilling & manufacturing capacities and distribution capabilities in important markets in India and abroad, the management of the Company believes that this reflects intrinsic value far in excess of the carrying cost of the Investments in SWCL and that such shortfall in net worth / decline in market value of shares in SWCL is purely temporary in nature and, hence, no provision is considered necessary for the same.

**10.** Names of Small Scale Industrial (SSI) Undertakings to whom the Company owes any sum which is outstanding for more than thirty days as on March 31, 2006 is given below:

Kengeri Packers Private Limited; Uday Kartons; Uday Agencies; Peninsular Packers Private Limited; Bhargava Packagings; Kraftoo Packs; Rajshil Papers Private Limited; Sri Lakshmi Venkteshwara; Carto Pack; Carto Tech; J.K Packagings; Sree Kailas Packagings; Magna Corrugators; Pack in Box; Nirmal Packaging; Mahabir Cartons & Company; Central India Laminates; Dastagir Packaging; Margaret Packaging; Priya Packaging; Raghava Containers; Ruby Corrugated; Sairam Enterprises; Agrawal Papers Products; Packwell Industries; Vindha’s Corrugators; Balaji Packaging; Pranam Impressions; Avasas Pack & Print; Lawande Packaging; Mahima Packwell, Shah Pack & Print; Aapco Industries; Sahil Industries; Pack Care Products; Arihant Packaging; Frontior Electric Press;

C.K.Enterprises; Excellent Packagings; Subhodaya Enterprises; Subohodaya Packaging; Tirumala Corrugated; Udaya Enterprises; M.B.Packers; Dwarakakamai Packaging; Kamala Board Box; Kamani Packaging Industries; Citizen Packing Industries; Sri Packwell Industries Private Limited; Sharda Packing Private Limited; S.V. Printers & Packs; Creative Cartons Private Limited; Shakunta Packers; Excellent Packaging; Pack Care Products; Chromaprint; Classic image Offset Private Limited; Excel Caps & Closures; Excel Prints & Packs; Manohar Packaging; Manohar Packaging Private Limited; Robin Chemicals Private Limited; Anupaman Industries; Devi Industries; Kishore Bottle Mart; Padmaja Packing Industries, Quality Closures; Standard Packaging ;Standard Packaging & Plastic; Manohar Canisters; Quality Packaging & Allied Industries; Quality Cartons.

The above information and that disclosed in Schedule 12 - "Current Liabilities and Provisions" regarding SSI undertakings has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.

**11.** As required under Section 205C of the Companies Act, 1956, the Company has transferred Rs. 3.890 Million (2005: Rs. 7.669 Million) to the Investor Education and Protection Fund (IEPF) during the year. On March 31, 2006, no amount was due for transfer to the IEPF.

**12. Exceptional and other non recurring items [(Debit)/Credit] include:**

Rs. Million

| **Sl.No.** | **Particulars** | **2006** | 2005 |
|---|---|---|---|
| i) | Profit on sale of a long term investment | **-** | 243.828 |
| ii) | Provision for diminution in the value of investments | **-** | (15.774) |
| iii) | Provision for amount due from a tie-up unit consequent to certain developments initiated by its lenders | **-** | (182.920) |
| iv) | Turnover Tax provided during the year consequent to the decision by Honourable Supreme Court of India after the Balance Sheet date. | **-** | (146.637) |
| | | **-** | (101.503) |

**13. Borrowing Costs**

| | | 2006 | 2005 |
|---|---|---|---|
| a) | Interest capitalised on fixed assets | **0.957** | 0.683 |
| b) | Interest included in the Closing Stock of Malt and Grape Spirit under maturation | **48.801** | 42.782 |

**14. Segment Reporting**

The Company is engaged in the business of manufacture, purchase and sale of Beverage Alcohol (Spirits and Wines) including through Tie-up Manufacturing/ brand franchise, which constitutes a single business segment. The Company's operations outside India did not exceed the quantitative threshold for disclosure envisaged in AS 17 on 'Segment Reporting' issued by the Institute of Chartered Accountants of India. In view of the above, primary and secondary reporting disclosures for business/geographical segment as envisaged in AS-17 are not applicable to the Company.

15. **Related Party Disclosures**

a) **Names of related parties and description of relationship**

| | Enterprises where there is control | Associates with whom transactions have taken place during the year | Key Management Personnel | Employees' Benefit Plans where there is significant influence |
|---|---|---|---|---|
| (i) | Subsidiary Companies: | | | |
| | Phipson Distillery Limited (PDL) * | Baramati Grape Industries Limited (BGIL)* | Mr. V K Rekhi, Managing Director | McDowell & Company Limited Staff Gratuity Fund (McD SGF) |
| | Asian Opportunities & Investments Limited (AOIL) | Utkal Distilleries Limited (Utkal) | | McDowell & Company Limited Officers' Gratuity Fund (McD OGF) |
| | Triumph Distillers & Vintners Limited (TDV) * | | | |
| | Herbertsons Limited (HL) * $ | | | |
| | McDowell International Brands Limited (MIBL) * | | | |
| | United Spirits Limited (USL) * | | | |
| | Zelinka Limited | | | |
| | McDowell India Spirits Limited (MISL) # | | | |
| | McDowell Nepal Limited (MNL) | | | |
| | Shaw Wallace and Company Limited (SWCL) ** | | | |
| | Ramanretti Investments & Trading Limited (RITL) ** ^ | | | |
| | Shaw Wallace Financial Services Limited (SWFSL) ** | | | |
| | Shaw Wallace Breweries Limited (SWBL) ** ^ | | | |
| | Primo Distributors Private Limited (PDPL) ** | | | |
| | Palmer Investment Group Limited (PIG) ** ^ | | | |
| | RG Shaw & Company Limited (RGSC) ** ^ | | | |
| | Shaw Scott & Company Limited (SSC) ** ^ | | | |
| | Shaw Darby & Company Limited (SDC) ** ^ | | | |
| | Thames Rice Milling Company Ltd. (TRMC) ** ^ | | | |
| | Shaw Wallace Overseas Limited (SWOL) ** ^ | | | |
| | JIHL Nominees Limited(JIHL) ** ^ | | | |
| | Montrose International S.A (MI) ** | | | |
| (ii) | USL Benefit Trust [Notes 2(IV)(a) and 2(VI)(c)] | | | |

* Amalgamation with the Company with effect from April 1, 2005 (Note 2 above)
** From July 14, 2005 (Note 4 above)
# Ceased to be subsidiary after demerger with effect from April 1, 2005
$ Associate upto March 22, 2005
^ No transactions during the year

**b) Summary of the transactions with related parties:**

Rs. Million

| Sl. No. | Nature of transactions ** | 2006 Entities where there is control | 2006 Asso-ciates | 2006 Key Manage ment person-nel | 2006 Employees' Benefit Plans where there is significant influence | 2006 Total | 2005 Entities where there is control | 2005 Asso-ciates | 2005 Key Manage ment person-nel | 2005 Employees' Benefit Plans where there is significant influence | 2005 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| a) | Purchase of goods | | | | | | | | | | |
| | - SWCL | 2.819 | - | - | - | **2.819** | - | - | - | - | - |
| | - Utkal | - | 0.522 | - | - | **0.522** | - | 2,688.002 | - | - | **2,688.002** |
| | - BGIL | - | - | - | - | - | - | 56.619 | - | - | **56.619** |
| b) | Sale of goods | | | | | | | | | | |
| | - Primo | 222.666 | - | - | - | **222.666** | - | - | - | - | - |
| | - HL | - | - | - | - | - | - | 2837.976 | - | - | **2837.976** |
| | - AOIL | 75.789 | - | - | - | **75.789** | - | - | - | - | - |
| | - Utkal | - | 3.691 | - | - | **3.691** | - | 36.314 | - | - | **36.314** |
| | - Others | 62.868 | - | - | - | **62.868** | 11.235 | - | - | - | **11.235** |
| c) | Income from sale by Tie-up Units | | | | | | | | | | |
| | - Utkal | - | 22.521 | - | - | **22.521** | - | 61.193 | - | - | **61.193** |
| | - BGIL | - | - | - | - | - | - | 13.506 | - | - | **13.506** |
| d) | Income from Brand Franchise | | | | | | | | | | |
| | - MNL | 19.205 | - | - | - | **19.205** | 10.648 | - | - | - | **10.648** |
| | - Utkal | - | 7.542 | - | - | **7.542** | - | - | - | - | - |
| e) | Purchase of Investment in PDPL | | | | | | | | | | |
| | - SWFSL | 1030.000 | - | - | - | **1030.000** | - | - | - | - | - |
| f) | Sale of Investment in PDPL | | | | | | | | | | |
| | - SWFSL | 4612.758 | - | - | - | **4612.758** | - | - | - | - | - |
| g) | Sale/(Purchase) of fixed assets | | | | | | | | | | |
| | - HL | - | - | - | - | - | (13.142) | - | - | - | **(13.142)** |
| | - Utkal | - | 0.077 | - | - | **0.077** | - | - | - | - | - |
| | - Others | - | - | - | - | - | (0.821) | - | - | - | **(0.821)** |
| h) | Other Income | | | | | | | | | | |
| | - BGIL | - | - | - | - | - | - | 11.732 | - | - | **11.732** |
| | - MNL | 15.412 | - | - | - | **15.412** | 45.030 | - | - | - | **45.030** |
| | - SWCL | 15.072 | - | - | - | **15.072** | - | - | - | - | - |
| | - Others | - | - | - | - | - | 1.033 | - | - | - | **1.033** |
| i) | Commission on Sales | | | | | | | | | | |
| | - HL | - | - | - | - | - | - | 39.195 | - | - | **39.195** |
| | - TDV | - | - | - | - | - | 5.646 | - | - | - | **5.646** |
| | - Others | 12.407 | - | - | - | **12.407** | 3.352 | - | - | - | **3.352** |
| j) | Royalty and Brand Fee | | | | | | | | | | |
| | - SWCL | 216.365 | - | - | - | **216.365** | - | - | - | - | - |
| k) | Interest Income (net) | | | | | | | | | | |
| | - PDL | - | - | - | - | - | 10.309 | - | - | - | **10.309** |
| | - AOIL | 11.682 | - | - | - | **11.682** | 12.946 | - | - | - | **12.946** |

| Sl. No. | Nature of transactions ** | 2006 Entities where there is control | 2006 Asso-ciates | 2006 Key Manage ment person-nel | 2006 Employees' Benefit Plans where there is significant influence | 2006 Total | 2005 Entities where there is control | 2005 Asso-ciates | 2005 Key Manage ment person-nel | 2005 Employees' Benefit Plans where there is significant influence | 2005 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| l) | Rental Deposit | - | - | 2359 | - | **2359** | - | - | 1950 | - | **1950** |
| m) | Interest as Sole Beneficiary | | | | | | | | | | |
| | in USL Benefit Trust | 687.001 | - | - | - | **687.001** | - | - | - | - | - |
| n) | Finance (including loans and equity contributions in cash or in kind) | | | | | | | | | | |
| | - BGIL | - | - | - | - | - | - | 2576.455 | - | - | **2576.455** |
| | - HL | - | - | - | - | - | - | (2633.869) | - | - | **(2633.869)** |
| | - AOIL | - | - | - | - | - | 43.456 | - | - | - | **43.456** |
| | - PDL | - | - | - | - | - | (227.045) | - | - | - | **(227.045)** |
| | - ZL | 7,356.189 | - | - | - | **7,356.189** | - | - | - | - | - |
| | - Utkal | - | 27.669 | - | - | **27.669** | - | - | - | - | - |
| | - Others | (22.212) | - | - | - | **(22.212)** | (19.224) | (59.053) | - | - | **(78.277)** |
| o) | Guarantees and Collaterals given | | | | | | | | | | |
| | - BGIL | - | - | - | - | - | - | 50.000 | - | - | **50.000** |
| | - TDV | - | - | - | - | - | 220.000 | - | - | - | **220.000** |
| | - AOIL | - | - | - | - | - | 1356.250 | - | - | - | **1356.250** |
| p) | Managing Directors' | | | | | | | | | | |
| | Remuneration | - | - | 20.772 | - | **20.772** | - | - | 16.757 | - | **16.757** |
| q) | Rent | - | - | 2.305 | - | **2.305** | - | - | 1.949 | - | **1.949** |
| r) | Contribution to gratuity Fund | | | | | | | | | | |
| | - McD OGF | - | - | - | 56.376 | **56.376** | - | - | - | 50.239 | **50.239** |
| | - McD SGF | - | - | - | 26.867 | **26.867** | - | - | - | 27.861 | **27.861** |
| s) | Amount due from | | | | | | | | | | |
| | - AOIL | 259.858 | - | - | - | **259.858** | 249.492 | - | - | - | **249.492** |
| | - PDL | - | - | - | - | - | 12.984 | - | - | - | **12.984** |
| | - Utkal | - | 335.894 | - | - | **335.894** | - | 257.640 | - | - | **257.640** |
| | - HL | - | - | - | - | - | 502.475 | - | - | - | **502.475** |
| | - Zelinka | 7,356.189 | - | - | - | **7,356.189** | - | - | - | - | - |
| | - SWCL | 958.286 | - | - | - | **958.286** | - | - | - | - | - |
| | - Others | 32.077 | - | - | - | **32.077** | 17.621 | - | - | - | **17.621** |
| t) | Amount due to | | | | | | | | | | |
| | - BGIL | - | - | - | - | - | - | 10.588 | - | - | **10.588** |
| | - PDPL | 39.009 | - | - | - | **39.009** | - | - | - | - | - |

** Excludes Reimbursement of Expenses and Cost sharing arrangements.

The above information has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.

**16.** (a) The Company's significant leasing arrangements in respect of operating leases for premises (residential, office, stores, godown, etc), which are not non-cancellable, range between 11 months and 3 years generally (or longer in certain cases) and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are charged as Rent under Schedule 15 to the accounts.

Leasing arrangements entered into prior to April 1, 2001 have not been considered for treatment under AS 19 'Accounting for Leases'.

(b) During the year, the Company has acquired computer equipments on finance leases. The lease agreement is for a primary period of 48 months and the Company has an option to renew for a secondary period. There are no exceptional/restrictive covenants in the lease agreements.

The minimum lease payments and their present value, for each of the following periods are as follows:

Rs. Million

| Particulars | 2006 Present Value of payments | 2006 Minimum lease payments | 2005 Present Value of payments | 2005 Minimum lease payments |
|---|---|---|---|---|
| Later than one year and not later than five years | 8.042 | **8.368** | - | - |
| Later than five years | - | - | - | - |
| | 8.042 | **8.368** | - | - |
| Not later than one year | 4.348 | **4.782** | - | - |
| | 12.390 | **13.150** | - | - |
| Less: Finance Charges | | **0.760** | | - |
| Present value of net minimum lease payments | | **12.390** | | - |

**17. Earnings Per Share:**

| | | 2006 | 2005 |
|---|---|---|---|
| a) | Net Profit after tax (Rs. Million) | **420.198** | 267.265 |
| | Less: Proposed Dividend on Preference Shares (including Corporate tax thereon) (Rs. Million) | **7.953** | - |
| | Less: Net Profit available for equity shares (Rs. Million) | **412.245** | 267.265 |
| b) | Basic number of Equity Shares of Rs.10 each Outstanding during the year * | **94,481,930** | 51,720,028 |
| c) | Weighted Average number of Equity Shares of Rs.10 each Outstanding during the year * | **85,802,478** | 51,720,028 |
| d) | Basic/Diluted Earnings Per Share (Rs.)** | **4.80** | 5.17 |

* including Equity shares to be issued referred to in Note 2(III)

** Also refer Note 6 above.

UNITED SPIRITS

**18. Taxes on Income**

| | 2006 | 2005 |
|---|---|---|
| | | Rs. Million |
| **a) Current Taxation** | | |
| Provision for current taxation includes: | | |
| i) Income Tax [including relating to earlier year Rs. 81.502 Million (2005: Nil)] | **81.502** | 142.000 |
| ii) Wealth Tax | **12.000** | 4.200 |
| **Total** | **93.502** | 146.200 |

**b) Deferred Taxation**

The net Deferred Tax (Asset) / Liability as on March 31, 2006 amounting to Rs. 70.569 Million (2005: Rs.13.685 Million) has been arrived at as follows:

Rs. Million

| Particulars | Deferred Tax (Asset) / Liability as on 1.4.2005 | Adjustment on Amalgamation | Current Year charge / (credit) | **Deferred Tax (Asset) / Liability as on 31.03.2006** |
|---|---|---|---|---|
| Difference between book and tax depreciation | 128.619 | 239.219 | (71.595) | **296.243** |
| Turnover Tax Provision | (46.465) | (19.771) | 66.236 | **-** |
| Provision for Doubtful Debts | (61.571) | (5.416) | (51.540) | **(118.527)** |
| Unabsorbed Business Loss/ Depreciation Allowance | - | (88.055) | 43.297 | **(44.758)** |
| Others | (6.898) | (5.471) | (50.020) | **(62.389)** |
| **TOTAL** | 13.685 | 120.506 | (63.622) | **70.569** |

**19. Remuneration paid/payable to Managing Director**

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| Salary and Allowances | **11.083** | 8.006 |
| Incentives paid | **4.491** | 4.569 |
| Contribution to Provident and other Funds * | **2.825** | 2.029 |
| Value of Perquisites | **2.373** | 2.153 |
| | **20.772** | 16.757 |

***** Provision for contribution to employee retirement/post retirement and other employee benefits which are based on actuarial valuation done on an overall Company basis are excluded above.

**20. Directors' Commission**

Rs. Million

| | | 2006 | 2005 |
|---|---|---|---|
| Computation of Net Profits under Section 198 of the Companies Act, 1956 | | | |
| Net Profit before Taxation | | **512.190** | 326.655 |
| Add: | Depreciation as per Books | **409.002** | 156.304 |
| | Remuneration to Managing Director | **20.772** | 16.757 |
| | Directors' Fees | **0.855** | 0.709 |
| | Directors' Commission | **5.517** | 3.018 |
| | Book deficit/(surplus) on fixed assets sold, written-off, etc (net) as per books | **(27.148)** | 8.731 |
| | Provision for Doubtful Debts | **137.827** | 182.920 |
| | Diminution in value of Investments | **-** | 15.714 |
| | | **1,059.015** | 710.808 |
| Less: | Depreciation under Section 350 of the Companies Act, 1956 | **409.002** | 156.304 |
| | Profit on Sale of Investments | **79.582** | 244.033 |
| | Deficit/(Surplus) on disposal of fixed assets under Section 349 of the Companies Act, 1956. | **18.711** | 8.731 |
| Net profit | | **551.720** | 301.740 |
| Commission 1% thereof | | **5.517** | 3.018 |

The total remuneration as stated above is within the maximum permissible limit under the Companies Act, 1956.

**21. Quantitative Information in respect of goods manufactured and sold by the Company**

**a. Particulars of Capacity and Production:**

| | | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|---|
| Description | Unit | **Licensed Capacity** | **Installed Capacity** | **Actual Production** | Licensed Capacity | Installed Capacity | Actual Production |
| Beverage Alcohol [Note (i)] | Ltrs | **14,354,600** | **45,802,850** | **147,654,722** | 14,354,600 | 30,118,295 | 127,178,616 |

Notes:

i) Includes alcohol produced and bottled out of purchased rectified spirit. This activity is not considered as manufacture under the Industries (Development and Regulation) Act, 1951.

ii) The capacities specified under 'Licensed Capacity' represent the licensed capacity of one Unit and the Company's applications for the Carry On Business licenses for other Units are still pending with the authority.

iii) The Installed Capacity has been certified by the Company's management and relied upon by the Auditors, this being a technical matter.

**b. Particulars of opening stock of Finished Goods:**

(Rs. Million)

| | | **2006** | | 2005 | |
|---|---|---|---|---|---|
| Description | Unit | **Quantity** | **Value** | Quantity | Value |
| Beverage Alcohol | Cases | **362,103** | **326.311** | 500,356 | 325.884 |
| Others | | | **6.648** | | 7.860 |
| **Total** | | | **332.959** | | 333.744 |

**c. Particulars of stock of Finished Goods acquired on amalgamation**

Rs. Million

| | | 2006 | | 2005 | |
|---|---|---|---|---|---|
| Description | Unit | Quantity | Value | Quantity | Value |
| Beverage Alcohol | Cases | **527,920** | **444.227** | | - |
| Others | | | **0.450** | | - |
| | | | **444.677** | | - |

**d. Particulars of closing stock of Finished Goods:**

| Description | Unit | Quantity | Value | Quantity | Value |
|---|---|---|---|---|---|
| Beverage Alcohol | Cases | **1,271,147** | **1,092.814** | 362,103 | 326.311 |
| Others (including by-products) | | | **115.039** | | 6.648 |
| | | | **1,207.853** | | 332.959 |

**e. Particulars of Turnover:**

| Description | Unit | Quantity | Value | Quantity | Value |
|---|---|---|---|---|---|
| Beverage Alcohol | Cases | **28,712,847** | **31,768.267** | 15,927,537 | 16,562.467 |
| Others (including by-products) | | | **1,640.288** | | 641.138 |
| | | | **33,408.555** | | 17,203.605 |

**f. Particulars of purchase of traded goods:**

| Description | Unit | Quantity | Value | Quantity | Value |
|---|---|---|---|---|---|
| Beverage Alcohol | Cases | **1,741,873** | **1,562.315** | 1,431,827 | 2,574.372 |
| Others | | | **0.394** | | 81.406 |
| | | | **1,562.709** | | 2,655.778 |

**22. Particulars of Raw Materials Consumed:**

| Description | Unit | Quantity | Value | Quantity | Value |
|---|---|---|---|---|---|
| Spirits | Litres | **91,731,198** | **2,985.405** | 46,882,991 | 1,445.903 |
| Malt | Kg. | **8,409,250** | **155.262** | 409,500 | 5.430 |
| Molasses | Kg. | **143,262,618** | **684.564** | 45,638,392 | 181.860 |
| Others | | | **707.597** | | 689.336 |
| | | | **4,532.828** | | 2,322.529 |

| | % | Value | % | Value |
|---|---|---|---|---|
| **Whereof:** | | | | |
| Imported | **5** | **278.930** | 4 | 93.280 |
| Indigenous | **95** | **4,253.898** | 96 | 2,229.249 |
| | **100** | **4,532.828** | 100 | 2,322.529 |

**23. Consumption of Packing Material, Stores and Spares:** Rs. Million

(including stores consumed in Repairs and Maintenance expenses)

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **%** | **Value** | % | Value |
| Imported | **1** | **1.716** | - | - |
| Indigenous | **99** | **4,627.402** | 100 | 2,432.387 |
| | **100** | **4,629.118** | 100 | 2,432.387 |

**24. Value of Imports on C.I.F. basis:**

| | 2006 | 2005 |
|---|---|---|
| Raw Materials and Packing Materials | **238.237** | 62.206 |
| Components and Spare Parts | **1.716** | 1.533 |
| Plant and Machinery | **3.377** | - |
| | **243.330** | 63.739 |

**25. Earnings in Foreign Currency:**

| | 2006 | 2005 |
|---|---|---|
| FOB value of Export Sales | **94.058** | - |
| Others (net) * | **15.312** | - |
| | **109.370** | - |

* including Rs. 15.312 Million (2005: Rs. Nil) towards reimbursement of expenses on issue of Global Depository Shares credited to share premium account.

**26. Expenditure in Foreign Currency:**

| | 2006 | 2005 |
|---|---|---|
| Interest | **211.352** | 48.795 |
| Others (Royalty, Travelling, Subscription, Professional fees, Foreign Travel Expenses, Advertisement etc.) * | **271.559** | 11.546 |
| | **482.911** | 60.341 |

* Including Rs. 230.293 Million towards Professional Fees for Share/ Foreign Currency Convertible Bonds issued.

**27. Auditors' Remuneration ***

| | 2006 | 2005 |
|---|---|---|
| Statutory Audit | **5.300** | 4.000 |
| Tax Audit Fee | **0.500** | 0.400 |
| Other Services | **7.251** | 2.225 |
| Out-of-pocket Expenses (including service tax) | **0.440** | 0.684 |
| | **13.491** | 7.309 |

* [included under Legal and Professional Charges in Schedule 15, except Rs. 4.201 Million and Rs. 0.500 Million debited to Share Premium and General Reserve respectively].

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **28. (a) Repairs to Plant and Machinery include:** | | |
| Wages | **1.468** | 0.355 |
| Stores Consumed | **17.825** | 9.718 |
| | **19.293** | 10.073 |
| **(b) Repairs to Building include:** | | |
| Wages | **0.493** | 0.217 |
| Stores consumed | **1.756** | 1.203 |
| | **2.249** | 1.420 |
| **29. Research and Development expenses comprise the following:** | | |
| Salaries and Wages | **8.115** | 9.021 |
| Contribution to Provident Fund and other Funds | **1.270** | 0.964 |
| Staff Welfare Expenses | **0.230** | 0.079 |
| Rent | **1.894** | 0.628 |
| Rates and Taxes | **-** | 0.001 |
| Miscellaneous Expenses | **1.411** | 1.185 |
| | **12.920** | 11.878 |

**30.** There was a fire at one of the Mumbai office of the Company on April 25, 2006. Certain physical records (such as original vendor invoices, cash/bank vouchers, challans for statutory payments, etc), furniture and fixtures, computers and electrical installations of the Company were either totally destroyed or damaged. However, the books of account maintained on computer system were not affected at all which were made available to auditors for their verification. The Company has lodged an insurance claim of Rs.21.6 Million and has received an on account payment of Rs.4 Million. Loss, if incurred, will be accounted for as and when the claim is settled.

**31.** a) Previous year's figures have been regrouped / rearranged wherever necessary.

b) In view of the amalgamation and demerger described in Note 2 above, the figures for the year ended March 31, 2006 are not comparable with that of previous year.

| | | | |
|---|---|---|---|
| **J. MAJUMDAR** | | **VIJAY MALLYA** | **V.K.REKHI** |
| Partner | | Chairman | Managing Director |
| For and on behalf of | | | |
| **Price Waterhouse** | **V.S.VENKATARAMAN** | **M.R.DORAISWAMY IYENGAR** | **P.A.MURALI** |
| Chartered Accountants | Company Secretary | Director | Chief Financial Officer |
| Bangalore | | Mumbai | |
| October 30, 2006 | | October 30, 2006 | |

# Statement Pursuant To Section 212(1)(e) Of The Companies Act, 1956 As At March 31, 2006

(Rs. Million)

| Sl.no | Name of the subsidiary | a) No of shares held at the end of the financial year of the subsidiary: United Spirits Ltd | a) No of shares held at the end of the financial year of the subsidiary: Other subsidiary companies | b) Extent of holding: % United Spirits Ltd | b) Extent of holding: % Other subsidiary companies | Net aggregate Profit/loss of the subsidiary so far as it concerns the members of the company: a) Not dealt with in the accounts of the company (i) for the subsidary's financial year ended 31.03.2006 | a) Not dealt with in the accounts of the company (ii) for the previous financial years of the subsidiary since it became a subsidiary | b) Dealt with in the accounts of the company (i) for the subsidary's financial year ended 31.03.2006 | b) Dealt with in the accounts of the company (ii) for the previous financial years of the subsidiary since it became a subsidiary |
|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 1 | Asian Opportunities & Investments Ltd | 4,998,706 Shares | - | 100% | - | (1.002) | 4.198 | - | - |
| 2 | McDowell Nepal Ltd | 67,716 Shares | - | 82.46% | - | 15.541 | 32.069 | - | - |
| 3 | Zelinka Ltd | 1,000 Shares | - | 100% | - | (13.623) | (0.271) | - | - |
| 4 | Shaw Wallace & Company Ltd | 15,072,311 Shares | 7,945,336 Shares | 31.40% | 16.55% | 468.603 | - | - | - |
| 5 | Ramanreti Investments & Trading Ltd | - | 50,000 Shares | - | 100% | (0.064) | - | - | - |
| 6 | Shaw Wallace Financial Services Ltd | - | 10,000,000 Shares | - | 100% | (3,258.977) | - | - | - |
| 7 | Shaw Wallace Breweries Ltd | - | 143,006,005 Shares | - | 96.49% | 4,488.373 | - | - | - |
| 8 | Primo Distributors Private Ltd | 3,920,010 Eq. Shares | - | 100% | - | 4.804 | - | - | - |
| 9 | Palmer Investment Group Ltd | - | 15,000,000 Shares | - | 100% | (5.620) | - | - | - |
| 10 | RG Shaw & Company Ltd | - | 7,690,180 Shares | - | 100% | 335.100 | - | - | - |
| 11 | Shaw Scott & Company Ltd | - | 105,609 Shares | - | 100% | 90.440 | - | - | - |
| 12 | Shaw Darby & Company Ltd | - | 130,845 Shares | - | 100% | 88.423 | - | - | - |
| 13 | Thames Rice Milling Company Ltd | - | 90,160 Shares | - | 100% | 70.301 | - | - | - |
| 14 | Shaw Wallace Overseas Ltd | - | 357,745 Shares | - | 100% | 0.377 | - | - | - |
| 15 | JIHL Nominees Ltd | - | 10 Shares | - | 100% | 2.544 | - | - | - |
| 16 | Montrose International S.A | - | 500 Shares | - | 100% | 8.755 | - | - | - |

# Statement Pursuant to Section 212(1)(f) Of The Companies Act, 1956 As At March 31, 2006

(Rs. Million)

| Sl. no | Name of the subsidiary | Subsidiary Financial year ended on | Company's Interest in the Subsidiary | Material changes that have occurred between the close of subsidiary's financial year and March 31, 2006: Subsidiary's Fixed Assets | Subsidiary's Investments | Moneys lent by the Subsidiary | Moneys borrowed by the subsidiary for the purposes other than that of meeting current liabilities |
|---|---|---|---|---|---|---|---|
| 1 | McDowell Nepal Limited | 16.07.2005 | 82.46% | (1.362) | - | - | 25.370 |

**V.S.VENKATARAMAN**
Company Secretary

Mumbai
October 30, 2006

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer

# Details of Subsidiary Companies

(Amount in Millions)

| Name of Subsidiary | Asian Opportunities & Investments Limtied | | McDowell Nepal Limited | | Zelinka Limited | | Shaw Wallace & Company Limited | Ramanreti Investments & Trading Limited | Shaw Wallace Financial Services Limited | Shaw Wallace Breweries Limited | Primo Distributors Private Limited | Palmer Investment Group Limited | | RG Shaw Shaw Scott & Company Limited | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | USD | INR | NRS | INR | USD | INR | INR | INR | INR | INR | INR | USD | INR | GBP | INR |
| 1. Capital | 4.999 | 223.030 | 8.212 | 5.132 | 0.002 | 0.101 | 480.061 | 0.500 | 219.700 | 1,482.050 | 76.200 | 15.000 | 669.264 | 0.077 | 5.970 |
| 2. Reserves | 0.075 | 3.359 | 95.735 | 4,274.083 | (0.314) | (13.899) | 87.212 | (6.445) | - | 4,282.947 | 62.215 | 1.231 | 54.930 | 0.761 | 59.057 |
| 3. Total Assets | 10.603 | 473.085 | 150.883 | 94.302 | 164.588 | 7,343.542 | 1,674.808 | 16.695 | 4,466.638 | 5,764.998 | 138.640 | 16.231 | 724.194 | 0.838 | 65.026 |
| 4. Total Liabilities | 10.603 | 473.085 | 150.883 | 94.302 | 164.588 | 7,343.542 | 1,674.808 | 16.695 | 4,466.638 | 5,764.998 | 138.640 | 16.231 | 724.194 | 0.838 | 65.026 |
| 5. Investments | - | - | - | - | 162.072 | 7,231.244 | 940.147 | 16.860 | 1,635.876 | 1,000.000 | 55.010 | 16.234 | 724.322 | 0.720 | 55.925 |
| 6. Turnover | 3.048 | 134.977 | 318.808 | 199.255 | 0.218 | 9.647 | 2,838.190 | - | 340.095 | 4,511.331 | 355.667 | 2.332 | 104.052 | 10.790 | 844.687 |
| 7. Profit before Taxation | (0.023) | (1.002) | 34.029 | 21.268 | (0.286) | (12.658) | 886.381 | (0.064) | (3,259.603) | 4,509.281 | 7.101 | 2.332 | 104.052 | 10.784 | 844.245 |
| 8. Provision for Taxation | - | - | 9.163 | 5.727 | 0.022 | 0.965 | 417.778 | - | 0.713 | - | 2.297 | - | - | 3.234 | 253.215 |
| 9. Profit after Taxation | (0.023) | (1.002) | 24.865 | 15.541 | (0.308) | (13.623) | 468.603 | (0.064) | (3,258.977) | 4,509.281 | 4.804 | 2.332 | 104.052 | 7.550 | 591.030 |
| 10. Proposed Dividend | - | - | 32.846 | 20.529 | - | - | 54.739 | - | - | - | - | - | - | - | - |

| Name of Subsidiary | Shaw Scott & Company Limited | | Shaw Darby & Company Limited | | Thames Rice Milling Company Limited | | Shaw Wallace overseas Limited | | JIHL Nominees Limited | | Montrose International S.A | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GBP | INR | GBP | INR | GBP | INR | GBP | INR | USD | INR | USD | INR |
| 1. Capital | 0.106 | 8.198 | 0.131 | 10.157 | 0.090 | 6.999 | 0.358 | 27.770 | 0.000 | 0.000 | 0.500 | 22.309 |
| 2. Reserves | - | - | - | - | 0.022 | 1.731 | (0.169) | (13.129) | 9.855 | 439.728 | 0.502 | 22.389 |
| 3. Total Assets | 0.106 | 8.198 | 0.131 | 10.157 | 0.112 | 8.729 | 0.189 | 14.641 | 9.908 | 442.068 | 1.149 | 51.256 |
| 4. Total Liabilities | 0.106 | 8.198 | 0.131 | 10.157 | 0.112 | 8.729 | 0.189 | 14.641 | 9.908 | 442.068 | 1.149 | 51.256 |
| 5. Investments | 0.098 | 7.575 | 0.109 | 8.429 | 0.123 | 9.524 | - | - | 9.855 | 439.728 | - | - |
| 6. Turnover | 0.037 | 2.916 | 0.036 | 2.851 | 0.029 | 2.268 | 0.011 | 0.875 | 0.060 | 2.685 | 0.902 | 40.255 |
| 7. Profit before Taxation | 0.037 | 2.910 | 0.036 | 2.845 | 0.029 | 2.262 | 0.007 | 0.539 | 0.057 | 2.563 | 0.198 | 8.821 |
| 8. Provision for Taxation | 0.011 | 0.873 | 0.011 | 0.853 | 0.009 | 0.679 | 0.002 | 0.162 | - | - | - | - |
| 9. Profit after Taxation | 0.026 | 2.037 | 0.025 | 1.991 | 0.020 | 1.583 | 0.005 | 0.377 | 0.057 | 2.563 | 0.198 | 8.821 |
| 10. Proposed Dividend | - | - | - | - | - | - | - | - | - | - | - | - |

Exchange Rate as on 31.03.2006

| | | | |
|---|---|---|---|
| 1USD = Rs 44.2872 | P/L | 1GBP = Rs 78.2866 | P/L |
| 1USD = Rs 44.6176 | BS | 1GBP = Rs 77.6248 | BS |
| 1NRS = Rs 0.625 | | | |

**Additional information to comply with Securities and Exchange Board of India's (SEBI) listing agreement requirements (clause 32)**

a) Loans and advances in the nature of loans to subisidiaries : Asian Opportunities & Investments Limited : Rs.248.403 Million (2005: Rs 249.491Million) [Maximum amount outstanding during the year Rs. 248.403 Million (2005: Rs 249.491 Million)], Zelinka Limited: Rs 7,356.189 Million (2005: Nil) [Maximum amount outstanding during the year Rs 7,356.189 Million (2005: Nil)]

b) Loans to companies in which director is interested: Nil.

UNITED SPIRITS

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

| | | | | |
|---|---|---|---|---|
| **I** | **Registration Details** | | | |
| | Registration No. | 08-24991 | State Code | 08 |
| | Balance Sheet Date | 31 03 2006 | | |
| **II** | **Capital Raised during the period** (Rs. Million) | | | |
| | Public issue | NIL | Rights issue | NIL |
| | Bonus Shares | NIL | Private Placement | NIL |
| | Others | 505.119 | Naked Warrants/ Pref. offer | NIL |
| **III** | **Position of Mobilisation and Deployment of Funds** (Rs. Million) | | | |
| | Total Liabilities | 24353.548 | Total Assets | 24353.548 |
| | **Sources of funds** | | | |
| | Paid-up Capital | 604.714 | Reserves & Surplus | 7938.654 |
| | Share Capital Suspense | 417.605 | Secured Loans | 10047.313 |
| | Unsecured Loans | 5274.693 | Deferred Tax LoansLiability (Net) | 70.569 |
| | **Application of Funds** | | | |
| | Net Fixed Assets | 4624.753 | Investments | 7022.648 |
| | Net Current Assets | 12706.147 | Misc. Expenditure | NIL |
| | Accumulated Losses | NIL | | |
| **IV** | **Performance of Company** (Rs. Million) | | | |
| | Turnover (Gross Revenue) | 20968.505 | Total Expenditure | 20047.313 |
| | (+)Profit/(-) Loss Before Tax | 512.190 | (+) Profit/(-) Loss After Tax (incl. Deferred Tax) | + 420.198 |
| | Earnings (Diluted) per Share in Rs. | 4.80 | Dividend rate % | 20 |
| **V** | **Generic Name of Three Principal Products/Services of Company** (as per monetary terms) | | | |
| | Item Code No. (ITC Code) | 220830 00 | | |
| | Product Description | WHISKY | | |
| | Item Code No. (ITC Code) | 220820 01 | | |
| | Product Description | BRANDY | | |
| | Item Code No. (ITC Code) | 220840 01 | | |
| | Product description | RUM | | |

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**V.K.REKHI**
Managing Director

Mumbai
October 30, 2006

**M.R.DORAISWAMY IYENGAR**
Director

**P.A.MURALI**
Chief Financial Officer

# Auditors' Report to the Board of Directors of United Spirits Limited

1. We have audited the attached Consolidated Balance Sheet of United Spirits Limited (formerly McDowell & Company Limited) and its subsidiaries (United Spirits Limited Group) as at March 31, 2006, the Consolidated Profit and Loss account for the year ended on that date annexed thereto, and the Consolidated Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These Consolidated Financial Statements are the responsibility of the United Spirits Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs. 20,953.033 Million as at March 31, 2006, total revenues of Rs. 6,197.391 Million and net cash inflow/ (outflow) amounting to Rs. (5,895.128) Million for the year ended on that date and associates whose financial statements reflect the United Spirits Limited Group's share of loss (net) of Rs. 4.777 Million for the year ended on that date as considered in the Consolidated Financial Statements. These financial statements and other information of these subsidiaries and associates have been audited by other auditors, except as indicated in our comments in paragraph 4 below, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors.

4. Further to our comments in paragraph 3 above, we report that:

   *As stated in Note 5(b) on Schedule 17 to the Consolidated Financial Statements, consolidated financial statements of a subsidiary company acquired during the year, whose financial statements reflect total assets of Rs. 5,139.365 Million as at March 31, 2006, total revenues of Rs.1,361.915 Million and net cash outflow amounting to Rs. 6,027.169 Million for the period ended on that date, have been incorporated in these Consolidated Financial Statements based on unaudited Consolidated Financial Statements as provided by the management of the subsidiary company, since audited Consolidated Financial Statements as at and for the period ended March 31, 2006 are not available. The impact, if any, of adjustment arising out of audit of the subsidiary company on the Consolidated Financial Statements is not currently ascertainable.*

5. We report that the Consolidated Financial Statements have been prepared by United Spirits Limited's management in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by The Institute of Chartered Accountants of India.

6. Based on our audit and on consideration of the reports of other auditors on separate financial statements and on the other financial information of the components, in our opinion and to the best of our information and according to the explanations given to us, the attached Consolidated Financial Statements, *subject to our observation in paragraph 4 above*, give a true and fair view in conformity with the accounting principles generally accepted in India:

   i) in the case of the Consolidated Balance Sheet, of the state of affairs of the United Spirits Limited Group as at March 31, 2006;

   ii) in the case of the Consolidated Profit and Loss account, of the profit for the year ended on that date; and

   iii) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

**J. Majumdar**
Partner
Membership Number – F 51912
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
November 6, 2006

# Balance Sheet as at March 31, 2006

| | Schedule | 2006 | Rs. Million 2005 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' Funds** | | | |
| Share Capital | 1 | **604.714** | 517.200 |
| Share Capital Suspense | 1A | **224.216** | - |
| Reserves and Surplus | 2 | **7,588.850** | 2,210.480 |
| **Minority Interest** [ Schedule 18 Note 3 ] | | **1,285.164** | 83.470 |
| **Loan Funds** | | | |
| Secured Loans | 3 | **10,081.142** | 7,606.821 |
| Unsecured Loans | 4 | **5,350.285** | 2,124.814 |
| **Deferred Tax Liability (Net)** [Schedule 18 Note 21(b)] | | **85.810** | 30.835 |
| | | **25,220.181** | 12,573.620 |
| **APPLICATION OF FUNDS** | | | |
| **a) Fixed Assets** | 5 | | |
| Gross Block | | **6,056.444** | 3,321.726 |
| Less: Depreciation | | **1,218.172** | 964.477 |
| Net Block | | **4,838.272** | 2,357.249 |
| Capital Work in Progress | | **26.106** | 43.833 |
| | | **4,864.378** | 2,401.082 |
| **b) Goodwill on Consolidation** | | **10,835.286** | 1,464.547 |
| **Investments** | 6 | **2,484.518** | 546.978 |
| **Current Assets, Loans and Advances** | | | |
| Inventories | 7 | **2,945.268** | 1,627.525 |
| Sundry Debtors | 8 | **3,220.063** | 1,755.460 |
| Cash and Bank Balances | 9 | **3,611.420** | 5,087.996 |
| Other Current Assets | 10 | **727.892** | 158.881 |
| Loans and Advances | 11 | **3,908.470** | 3,402.300 |
| | | **14,413.113** | 12,032.162 |
| **Less: Current Liabilities and Provisions** | 12 | | |
| Liabilities | | **6,311.148** | 3,622.723 |
| Provisions | | **1,065.966** | 248.426 |
| | | **7,377.114** | 3,871.149 |
| **Net Current Assets** | | **7,035.999** | 8,161.013 |
| | | **25,220.181** | 12,573.620 |
| Statement on Significant Accounting Policies | 17 | | |
| Notes on Accounts | 18 | | |

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Consolidated Balance Sheet referred to in our report of even date.

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants

**V.S.VENKATARAMAN**
Company Secretary

Bangalore
November 6, 2006

**VIJAY MALLYA**
Chairman

**V.K.REKHI**
Managing Director

**M.R.DORAISWAMY IYENGAR**
Director

**P.A.MURALI**
Chief Financial Officer

Chennai
November 6, 2006

UNITED SPIRITS

# Consolidated Financial Statement

## Profit and Loss Account for the year ended March 31, 2006

| | Schedule | 2006 | Rs. Million 2005 |
|---|---|---|---|
| **INCOME** | | | |
| Sales (Gross) | | **35,400.085** | 17,832.068 |
| Less: Excise Duty | | **16,406.439** | 6,539.260 |
| | | **18,993.646** | 11,292.808 |
| Income arising from Sale by Manufacturers under 'Tie-up' agreements (tie-up units) | | **1,716.672** | 1,011.510 |
| Income from Brand Franchise | | **774.343** | 134.123 |
| Other Income | 13 | **595.096** | 252.415 |
| | | **22,079.757** | 12,690.856 |
| **EXPENDITURE** | | | |
| Materials | 14 | **11,331.911** | 7,571.036 |
| Manufacturing and Other Expenses | 15 | **8,229.663** | 4,151.535 |
| Interest and Finance charges | 16 | **1,524.206** | 355.909 |
| | | **21,085.780** | 12,078.480 |
| **Profit before Depreciation and Taxation** | | **993.977** | 612.376 |
| Depreciation | | **425.621** | 164.103 |
| **Profit before Exceptional and Other Non-Recurring Items and Taxation** | | **568.356** | 448.273 |
| Exceptional and Other Non-Recurring Items (Net) [Schedule 18 Note 15] | | **-** | (302.506) |
| **Profit before Taxation** | | **568.356** | 145.767 |
| Provision for Taxation: | | | |
| Current Tax | | **130.518** | 167.637 |
| Deferred Tax | | **(71.277)** | (84.352) |
| Fringe Benefit Tax | | **63.625** | - |
| **Profit after Taxation and before share in profits/(losses) of Associates** | | **445.490** | 62.482 |
| Share in Profits/ (losses) of Associates (Net) | | **(4.777)** | (17.219) |
| **Profit before Minority Interest** | | **440.713** | 45.263 |
| Minority Interest in (Profit)/Loss [Schedule 18 Note 3] | | **828.687** | 78.919 |
| **Net Profit for the year** | | **1,269.400** | 124.182 |
| Profit brought forward from previous year | | **416.481** | 446.385 |
| Provision for impairment of Assets as on April 1, 2004 of an Associate Company | | **-** | (0.231) |
| | | **1,685.881** | 570.336 |
| **Appropriations:** | | | |
| Proposed Dividend | | | |
| Equity Shares | | **188.963** | 103.440 |
| Minority portion of Proposed Dividend in subsidiary | | **15.602** | 11.344 |
| Corporate tax on Proposed Dividend | | **34.522** | 14.520 |
| Transfer to/ (from) Employee Housing Fund | | - | (10.449) |
| Transfer to Capital Redemption Reserve | | **464.446** | - |
| Transfer to General Reserve | | **50.000** | 35.000 |
| **Profit carried to Balance Sheet** | | **932.348** | 416.481 |
| Basic and Diluted Earnings Per Share (Rs.) | | **16.58** | 2.40 |
| Statement on Significant Accounting Policies | 17 | | |
| Notes on Accounts | 18 | | |

The Schedules referred to above and the notes thereon form an integral part of the Accounts.

This is the Consolidated Profit and Loss Account referred to in our report of even date

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
November 6, 2006

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director

Chennai
November 6, 2006

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer

## Cash Flow Statement for the Year Ended March 31, 2006

| | | | | Rs. Million |
|---|---|---|---|---|
| | | **2006** | | 2005 |
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Net profit/(loss) before Tax and Exceptional & Non-recurring items | | **568.356** | | 448.273 |
| Adjustments for : | | | | |
| Depreciation | **425.621** | | 164.103 | |
| Unrealised Foreign Exchange Loss / (Gain) | **56.158** | | 15.852 | |
| Bad Debts/ Advances written off | **37.010** | | 15.532 | |
| Loss/(Gain) on Fixed Assets Sold/Written Off (Net) | **(42.959)** | | 8.463 | |
| Loss/(Gain) on Sale of Investments (Net) | **(91.961)** | | (0.205) | |
| Liabilities no longer required written back | **(177.509)** | | (127.650) | |
| Provision for Doubtful Debts | **137.827** | | - | |
| Provision for diminution in value of Investments (Net) | **-** | | 2.294 | |
| Provision - Others | **18.844** | | 7.745 | |
| Payment towards Employee Housing Fund | - | | (4.375) | |
| Interest and Finance Charges | **1,772.357** | | 399.804 | |
| Income from investments | **(12.315)** | | (5.179) | |
| Interest Income | **(248.151)** | **1,874.922** | (43.895) | 432.489 |
| **Operating profit before working capital changes** | | **2,443.278** | | 880.762 |
| (Increase)/decrease in Trade and other receivables | **(1,307.635)** | | (361.181) | |
| (Increase)/decrease in Inventories | **(331.671)** | | (141.284) | |
| Increase/(decrease) in Trade payables | **402.005** | **(1,237.301)** | 351.128 | (151.337) |
| **Cash generated from operations** | | **1,205.977** | | 729.425 |
| Direct taxes paid | | **(648.822)** | | (183.438) |
| Fringe Benefit taxes paid | | **(36.896)** | | - |
| **Cash flow before Exceptional and Non - recurring items** | | **520.259** | | 545.987 |
| Exceptional and Non - recurring items | | | | |
| Turnover Tax [Schedule 18 Note 15] | | **-** | | (146.637) |
| **Cash flow before and after extraordinary items and net cash from operating activities** | | **520.259** | | 399.350 |
| **B. CASH FLOW FROM INVESTING ACTIVITIES :** | | | | |
| Purchase of fixed assets | **(371.344)** | | (211.206) | |
| Sale of fixed assets | **118.357** | | 7.827 | |
| Finance Lease Payments | **(1.195)** | | - | |
| Purchase of long term investments | **(1,004.742)** | | (0.576) | |
| Purchase of current investments | **(327.762)** | | - | |
| Consideration Paid on Acquisitions of shares in Subsidiaries | **(9,312.913)** | | (1,211.266) | |
| [Net of Cash and Cash equivalent on the acquisition date Rs. 7,259.504 Million (2005 : Rs.116.572 Million)] | | | | |
| Consideration Paid on acquisition of shares in existing subsidiary | - | | (146.465) | |
| Sale of long term investments | **398.292** | | - | |
| Sale of current investments | **327.200** | | - | |
| Disposal of Investments in Subsidiaries | **263.339** | | 329.211 | |
| Sale of Preference Shares in Subsidiary | **68.192** | | - | |
| Loan given to: | | | | |
| Inter Corporate Deposits | **(362.107)** | | (140.000) | |
| Realisation of Loan from: | | | | |
| Inter Corporate Deposits | **-** | | 340.000 | |
| Interest received | **257.004** | | (88.980) | |
| Dividend received | **12.315** | | 8.689 | |
| **Net cash used in investing activities** | | **(9,935.364)** | | (1,112.766) |

UNITED SPIRITS

# Cash Flow Statement for the Year Ended March 31, 2006 (Contd.)

Rs. Million

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **C. CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issue of rights shares by a subsidiary company | **339.700** | | - | |
| Proceeds from Preference Shares of a subsidiary company | **500.000** | | - | |
| Redemption of Preference Shares of a subsidiary company | **(1,000.000)** | | - | |
| Proceeds from issue of Global Depository Shares (GDS) | **5,796.051** | | - | |
| Proceeds from issue of 2% Foreign Currency Convertible Bonds (FCCB) | **4,458.500** | | - | |
| Expenses incurred on issuance of GDS & FCCB | **(242.569)** | | - | |
| Expenses relating to Amalgamation | **(306.192)** | | - | |
| Proceeds/(Repayment) of long term loans | | | | |
| Proceeds | **9,808.849** | | 6,324.933 | |
| Repayment | **(9,059.023)** | | (297.044) | |
| Proceeds/(Repayment) of fixed deposits | **15.951** | | 1.760 | |
| Proceeds/(Repayment) of short term loans | **(1,477.500)** | | - | |
| Working Capital Loan/Cash Credit from Banks (Net) | **715.495** | | 80.695 | |
| Interest and Finance charges paid (including on finance lease Rs. 0.125 Million) | **(1,748.837)** | | (386.244) | |
| Dividends paid | **(177.754)** | | (106.700) | |
| Tax on distributed profit | **(27.039)** | | (14.270) | |
| **Net cash used in financing activities** | | **7,595.632** | | 5,603.130 |
| Net (Decrease)/Increase in cash and cash equivalents | | **(1,819.473)** | | 4,889.714 |
| **Cash and cash equivalents as at March 31, 2005** | | **5,087.996** | | 198.282 |
| Cash and Cash Equivalents of Transferor companies as at April 1, 2005 | | **342.897** | | |
| **Cash and cash equivalents as at March 31, 2006** | | **3,611.420** | | 5,087.996 |
| | | **(1,819.473)** | | 4,889.714 |

**Notes :**

1. The above Consolidated Cash Flow Statement has been compiled from and is based on the Consolidated Balance Sheet as at March 31, 2006 and the related Consolidated Profit and Loss Account for the year ended on that date.
2. The above Consolidated Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard - 3 on Cash Flow Statements issued by The Institute of Chartered Accountants of India and reallocation required for this purpose are as made by the Group.
3. In view of Amalgamation and Demerger described in Note 6 on Schedule 18 and due to inclusion of subsidiaries during the year, current year's figures are not comparable with those of previous year.
4. Previous year's figures have been regrouped wherever necessary in order to conform to this year's presentation.

This is the Consolidated Cash Flow Statement referred to in our report of even date.

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants

Bangalore
November 6, 2006

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director

Chennai
November 6, 2006

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer

## Schedules forming part of Balance Sheet as at March 31, 2006

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **1. CAPITAL** | | |
| **Authorised** | | |
| 110,000,000 (2005: 60,000,000) Equity Shares of Rs.10/- each | **1,100.000** | 600.000 |
| 10,000,000 (2005: Nil) Preference Shares of Rs.10/- each | **100.000** | - |
| | **1,200.000** | 600.000 |
| **Issued, Subscribed and Paid-up** | | |
| 60,471,409 (2005: 51,720,028) Equity Shares of Rs.10/- each fully paid up. | **604.714** | 517.200 |
| | **604.714** | 517.200 |

**Note:**

Of the above,

1. 51,719,968 Equity Shares were allotted as fully paid up on July 9, 2001 to the shareholders of the erstwhile McDowell & Co. Ltd., pursuant to the schemes of Amalgamation.
2. 8,751,381 (2005: Nil) Equity shares of Rs.10/- each fully paid up represents 17,502,762 (2005: Nil) Global Depository Shares issued pursuant to Global Depository Share issue of the Company, during the year. [Schedule 18 Note 10(a)]
3. The Company has issued 100,000, 2% Convertible Bonds in Foreign Currency (FCCB) denominated in Bond certificates of US$1,000 each aggregating US$ 100 million. [Schedule 18 Note 10 (b)]

| | | 2006 | | 2005 |
|---|---|---|---|---|
| **1A.SHARE CAPITAL SUSPENSE** | | | | |
| **Equity Share Suspense** | | | | |
| 34,010,521 Equity Shares of Rs.10/- each to be issued as fully paid up | | **340.105** | | - |
| to the equity shareholders of Transferor Companies pursuant to the Scheme of Amalgamation for consideration other than cash [Schedule 18 Note 6 (III)(a)] | | | | |
| Less: 11,588,984 Equity shares to be issued to Subsidiaries | | **115.889** | | - |
| | | **224.216** | | - |
| **Preference Share Suspense** | | | | |
| 7,750,000 9% Non Cumulative Non Convertible Redeemable Preference shares of Rs.10/- each to be issued as fully paid up to 9% Non-Cumulative Non-Convertible Redeemable Preference Shareholders of erstwhile Shaw Wallace Distilleries Limited pursuant to the Scheme of Amalgamation for consideration other than cash [Schedule 18 Note 6 (III)(b)] | **77.500** | | - | |
| Less: Preference shares to be issued to Subsidiaries | **(77.500)** | | - | |
| The above 7,750,000 9% Non-Cumulative Non Convertible Redeemable Preference shares of Rs.10/- each to be issued will be redeemable at par on July 11, 2007. | | **224.216** | | - |

Rs. Millions

| | | 2006 | | 2005 |
|---|---|---|---|---|
| **2. RESERVES AND SURPLUS** | | | | |
| Central Subsidy | | | | |
| Received during the year | | **1.500** | - | |
| Capital Redemption Reserve | | | | |
| Transferred from the Profit and Loss Account on redemption of Preference Shares | | **464.446** | - | |
| Securities Premium Account: | | | | |
| Addition during the year: | | | | |
| (a) On issue of Global Depository Shares | **5,708.537** | | - | |
| (b) On conversion of 6,500,000 9% Cumulative Convertible Preference shares of Rs. 10/- each fully paid in Shaw Wallace Distilleries Limited, a Transferor Company | **41.786** | | - | |
| | **5,750.323** | | - | |
| Less: Adjustments during the year: | | | | |
| (a) Expenses incurred on issuance of Global Depository Shares (GDS) and 2% Convertible Bonds in Foreign Currency (FCCB) | | | | |
| Legal and Professional Fees | **(116.760)** | | - | |
| Underwriting Fee and other costs | **(141.122)** | | - | |
| Miscellaneous Income | **15.313** | | - | |
| (b) Premiuim payable on Redemption of FCCB | **(1.979)** | **5,505.775** | - | - |
| Employee Housing Fund | | | | |
| As per last Balance Sheet | **0.625** | | 15.449 | |
| Less: Transferred to Profit & Loss Account | **-** | | (10.449) | |
| Utilised during the year | **-** | | (4.375) | |
| | | **0.625** | | 0.625 |
| Foreign Currency Translation Reserve | | **0.295** | | (0.494) |
| Contingency Reserve | | | | |
| As per last Balance Sheet | | **110.000** | | 110.000 |
| General Reserve | | | | |
| As per last Balance Sheet | **1,683.868** | | 1,648.868 | |
| Add: Addition during the year | | | | |
| (a) Reserve arising on appreciation (net of diminution) in value of certain assets of the Company [Schedule 18 Note 6(VI)(e)] | **770.650** | | - | |
| (b) Adjustment including reversal of Goodwill and Minority interest relating to Subsidiaries and an Associate, on amalgamation/ demerger [Schedule 18 Note 6] | **116.687** | | - | |
| (c) Transferred from Profit and Loss Account | **50.000** | | 35.000 | |
| | **2,621.205** | | 1,683.868 | |
| Less: (a) Adjustment relating to Equity Share Capital to be issued to Subsidiaries | **(1,153.687)** | | - | |
| (b) Adjustments relating to Demerger [Schedule 18 Note 6(V)] | **(435.758)** | | - | |
| (c) Reserve arising on Amalgamation [Schedule 18 Note 6(VI)(d)] | **(151.707)** | | - | |
| (d) Expenses relating to Amalgamation [Schedule 18 Note 6(VI)(f)] | **(306.192)** | **573.861** | - | 1,683.868 |
| Surplus in Profit and Loss account | | **932.348** | | 416.481 |
| | | **7,588.850** | | 2,210.480 |

Rs. Millions

| | 2006 | 2005 |
|---|---|---|
| **3. SECURED LOANS** | | |
| Term Loans | | |
| From Banks [Note (i)] | **6,290.225** | 2,805.046 |
| [Repayable within one year: Rs. 425.318 Million (2005: Rs.272.685 Million)] | | |
| From Others [Note (ii)] | **375.000** | 2,700.514 |
| [Repayable within one year: Rs.42.500 Million (2005: Rs.51.914 Million)] | | |
| Working Capital Loan / Cash Credit from Banks [Note (iii)] | **3,389.570** | 2,089.313 |
| Finance Lease [Note (iv)] | **12.390** | |
| Interest accrued and due | **13.957** | 11.948 |
| | **10,081.142** | 7,606.821 |

**Notes:**

| | 2006 | 2005 |
|---|---|---|
| (i) Out of the above loans: | | |
| (a) Secured by charge on certain fixed assets of the Group including Land and Building, | **1,681.876** | 1,747.889 |
| (b) Secured by brands, a second charge on the fixed assets of the Group, pledge of certain shares held by the Group and also by pledge of certain shares and properties of other companies. | **3,021.000** | 1,028.200 |
| (c) Foreign Currency External Commercial Borrowings secured by charge on Fixed Assets, specific Investments, Brands and Corporate Guarantee and properties of other companies. | **1,561.350** | - |
| (d) Secured by hypothecation of specific fixed assets acquired under respective agreements. | **25.999** | 28.957 |
| (ii) Out of the above loans, | | |
| (a) Secured by a charge on certain fixed assets of the Group and pledge of certain shares and properties of other companies | **320.000** | 320.000 |
| (b) Secured by charge on certain fixed assets of the Group including Land and Building | **55.000** | 180.000 |
| (c) Secured by pledge of certain shares of other companies and Corporate Guarantee from other companies | **-** | 2,200.000 |
| (d) The balance term loans are secured by hypothecation of specific fixed assets acquired under respective agreements. | **-** | 0.514 |
| (iii) (a) Secured by charge on certain fixed assets of the Group including Land and Building and hypothecation of inventories, book debts and other current assets | | |
| (b) Includes Foreign Currency Non-Resident [FCNR(B)] Loans | **841.515** | 846.996 |

(iv) Secured against assets acquired under lease agreements

## Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

| | 2006 | Rs. Millions<br>2005 |
|---|---|---|
| **4. UNSECURED LOANS** | | |
| Fixed Deposits | **713.204** | 711.569 |
| [Repayable within one year: Rs. 196.371 Million (2005: Rs. 341.898 Million)] | | |
| From Banks | **100.000** | 1,412.500 |
| [Repayable within one year Rs.100.000 Million (2005: Rs.100.000 Million)] | | |
| 2% Convertible Bonds in Foreign Currency [Schedule 18 Note 10 (b)] | **4,461.000** | - |
| From Others | **35.000** | - |
| Interest accrued and due | **41.081** | 0.745 |
| | **5,350.285** | 2,124.814 |

# Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)



## 5. FIXED ASSETS

Rs. Million

| | GROSS BLOCK | | | | | | DEPRECIATION | | | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | Amalgamation/ Revaluation Adjustments (Note 1) | Acquisition (Note 2) | Additions | Deletions Adjustments | 2006 | 2005 | Amalgamation Adjustments [Note 1(c)] | Acquisition [Note 2] | For the year | Deletions /Adjustments | 2006 | 2006 | 2005 |
| **Tangible** | | | | | | | | | | | | | | |
| Land: | | | | | | | | | | | | | | |
| Freehold | 345.206 | 1,170.995 | 49.971 | 13.271 | 3.728 | **1,575.715** | - | | - | - | - | - | 1,575.715 | 345.206 |
| Leasehold | 112.787 | 100.239 | 2.580 | - | - | **215.606** | - | | - | - | - | - | 215.606 | 112.787 |
| Buildings (Note3,4&5) | 754.372 | 386.716 | 134.720 | 52.745 | 21.655 | **1,306.898** | 120.088 | (41.723) | 40.366 | 92.795 | 6.448 | 205.078 | 1,101.820 | 634.284 |
| Plant & Machinery | 1,624.253 | 540.402 | 124.257 | 258.846 | 56.600 | **2,491.158** | 592.945 | (155.015) | 71.661 | 272.668 | 20.781 | 761.478 | 1,729.680 | 1,031.308 |
| Furniture & Fixture & Office Equipments (Note 6) | | | | | | | | | | | | | | |
| Finance Lease | - | - | - | 13.585 | - | **13.585** | - | - | - | 1.132 | - | 1.132 | 12.453 | - |
| Others | 253.363 | (44.965) | 42.329 | 34.178 | 49.930 | **234.975** | 128.851 | (38.176) | 30.875 | 29.112 | 31.461 | 119.201 | 115.774 | 124.512 |
| Vehicles (Note 6) | 190.638 | (30.580) | 22.721 | 45.821 | 10.093 | **218.507** | 120.198 | (27.618) | 16.086 | 29.914 | 7.297 | 131.283 | 87.224 | 70.440 |
| Intangible Asset | 41.107 | (41.107) | - | - | - | - | 2.395 | (2.395) | - | - | - | - | - | 38.712 |
| | **3,321.726** | **2,081.700** | **376.578** | **418.446** | **142.006** | **6,056.444** | **964.477** | **(264.927)** | **158.988** | **425.621** | **65.987** | **1,218.172** | **4,838.272** | **2,357.249** |
| 2005 | 2,752.631 | - | 374.747 | 233.991 | 39.643 | 3,321.726 | 560.722 | - | 257.465 | 164.103 | 17.813 | 964.477 | | |
| Capital Work-in-Progress (including Advances) | | | | | | | | | | | | | 26.106 | 43.833 |
| | | | | | | | | | | | | | **4,864.378** | **2,401.082** |

**Notes :**

1. Include:
   a) Gross Block include Rs. 887.062 Million (2005: Nil) being the amount on revaluation of Land and is net of Rs. 75.400 Million (2005: Nil) being the amount reduced on revaluation of Buildings, Plant and Machinery, Furniture and Fixtures and Office Equipments and Vehicles as at April 1, 2005 of the Parent Company. [Schedule 18 Note 6 (VI)(e)]
   b) Acquired pursuant to the Composite Scheme of Arrangement referred to in Schedule 18 Note 6.
   c) Adjustment on amalgamation of the subsidiary companies pursuant to the Composite Scheme of Arrangement referred to in Schedule 18 Note 6.
2. Taken over, pursuant to acquisition of shares in Shaw Wallace and Company Limited [Schedule 18 Note 8]
3. Cost of buildings includes the following payments made for the purpose of acquiring the right of occupation of Mumbai godown space :
   i) 660 equity shares (unquoted) of Rs. 100 each fully paid in Shree Madhu Industrial Estate Limited Rs. 0.066 Million (2005: Rs. 0.066 Million). Application has been made for duplicate Share certificates and the same is in the process.
   ii) 199 6 % Debentures (unquoted) of Rs. 1,000 each fully paid in Shree Madhu Industrial Estate Limited Rs.0.199 Million (2005: Rs.0.199 Million). Application has been made for duplicate Debentures Certificates and the same is in the process.
   iii) Deposit with Shree Madhu Industrial Estate Limited Rs. 0.132 Million (2005: Rs. 0.132 Million)
4. Includes value of fully paid shares Rs 0.003 Million (2005: Rs 0.003 Million) held in Co-operative Housing Societies.
5. Include value of fully paid
   (a) Shares - Rs.0.009 Million (2005: Rs.0.003 Million) held in Cooperative Housing Societies for occupation of flats.
   (b) Shares of Rs.0.1 Million (2005: Rs.Nil) and Debentures of Rs.0.2 Million (2005: Rs. Nil) held in a company for aquiring the right of occupation of a godown space.
6. Includes assets leased out Rs.4.8 Million (2005: Rs. Nil)

## Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

**6 INVESTMENTS**

Rs. Million

| | | 2006 | | 2005 |
|---|---|---|---|---|
| **CURRENT** | | | | |
| **Quoted Investments** | | | | |
| **Units (Fully Paid)** | | | | |
| SBI Mutual Funds Investments | | **0.562** | | - |
| **Total Current Investments** | | **0.562** | | - |
| **LONG TERM** | | | | |
| **Quoted Investments** | | | | |
| **A. Trade** | | | | |
| **Fully Paid Equity Shares** | | **0.033** | | 435.499 |
| **B. Non - Trade** | | | | |
| **Fully Paid Equity Shares** | | **5.344** | | 13.107 |
| | | **5.377** | | 448.606 |
| **Units (Fully Paid)** (Note 1) | | **34.855** | | 33.936 |
| **Total Quoted Investments (A+B)** | | **40.232** | | 482.542 |
| **Unquoted Investments** | | | | |
| **C. Trade** | | | | |
| **Fully paid Equity Shares** | | **2.648** | | 73.921 |
| Associates** (Note 2) | **7.449** | | 11.270 | |
| **Add**: Accumulated Profits/(Losses) of Assoicates | **(3.524)** | | (1.606) | |
| (net of dividend received) | | **3.925** | | 9.664 |
| ** Including Goodwill on acquisition of Associates Rs.7.310 Million (2005: Rs 7.310 Million) and Capital Reserve on acquisition of Associates Rs. Nil (2005: Rs 3.941 Million) | | | | |
| | | **6.573** | | 83.585 |
| **D. Non-Trade Other Investments** | | | | |
| **Government Securities** (Note 3) | | **1,751.323** | | 0.003 |
| **Fully Paid Debentures** | | **0.009** | | 0.009 |
| **Fully Paid Equity Shares** (Note 4) | | **1.929** | | 1.402 |
| | | **1,753.261** | | 1.414 |
| **E. Others** [Schedule 18 Notes 6(IV)(a) and 6(VI)(c)] | | **687.001** | | - |
| | | **687.001** | | - |
| **Total Unquoted Investments (C+D+E)** | | **2,446.834** | | 84.999 |
| **Total Long Term Investments (A+B+C+D+E)** | | **2,487.066** | | 567.541 |
| **Total Current and Long Term Investments** | | **2,487.629** | | 567.541 |
| **Less:** Provision for diminution in the value of Investments | | **3.111** | | 20.563 |
| | | **2,484.518** | | 546.978 |

**6 INVESTMENTS (Contd.)**

| | 2006 | Rs. Million 2005 |
|---|---|---|
| Aggregate Value of Quoted Investments | | |
| Book Value | **39.969** | 477.775 |
| Market Value | **131.785** | 946.818 |
| Aggregate book value of Unquoted Investments | **2,444.548** | 69.203 |
| Acquired on Amalgamation/acquisition | **2,010.531** | 10.736 |
| Additions during the year | **1,332.042** | 0.576 |
| Adjustments to Investments - Demerger | **(437.648)** | - |
| Sold during the year | **984.837** | 85.718 |

Notes:-

1. Investments in units of Unit Trust of India amounting to Rs.33.936 Million represent those made under Rule 3A of the Companies (Acceptance of Deposit) Rules, 1975.
2. BGIL Ceased to be an associate, due to amalgamation with the company with effect from April 1, 2005 (Refer Schedule 18 Note 6)
3. Includes Rs.750 Million which has been kept deposited pursuant to an escrow arrangement arising from an agreement, till the resolution of the matters.
4. The erstwhile amalgamating Carew Phipson Limited has submitted its claim to Custodian of Enemy Property for India towards the full payment of the value of shares of which 25% was received and the balance value of investment was written off in the books in 1977, retaining a token amount of Re.1 in the books pending disposal of the representation to the custodian for final payment in this regard.

# Consolidated Financial Statement

## Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **7. INVENTORIES** | | |
| Raw Materials including materials in transit | **585.731** | 404.197 |
| Packing Materials, Stores and Spares | **331.010** | 182.515 |
| Finished goods including goods in transit | **1,267.500** | 495.247 |
| Work-in-Progress | **761.027** | 545.566 |
| | **2,945.268** | 1,627.525 |
| **8. SUNDRY DEBTORS** | | |
| (Unsecured) | | |
| Exceeding six months | | |
| Considered Good | **124.072** | 345.582 |
| Considered Doubtful | **285.141** | 182.920 |
| | **409.213** | 528.502 |
| Others - Considered Good | **3,095.991** | 1,409.878 |
| | **3,505.204** | 1,938.380 |
| Less: Provision for Doubtful debts | **285.141** | 182.920 |
| | **3,220.063** | 1,755.460 |
| **9. CASH AND BANK BALANCES** | | |
| Cash on Hand | **6.870** | 3.610 |
| Remittance in Transit/ Cheques on Hand | **217.903** | 40.010 |
| Balances with Scheduled Banks: | | |
| On Current Accounts [Note (i)] | **711.687** | 389.669 |
| On Unpaid Dividend Account | **18.881** | 28.529 |
| On Deposit Account [Notes (ii) ] | **2,656.079** | 4,626.178 |
| | **3,611.420** | 5,087.996 |

Notes:

(i) includes Rs. 28.438 Million (2005: Rs. Nil) in Exchange Earners Foreign Currency (EEFC) Account and Rs.0.611 Million (2005: Nil) in Foreign Currency.

(ii) a) includes Rs. 3.899 Million (2005: Rs. Nil) pledged with Government Departments.

b) Includes Rs.6.433 Million (2005: Rs. Nil) kept as margin against letter of credit and Rs. 0.692 Million (2005: Rs. Nil ) as margin against Bank Guarantee.

c) includes Rs. 1,114.625 Million (2005: Rs. Nil) deposits in Foreign Currency.

d) includes Rs. 1,027.019 Million in Escrow account in terms of a separation agreement dated May 27, 2005 between SWBL and MBL Investments Limited [2005 : Rs. 4,512.500 Million in Escrow Account (Schedule 18 Note 8)]

e) Rs. Nil (2005 : Rs. 33.000 Million) pledged with banks, Rs. Nil (2005 : Rs. 10.000 Million) deposits made under Rule 3A of the Companies (Acceptance of Deposit) Rules, 1975.

## Schedules forming part of Balance Sheet as at March 31, 2006 (Contd.)

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| **10. OTHER CURRENT ASSETS** | | |
| (Unsecured, considered good except otherwise stated) | | |
| Income accrued on Investments and Deposits | **8.414** | 8.853 |
| Other Deposits - Considered Good | **713.317** | 144.488 |
| - Considered Doubtful | **8.777** | - |
| Fixed assets held for sale | **6.161** | 5.540 |
| | **736.669** | 158.881 |
| Less:Provision for Doubtful Deposits | **8.777** | - |
| | **727.892** | 158.881 |
| **11. LOANS AND ADVANCES** | | |
| (Unsecured, considered good except otherwise stated) | | |
| Inter-corporate Deposits | **1.109** | 1.130 |
| Advances recoverable in cash or in kind or for value to be received | | |
| Advances to Tie-up units - Considered Good | **977.955** | 965.385 |
| - Considered Doubtful | **19.448** | - |
| Advance Income Tax (Net of Provisions) | **129.794** | 34.757 |
| Advance for Acquisition of Trade Mark [Schedule 18 Note 12(a)(ii)] | **223.030** | 218.693 |
| Other Advances - Considered Good | **2,576.582** | 2,182.335 |
| - Considered Doubtful | **42.981** | - |
| | **3,970.899** | 3,402.300 |
| Less: Provision for Doubtful Advances | **62.429** | - |
| | **3,908.470** | 3,402.300 |
| **12. CURRENT LIABILITIES AND PROVISIONS** | | |
| **A. Liabilities** | | |
| Acceptances * | **512.486** | 529.808 |
| Sundry Creditors | **4,641.473** | 2,572.673 |
| Dues to Directors | **5.960** | 3.461 |
| Investors Education and Protection Fund [Schedule 18 Note 14] | | |
| Unclaimed Debentures | **8.570** | 9.489 |
| Unclaimed Dividends | **22.229** | 28.465 |
| Unclaimed Fixed Deposits | **21.158** | 6.842 |
| Security Deposit | **235.715** | 175.710 |
| Advances Received from Customers | **246.452** | 102.922 |
| Interest accrued but not due | **59.083** | 36.189 |
| Other Liabilities | **558.022** | 157.164 |
| | **6,311.148** | 3,622.723 |
| * Includes bills drawn against inland letters of credit of Rs. 331.696 Million (2005: Rs.463.811 Million) and secured by a charge on debtors, inventories and other current assets. | | |
| **B. Provisions** | | |
| Fringe Benefit Tax (Net of Payments) | **26.729** | - |
| Proposed Dividend | | |
| Equity Shares | **188.963** | 137.132 |
| Corporate Tax on Proposed Dividend | **28.715** | 18.818 |
| Retirement Benefits | **206.559** | 92.476 |
| Provision for Contingencies [Schedule 18 Note 4] | **615.000** | - |
| | **1,065.966** | 248.426 |

## Schedules forming part of Profit and Loss Account for the year ended March 31, 2006

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| **13. OTHER INCOME** | | |
| Income from Investments: | | |
| Dividend income from trade investments (Gross) | **2.185** | 0.281 |
| Dividend income from other investments (Gross) | **10.130** | 4.898 |
| Lease Rent | **1.269** | 10.800 |
| Profit on Sale of Fixed Assets (Net) | **50.945** | 2.604 |
| Profit on Sale of Investments | **91.961** | 0.205 |
| Liabilities no longer required written back | **177.509** | 127.650 |
| Bad debts/advances recovered | **0.591** | 1.812 |
| Scrap Sales | **64.860** | 35.128 |
| Insurance Claims | **0.195** | 0.091 |
| Export Incentive | **7.034** | 10.174 |
| Miscellaneous | **188.417** | 58.772 |
| | **595.096** | 252.415 |
| **14. MATERIALS** | | |
| Raw Materials Consumed | **4,869.985** | 2,485.936 |
| Purchase of Finished Goods | **1,571.075** | 2,656.262 |
| Packing Materials Consumed | **4,864.212** | 2,441.759 |
| Movement in Stocks: | | |
| Opening Stock: | | |
| Work-in-Progress | **545.566** | 536.282 |
| Finished Goods | **495.247** | 367.779 |
| | **1,040.813** | 904.061 |
| Add : Taken over on Amalgamation/acquisition | | |
| Work-in-Progress | **236.250** | - |
| Finished Goods | **494.721** | 114.093 |
| | **730.971** | 114.093 |
| Closing Stock: | | |
| Work-in-Progress | **761.027** | 545.566 |
| Finished Goods | **1,267.500** | 495.247 |
| | **2,028.527** | 1,040.813 |
| (Increase)/ Decrease in Stocks | **(256.743)** | (22.659) |
| Excise Duty on Opening/Closing Stock of Finished Goods (Net) | **283.382** | 9.738 |
| | **11,331.911** | 7,571.036 |

## Schedules forming part of Profit and Loss Account for the year ended March 31, 2006 (Contd.)

### 15. MANUFACTURING AND OTHER EXPENSES

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| Employee Cost: | | |
| Salaries, Wages and Bonus | **1,385.978** | 710.341 |
| Contribution to Provident and Other Funds | **246.090** | 140.197 |
| Workmen and Staff Welfare | **97.333** | 56.105 |
| Voluntary Retirement Scheme Compensation | **15.600** | - |
| Power and Fuel | **215.948** | 68.650 |
| Stores and Spares Consumed | **75.139** | 21.010 |
| Repairs and Maintenance: | | |
| Buildings | **15.527** | 8.363 |
| Plant and Machinery | **73.683** | 19.892 |
| Others | **89.282** | 35.570 |
| Rent | **115.574** | 60.799 |
| Rates and Taxes | **198.245** | 111.512 |
| Insurance | **51.697** | 26.637 |
| Travelling and Conveyance | **543.376** | 390.257 |
| Legal and Professional | **328.015** | 76.885 |
| Freight Outwards | **541.385** | 270.019 |
| Advertisement and Sales Promotion | **2,260.893** | 1,236.912 |
| Commission on Sales | **386.364** | 181.325 |
| Cash Discount | **221.347** | 116.027 |
| Sales Tax | **96.131** | 62.941 |
| Fixed Assets Written Off | **7.986** | 11.067 |
| Directors' Remuneration: | | |
| Sitting Fee | **0.855** | 1.004 |
| Commission | **5.517** | 3.018 |
| Exchange Loss (Net) | **185.237** | 8.710 |
| Bad Debts and Advances Written Off | **37.010** | 15.532 |
| Provision for Doubtful Debts/ Advances | **137.827** | - |
| Provision for Diminution in Value of Investments (Net) | **-** | 2.294 |
| Research and Development | **12.920** | 11.878 |
| Others: | | |
| Personnel and Administration | **173.207** | 201.970 |
| Selling and Distribution | **401.777** | 207.545 |
| Miscellaneous | **309.720** | 95.075 |
| | **8,229.663** | 4,151.535 |

UNITED SPIRITS

## Schedules forming part of Profit and Loss Account for the year ended March 31, 2006 (Contd.)

Rs. Million

| | 2006 | 2005 |
|---|---|---|
| **16. INTEREST AND FINANCE CHARGES** | | |
| Interest on**:** | | |
| Fixed Loans | **978.680** | 256.127 |
| Others Loans | **317.893** | 91.796 |
| Finance Charges (including Bill discounting charges) | **475.784** | 51.881 |
| | **1,772.357** | 399.804 |
| Less :Interest Income**:** | | |
| On Investments (Gross) | **2.121** | 2.118 |
| On Deposits and Other Accounts (Gross) | **176.104** | 40.019 |
| [Tax Deducted at Source Rs.8.907 Million (2005: Rs.6.294 Million)] | | |
| On Income Tax Refunds | **69.926** | 1.758 |
| | **1,524.206** | 355.909 |

## 17. STATEMENT ON SIGNIFICANT ACCOUNTING POLICIES

### 1. Basis of Preparation of Consolidated Financial Statements

The Consolidated Financial Statements relate to United Spirits Limited (formerly known as McDowell & Company Limited) (the Company) and its subsidiaries and associates (the Group). The Consolidated Financial Statements are prepared in accordance with Accounting Standard (AS 21) on Consolidated Financial Statements and Accounting Standard (AS 23) on Accounting for Investments in Associates in Consolidated Financial Statement issued by the Institute of Chartered Accountants of India. The Consolidated Financial Statements are prepared by adopting uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statement. Accounting policies have been consistently applied except where a newly-issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

On occasion, a subsidiary company whose financial statements are consolidated may issue its shares to third parties as either a public offering or private placement at per share amounts in excess of or less than the Company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the dilution of interest are recorded as Capital Reserve/ Goodwill. Gains or losses arising on the direct sale by the Company of its investment in its subsidiaries or associated companies to third parties are transferred to the profit and loss account. Such gains or losses are the difference between the sale proceeds and the net carrying value of the investments.

### 2. Subsidiary and Associate Companies considered in the Consolidated Financial Statements:

**(A) Subsidiary Companies:**

| | Name of the Company | Country of Incorporation | Proportion of owner-ship interest (%) | | Proportion of voting power held directly or indirectly, if different from proportion of ownership interest(%) | |
|---|---|---|---|---|---|---|
| | | | **2006** | 2005 | **2006** | 2005 |
| 1 | Asian Opportunities & Investments Limited (AOIL) | Mauritius | **100** | 100 | - | - |
| 2 | McDowell International Brands Limited (MIBL) (i) | India | - | 100 | - | - |
| 3 | McDowell Nepal Limited (MNL) | Nepal | **82.47** | 80.69 | - | 82.47 |
| 4 | Phipson Distillery Limited (PDL) (i) | India | - | 100 | - | - |
| 5 | Triumph Distillers & Vintners Pvt. Limited (TDV) (i) | India | - | 100 | - | - |

| | Name of the Company | Country of Incorpo ration | Proportion of owner-ship interest (%) | | Proportion of voting power held directly or indirectly, if different from proportion of ownership interest | |
|---|---|---|---|---|---|---|
| 6 | Herbertsons Limited (HL) (i) | India | - | 61.01 | - | - |
| 7 | United Spirits Limited (USL) (i) | India | - | 100 | - | - |
| 8 | Zelinka Limited (ZL) | Cyprus | **100** | 100 | - | - |
| 9 | McDowell Holdings Limited (MHL) (ii) | India | - | 100 | - | - |
| 10 | Shaw Wallace & Company Limited (SWCL) (iii) | India | **75** | - | - | - |
| 11 | Ramanretti Investments & Trading Ltd. (RITL) (iii) | India | **75** | - | **100** | - |
| 12 | Shaw Wallace Financial Services Ltd. (SWFSL) (iii) | India | **75** | - | **100** | - |
| 13 | Shaw Wallace Breweries Limited (SWBL) (iii) | India | **75** | - | **100** | - |
| 14 | Primo Distributors Pvt. Ltd. (PDPL) (iii) | India | **100** | - | - | - |
| 15 | Palmer Investment Group Ltd. (PIG) (iii) | British Virgin Islands | **100** | - | - | - |
| 16 | RG Shaw & Company Ltd. (RGSC) (iii) | U.K. | **100** | - | - | - |
| 17 | Shaw Scott & Company Ltd. (SSC) (iii) | U.K. | **100** | - | - | - |
| 18 | Shaw Darby & Company Ltd. (SDC) (iii) | U.K. | **100** | - | - | - |
| 19 | Thames Rice Milling Company Ltd. (TRMC) (iii) | U.K. | **100** | - | - | - |
| 20 | Shaw Wallace Overseas Limited (SWOL) (iii) | U.K. | **75** | - | **100** | - |
| 21 | JIHL Nominees Limited (JIHL) (iii) | Jersey Islands | **100** | - | - | - |
| 22 | Montrose International S.A.(MI) (iii) | Panama | **100** | - | - | - |

**2. Subsidiary and Associate Companies considered in the Consolidated Financial Statements:**

**(B) Associate Companies (Note 4 below)**

| | Name of the Company | Country of Incorporation | Proportion of owner-ship interest (%) | |
|---|---|---|---|---|
| | | | **2006** | 2005 |
| 1 | Utkal Distillery Limited (Utkal) | India | **43** | 43 |
| 2 | Baramathi Grape Industries Limited (BGIL) (iv) | India | - | 18 |

(i) Ceased to be subsidiary, due to Amalgamation with the Company with effect from April 1, 2005 (Refer Schedule 18 Note 6).

(ii) Ceased to be subsidiary after demerger with effect from April 1, 2005 (Refer Schedule 18 Note 6).

(iii) Aquired during the year (Refer Schedule 18 Note 8).

(iv) Ceased to be an associate, due to Amalgamation with the Company with effect from April 1, 2005 (Refer Schedule 18 Note 6).

(v) Consolidated Financial Statement also include USL Benefit Trust referred to in Notes 6(IV) (a) and 6(VI)(c) on Schedule 18.

**3. Principles of Consolidation**

These Consolidated Financial Statements have been prepared by consolidation of the financial statements of the Company and its subsidiaries on a line-by-line basis after fully eliminating the inter-Company transactions.

**4. Accounting for Investment in Associates**

a) Accounting for Investments in Associate Companies has been carried out under the Equity method of accounting prescribed under AS 23 wherein Goodwill/ Capital Reserve arising at the time of acquisition and the Group's share of profits or losses after the date of acquisition have been adjusted in the investment value.

b) United Van Der Horst Ltd. (UVDH)

During the year, the shares of United Van Der Horst Limited, an associate of erstwhile HL have been sold. Hence, the shares have been considered as held for sale and UVDH has not been accounted for as an associate in consolidated financial statements under the equity method.

c) U B Distilleries Limited (UBDL)

UBDL, which was an associate company of erstwhile HL in view of significant influence, ceased its operations in 2003-04, consequent to the order of the Hon'ble Supreme Court of India vesting the distillery unit with the state of Bihar. Since the Company does not have any investments/ significant influence in respect of UBDL, the same has not been accounted for as an associate in these consolidated financial statements under the equity method.

5. **Basis of preparation of Financial Statements**
   a) The Consolidated Financial Statements of the Group have been prepared under historical cost convention, except as otherwise stated, in accordance with the Generally Accepted Accounting Principles (GAAP) in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.
   b) The Consolidated Financial Statements of SWCL (in which are incorporated the accounts of RITL, SWFSL, SWBL, SWOL and PDPL for the period ended March 31, 2006) have been incorporated in the Consolidated Financial Statements of United Spirits Limited Group based on un-audited Consolidated Financial Statements as provided by the Management of the subsidiary company since audited Consolidated Financial Statements of SWCL as at and for the period ended March 31, 2006 are not available. The impact, if any, of adjustment arising out of audit of the subsidiary company on the Consolidated Financial Statements is not currently ascertainable, but, according to the opinion of the management, will not be material for the purpose of this consolidated financial statements.

6. **Fixed Assets**
   (a) Fixed assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses related to acquisition and installation of the assets concerned, except amounts adjusted on revaluation and amalgamation. Interest on borrowings attributable to qualifying assets are capitalised and included in the cost of fixed assets as appropriate.
   (b) The costs of Fixed Assets acquired in amalgamations are determined at their fair values, on the date of acquisition or nearer thereto, or as approved under the schemes of amalgamation.
   (c) Assets held for disposal are stated at their net book value or estimated net realisable values, whichever is lower.
   (d) Goodwill represents the difference between the Company's share in the net worth of a subsidiary and cost of acquisition at each point of time of making the investment in the subsidiary. Negative goodwill is shown separately as Capital Reserve on consolidation.

7. **Leases**

   Assets acquired under Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Such leases are capitalised at the inception of the lease at lower of the fair value or the present value of the minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.

   Assets acquired as leases where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the Profit and Loss Account on accrual basis.

**8. Depreciation and Amortisation**

a) Depreciation is provided on the Straight Line Method, including on assets revalued, at rates prescribed in Schedule XIV to the Companies Act, 1956 except for the following, which are based on management's estimate of useful life of the assets concerned:

   i) Computers and Vehicles over a period of three and five years respectively;

   ii) In respect of certain items of Plant and Machinery eligible for triple shift allowance, depreciation is provided for the full year on triple shift basis.

b) Fixed assets acquired on amalgamation over the remaining useful life computed based on rates prescribed in Schedule XIV to the Companies Act, 1956, as below:

| | |
|---|---|
| Buildings | 10 to 30 years |
| Plant & Machinery | 1 to 20 years |
| Vehicles | 1 to 4 years |
| Computers | 1 to 2 years |

c) Assets taken on finance lease are depreciated over its estimated useful life or the lease term whichever is lower.

d) Leasehold Land are not amortised.

e) Goodwill arising on amalgamation is charged to the Profit and Loss Account in the year of amalgamation.

f) Goodwill arising on Consolidation is not amortised.

Depreciation charged as above is not less than the minimum specified as per Schedule XIV of the Companies Act, 1956.

**9. Impairment**

Impairment loss, if any, is provided to the extent, the carrying amount of assets exceeds their recoverable amount.

Recoverable amount is higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. .

**10. Investments**

Long-term Investments are stated at cost to the Company. Provision for diminution in the value is made to recognise a decline, other than temporary, in the value of long-term investments.

Current investments are valued at cost or market value, whichever is less.

**11. Inventories**

Inventories are valued at lower of cost and net realisable value. The costs are, in general, ascertained under Weighted Average Method. Finished goods and Work-in-Progress include appropriate manufacturing overheads and borrowing costs, as applicable. Excise/Customs duty payable on stocks in bond is added to the cost. Due allowance is made for obsolete and slow moving items.

**12. Revenue Recognition**

Sales are recognised when goods are despatched from distilleries / warehouses of the Company in accordance with the terms of sale except where such terms provide otherwise, where sales are recognised based on such terms. Gross Sales are inclusive of excise duty but are net of trade discounts and sales tax, where applicable.

Income arising from sales by manufacturers under “Tie-up” agreements (Tie-up units) and income from brand franchise are recognised in terms of the respective contracts on sale of the products by the Tie-up unit/Franchisees. Income from brand franchisee is net of service tax, where applicable.

Dividend income on investments are recognised and accounted for when the right to receive the payment is established.

**13. Foreign Currency Translation**

Transactions in foreign currency are recognised at the rates of exchange prevailing on the dates of the transactions.

Liabilities/ assets in foreign currencies are reckoned in the accounts as per the following principles:

Foreign currency liabilities contracted for acquiring fixed assets from a country outside India are restated at the rates ruling at the year end and all exchange differences arising as a result of such restatement are adjusted to the cost of fixed assets.

All other monetary assets and liabilities denominated in foreign currency are restated at the rates ruling at the year end and all exchange gains/ losses arising therefrom are adjusted to the Profit and Loss Account, except those covered by forward contracted rates where the premium or discount arising at the inception of such forward exchange contract is amortised as expense or income over the life of the contract.

Exchange differences on forward contracts are recognised in the Profit and Loss Account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such forward contracts is recognised as income or expense for the year.

***Foreign Company***

In respect of overseas subsidiary companies, Income and Expenses are translated at average exchange rate for the year. Assets and Liabilities, both monetary and non-monetary, are translated at the year-end exchange rates. The differences arising out of translation are included in the foreign currency translation reserve.

**14. Retirement Benefits**

Contributions to Provident and Superannuation funds are made at the applicable rates and charged to Profit and Loss Account as incurred. Accrued liability on account of Gratuity is ascertained based on actuarial valuation at the year-end and is funded in the approved Gratuity Funds. Leave encashment payable at the time of retirement is actuarially ascertained at the year-end and provided for in the accounts.

Pension payable to employees of erstwhile Herbertsons Limited who have opted for early retirement, taking their assumed age of superannuation as per the scheme, is fully provided for in the year of retirement.

Provision for pension in respect of SWCL employees is made based on actuarial valuation.

**15. Expenditure on account of Voluntary Retirement Scheme**

Expenditure on account of Voluntary Retirement Scheme of employees is expensed in the period in which it is incurred.

**16. Research and Development**

Revenue expenditure on research and development is charged to Profit and Loss Account in the period in which it is incurred. Capital Expenditure is included as part of fixed assets and depreciated on the same basis as other fixed assets.

**17. Taxes on Income**

Provision for income tax comprises current taxes and deferred taxes. Current tax is determined as the amount of tax payable in respect of taxable income for the period in accordance with applicable laws.

Deferred tax is recognised on timing differences between the accounting income and the taxable income for the year and quantified using the tax rates and laws enacted or substantively enacted as on the Balance Sheet date.

Deferred tax assets are recognised and carried forward to the extent that there is a reasonable / virtual certainty that sufficient future taxable income will be available against which such deferred tax asset can be realised.

Fringe Benefit Tax is determined at current applicable rates on expenses falling within the ambit of "Fringe Benefit" as defined under the Income Tax Act, 1961.

**18. Earnings per Share**

Earning per equity share (basic/diluted) is arrived at based on Net Profit after taxation available to equity shareholders to the basic/weighted average number of equity shares.

**19. Provisions**

A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on management estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.



**20. Contingencies**

Liabilities which are material and whose future outcome cannot be ascertained with reasonable certainty are treated as contingent and, to the extent not provided for are disclosed by way of notes on the accounts.

**21. Share / Foreign Currency Convertible Bonds [FCCB] issue expenses and Premium on Redemption of FCCB :**

Share/ Foreign Currency Convertible Bonds issue expenses incurred are expensed in the same year and premium payable on FCCBs is expensed over the currency of FCCBs. Both are adjusted to the Securities Premium Account as permitted by Section 78(2) of the Companies Act, 1956.

**22. Expenditure**

Expenses are net of taxes recoverable, where applicable.

**18. Notes on Accounts**

**1. Contingent Liabilities**

| | | | | (Rs. Million) |
|---|---|---|---|---|
| | | | **2006** | 2005 |
| a) | (i) | Guarantee given on behalf of other bodies corporate (including performance guarantees). | **250.000** | 107.500 |
| | (ii) | Guarantees given by the Company's bankers for which Counter Guarantees have been given by the Company. | **542.199** | 68.344 |
| b) | | Disputed claims against the Company not acknowledged as debts, currently under appeal / sub judice: | | |
| | (i) | Excise demands for excess wastages and distillation losses | **197.015** | 305.093 |
| | (ii) | Other miscellaneous claims. | **446.768** | 79.979 |
| | (iii) | Income Tax demand (including interest) under appeal. | **65.475** | 71.240 |
| | (iv) | Sales Tax demands under appeal in various states | **448.277** | 640.030 |
| c) | | Bills Receivables discounted – since fully settled. | **136.798** | 153.341 |
| d) | | Co-accepted bills of Tie-up Units - since fully settled. | **67.940** | 105.670 |
| e) | | Claims from suppliers not acknowledged as debts. | **45.865** | - |

The Management is hopeful of succeeding in the above appeals /disputes based on legal opinions / legal precedents. Further, the balance of Rs.110 Million in the Contingency Reserve Account will be available to meet any eventuality.

**2.** a) In view of the legal opinions and professional advice received by SWCL, provision for taxation has been made after considering the carry forward losses / depreciation, other claims considered available by the management.

b) The status of various income tax demands and matters relating to SWCL, pending before various authorities are as follows:

i) In respect of the demands amounting to Rs. 123.300 Million for the financial year 1993-1994, though payments / adjustments have been made against refunds granted to the Company, an appeal before the High Court and a Miscellaneous application before the Income Tax Tribunal, filed by SWCL are pending for disposal.

ii) SWCL has filed a petition before the Settlement Commission (the 'Commission') in respect of tax demands for financial years 1986-87 till August 27, 1996 pertaining to block assessment and financial years 1995-1996 and 1997-1998 to 1999-2000 (since set aside by the income tax authorities and necessary refunds have been granted to SWCL) and for financial years 2000-2001 to 2002–2003, for which returns though filed are pending for assessment. Rs.183.500 Million being the amount of tax admitted, on admission of the petition by the Commission, has been paid and provided for in the accounts and therefore, earlier demands and issues are not enforceable against SWCL. The matters being pending before the Commission, the tax liability though presently not determinable, in view of the management is sufficiently provided for in the accounts and provisions made so far are adequate to meet any eventuality arising in this respect.

iii) SWCL has since given corporate guarantee of Rs. 600.000 Million (including Rs.400.000 Million issued upto March 31, 2006 and disclosed under Note 1 above) against the bank guarantees of equivalent amounts given to the income tax authorities for various income tax matters of the Company pending before them.

iv) In view of the management, the provisions made for income tax are adequate. Over and above, as given in Note 4 below, SWCL is having contingency provision and as such no further provision in this respect is necessary.

c) (i) Further, an order has been passed under section 281 of the Income tax Act, 1961 along with an order of distraint under section 226(5) of the said Act, declaring certain transactions undertaken by SWCL as void and not effective. These inter alia include (a) transfer of 1,686,004 equity shares of Shaw Wallace Breweries Ltd. to Ramanretti Investments and Trading Company Pvt Ltd in the financial year 2002-03 (b) transfer of the Company's interest in Shaw Wallace Breweries Ltd (SWBL), (c) transfer of Doburg Lager Beer unit to SKOL Breweries Ltd., (d) user licenses for the brands and encumbrances created on the same. SWCL has been advised that the said order is declaratory in nature and is not implementable against SWCL. SWCL has replied to the department clarifying the legal position. However, SWCL's viewpoint has not been accepted by the department. Besides, pursuant to a petition filed by SWBL involving the matters concerning them in respect of the above notice, the Hon'ble High Court at Mumbai has admitted the writ petition and operation of the said order has been stayed till the disposal of the petition.

(ii) In view of the management, based on the legal advices received, the above is not likely to have any impact on the transactions undertaken by SWCL and the resultant shareholding pattern, etc. and there will not be any adverse financial implication in this respect.

**3.** SWCL, through its Subsidiary company, incurred a loss on account of intra-group transaction involving purchase and sale of shares in another Subsidiary, which has been eliminated on consolidation. Minority Interest in Profit / loss includes the loss attributable to minority amounting to Rs.895.690 Million which has been adjusted against credit balance in Minority Interest, in accordance with AS-21 on Consolidated Financial Statements.

**4.** Provision for contingency amounting to Rs.615 Million has been made, as a matter of abundant caution, to meet liabilities which may arise in future in respect of various income tax, legal and other matters pending against SWCL.

**5.** Interest on unsecured loans-others (Schedule 4) in SWCL where negotiation / settlement has not been finalised, has been provided in terms of the decree and / or otherwise considered adequate by the management. In the opinion of the management, interest so far provided is adequate and no further provision is necessary in this respect. Adjustments, if any, are carried out as and when the amounts are determined on final disposal / settlement of the matter.

**6**. The Composite Scheme of Arrangement

(I) A Composite Scheme of Arrangement under Section 391 to 394 of the Companies Act, 1956 (the Scheme) between Phipson Distillery Limited ('PDL'), United Spirits Limited ('erstwhile USL'), Herbertsons Limited ('HL'), Triumph Distillers & Vintners Private Limited ('TDV'), Baramati Grape Industries Limited ('BGIL'), United Distillers India Limited ('UDIL'), McDowell International Brands Limited ('MIBL'), Shaw Wallace Distilleries Limited, after giving effect to the Scheme of Amalgamation detailed in Note 7 below, ('SWDL') (together 'Transferor Companies'), McDowell

Holdings Limited (formerly known as McDowell India Spirits Limited) (‘Resulting Company’ or ‘MHL’) and United Spirits Limited (formerly known as McDowell & Company Limited) (‘the Company’ or ‘Transferee Company’ or ‘USL’) and their respective shareholders has been sanctioned by Hon’ble High Courts at Karnataka and Mumbai. Upon necessary filings with the respective Registrar of Companies, the scheme has become effective on October 5, 2006. Consequently, in terms of the Scheme:

a) The entire investment business of the Transferee Company stands transferred to and vested in MHL (hereinafter referred to as ‘Demerger’) with effect from the opening hours of April 1, 2005 being the Demerger Appointed Date.

b) The entire business and undertaking of Transferor Companies including all assets and liabilities, as a going concern, stand transferred to and vested in the Company (hereinafter referred to as ‘Amalgamation’) with effect from April 1, 2005 being the Merger Appointed Date.

c) The Transferor Companies stand dissolved without being wound up. Consequently, Phipson Distillery Limited, United Spirits Limited, Herbertsons Limited, Triumph Distillers & Vintners Private Limited, McDowell International Brands Limited and Shaw Wallace Distilleries Limited ceased to be subsidiaries of the Company.

d) All Transferor Companies were primarily engaged in the business of manufacture, purchase and sale of Beverage Alcohol (Spirits and Wines).

e) The name of the Company has been changed from McDowell & Company Limited to United Spirits Limited, with effect from October 17, 2006.

f) The name of the resulting company has been changed from McDowell India Spirits Limited to McDowell Holdings Limited, with effect from October 17, 2006. MHL ceased to be subsidiary of the Company.

(II) In consideration of the Demerger, MHL will issue, one Equity Share of Rs10/- each fully paid for every five Equity shares of Rs.10/- fully paid up held in the Company on October 26, 2006 being the Demerger Record Date.

(III) In consideration of the amalgamation, the Company will issue:

a) 34,010,521 equity shares of Rs.10/- each aggregating to Rs.340.105 Million [also refer Note 6 (IV) below] :

| In the ratio of : | Number of equity shares to be issued |
|---|---|
| 2 (Two) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 3 (Three) equity shares of Rs.10/- each held in HL | 3,120,493 |
| 83 (Eighty Three) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 4 (Four) equity shares of Rs.10/- each held in TDV. | 2,075,000 |
| 31 (Thirty One) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 20 (Twenty) equity shares of Rs.100/- each held in BGIL. | 338,435 |

| In the ratio of : | Number of equity shares to be issued |
|---|---|
| 3 (Three) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 100 (Hundred) equity shares of Rs.10/- each held in UDIL | 360,000 |
| 7 (Seven) fully paid up equity shares of Rs.10/- each of the Company to be issued and allotted for every 20 (Twenty) equity shares of Rs.10/- each held in SWDL. | 28,116,593 |
| | **34,010,521** |

October 27, 2006 has been fixed as the Merger Record Date for determining the shareholders of the transferor companies who will be eligible for the shares of the transferee company as per the ratios specified in the Scheme. Applications have been made to the Stock Exchanges where the existing equity shares of the Company are currently listed, for their 'in principle' approval.

Pending issue of these Equity Shares, a sum of Rs. 340.105 Million has been shown under Equity Share Capital Suspense.

b) 7,750,000 9% Non-Cumulative Non-Convertible Redeemable Preference shares of Rs.10/- each aggregating to Rs.77.500 Million in the ratio of 1 (one) fully paid up 9% Non-Cumulative Non-Convertible Redeemable Preference Share of Rs.10/- each for every 1 (one) 9% Non-Cumulative Non-Convertible Preference Share of Rs.10/- each held in SWDL, by SWFSL, a subsidiary company. These Preference Shares will not be listed on the Stock Exchanges.

Pending issue of these Preference Shares, a sum of Rs.77.500 Million has been shown under Preference Share Capital Suspense.

(IV) Pursuant to the Scheme, Equity Shares to be issued as above include:

a) i) The equity shares held by PDL in TDV and equity shares held by HL and the Company in BGIL are, without any further application, act, instrument or deed, to be issued to a corporate trust, established on September 20, 2006 for the purpose, named as USL Benefit Trust. Further, the beneficial interest in the existing SWDL Benefit Trust, which had been established for the benefit of SWDL, Transferor Company shall upon the scheme becoming effective be transferred and vested in the USL Benefit Trust for the benefit of the Company. Consequently, SWDL Benefit Trust is deemed to have been dissolved, with USL Benefit Trust being the sole trustee of the shares held by both SWDL Benefit Trust and itself held for the benefit of the Company.

ii) 5,652,660 equity shares of Rs.10/- each fully paid up to be issued to USL Benefit Trust, who shall hold such shares with all additions or accretions thereto in trust for the benefit of the Company, in respect of the 100,000 Equity Shares of Rs.10/- each fully paid up held by PDL in the share capital of TDV, 11,883 and 38,220 Equity Shares of Rs.100/- each fully paid up held by HL and the Company, respectively, in the share capital of BGIL, 10,000,000 Equity Shares of Rs.10/- each fully paid up held by SWDL Benefit Trust in the share capital of SWDL for the benefit of SWDL, which, in terms of the Scheme, stand transferred to and vested with USL Benefit Trust.

b) 10,282,553 and 1,306,431 Equity Shares of Rs.10/- each fully paid up to be issued to Shaw Wallace & Company Limited (SWCL) and Primo Distributors Private Limited (PDPL), subsidiaries of the Company, in respect of 29,378,724 and 3,732,660 equity Shares of Rs.10/- each fully paid up held by SWCL and PDPL, respectively, in the share capital of SWDL.

(V) Accounting of Demerger

In terms of the Scheme, the value of net assets of the Investment Business aggregating to Rs. 435.758 Million has been debited to the General Reserve of the Company.

(VI) Accounting for Amalgamation

The amalgamation of Transferor Companies with the Company is accounted on the basis of the Purchase Method as envisaged in the Accounting Standard (AS) -14 on Accounting for Amalgamations issued by the Institute of Chartered Accountants of India and in terms of the Scheme, as below:

a) All assets except investments and all liabilities of the Transferor Companies at their respective fair values.

b) The investments held by the Company in the Transferor Companies as well as investments held by the Transferor Companies inter-se [other than those to be held by USL Benefit Trust ] stand cancelled and debited to the General Reserve of the Company.

c) The interest in the USL Benefit Trust is accounted in the books of the Company as investment, at the book values of relevant investments and the interest in the relevant trust as per the books of the concerned Transferor Company or the Company, as the case may be, aggregating to Rs. 687.001 Million.

d) Rs. 151.707 Million being the difference between the value of net assets of the Transferor Companies transferred to the Company (determined as stated above) and the face value of equity shares and preference shares to be issued and after adjusting investments cancelled is debited to General Reserve of the Company. This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been credited to Capital Reserve to the extent of Rs. 1,709.084 Million; and debited to Goodwill to the extent of Rs. 1,860.791 Million, which would have been charged to the Profit and Loss Account for the year as per the accounting policy of the Company, with a corresponding impact on the net profit for the year.

e) The Company based on the reports by Independent valuers, has revalued, at their respective fair values, Land at all locations, and other fixed assets being Buildings, Plant and Machinery, Furniture and Fixtures and Office Equipment and Vehicles, at two locations as at April 1, 2005 by an amount of Rs. 811.662 Million (net of reduction) and an equivalent amount has been credited to General Reserve. The Company has also assessed value of its current assets as on the Merger Appointed Date and debited the diminution in value of such current assets aggregating to Rs. 41.012 Million to General Reserve. This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been: Rs. 887.062 Million being appreciation in value of Land would have been credited to Revaluation Reserve instead of General Reserve; Rs. 75.400 Million being diminution in value of certain fixed assets would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year; and Rs. 41.012 Million being diminution in value of certain current assets would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year;

f) All costs and expenses (including those of the Transferor Companies) incidental with the finalisation of the Scheme and to put it into operation, including expenses in connection with excise and label re-registrations, all advisory fees, stamp duty charges, meeting expenses, professional fees, consultant fees including expenses and other expenses or charges attributable to the implementation of the Scheme (expenses relating to amalgamation), aggregating to Rs. 306.192 Million are debited to General Reserve in the books.

This accounting treatment of the reserve has been prescribed in the Scheme. Had the Scheme not prescribed this treatment, this amount would have been debited to the Profit and Loss Account for the year instead of General Reserve, having corresponding impact on the net profit for the year;

(VII) Pursuant to the Scheme, the bank accounts, agreements, licences and certain immovable properties are in the process of being transferred in the name of the Company.

(VIII) Board of Directors of the erstwhile Central Distilleries & Breweries Limited (CDBL) (amalgamated with SWDL in an earlier year) on April 29, 1986 decided to issue 134,700 Equity Shares of Rs.10 each and allotment whereof was stayed by the Hon'ble High Court of Delhi on September 13,1988. The Delhi High Court has vacated its order and has ordered to keep in abeyance the allotment on 72,556 shares and the matter is subjudice. The holders, in exchange of these shares will be entitled to 17,776 equity shares of Rs.10 each of the Company pursuant to the Scheme. Necessary adjustments in this respect will be carried out on disposal of the matter pending before the aforesaid Court.

(IX) In respect of 100,000,000 5% Non-Cumulative Non-Convertible Redeemable Preference Shares of Rs. 10/- each (Rs. 5 paid up) in SWDL, no preference share are to be issued, as these have been fully called up and redeemed during the year.

7. Under a separate scheme of amalgamation, Shaw Wallace Spirits Limited, Highland Distilleries Limited, Bhankerpur Simbhaoli Beverages Private Limited, Shaw Wallace Liquor Brands Limited and Shaw Wallace Beer Brands Limited, wholly owned subsidiaries of Shaw Wallace Distilleries Limited (SWDL) amalgamated with SWDL with effect from April 1, 2005.

8. a) The Company along with its erstwhile subsidiaries PDL and USL, since amalgamated with the Company as explained in Note 6 above, ("Acquirers") together with United Breweries (Holdings) Limited (UBHL) (Person Acting in Concert), made a voluntary open offer by public announcement published on February 23, 2005 to acquire up to 12,001,518 fully paid equity shares representing 25% of the paid up equity share capital of SWCL at Rs. 250/- per equity share under Regulation 10 of Securities & Exchange Board of India (Substantial Acquisition of Shares & Takeover), Regulation 1997 ("SEBI Regulations"). In the mean time, Acquirers along with Zelinka Limited (ZL), a subsidiary of the Company, entered into a Purchase Agreement, on March 21, 2005, with the Promoter Group of SWCL inter alia to acquire up to 54.54% of the fully paid up equity share capital of SWCL. Consequently, the above open offer was made under Regulation 10 and 12 of the SEBI Regulations and the open offer price was revised to Rs. 260 per share.

Pursuant to the open offer, erstwhile USL acquired 12,001,518 equity shares representing 25% of the paid up equity share capital of SWCL on May 17, 2005 and in terms of the purchase agreement dated March 21, 2005 and subsequent amendments thereto, the financial closure took place on June 14, 2005. Currently, 36,004,555 equity shares representing 75% of the equity share capital of SWCL are held by the Company and its subsidiaries.

SWDL a subsidiary of SWCL, after amalgamation of its subsidiaries with SWDL as explained in Note 7 above, has been amalgamated with the Company as explained in Note 6 above.

The date of the latest investment, i.e., June 14, 2005, the date on which holding-subsidiary relationship came into existence, has been considered as the effective date of investment and no separate adjustment has been made in respect of acquisitions of 25% of the paid up capital of SWCL as, in the opinion of the management, this acquisition did not give rise to any control or significant influence over SWCL from the date of such acquisition.

b) The aforesaid purchase agreement was entered into with the promoters of Shaw Wallace & Company Limited for the acquisition of substantial shareholding in Shaw Wallace & Company Limited inclusive of certain other associate companies like Shaw Wallace Distilleries Limited, Primo Enterprises Pvt. Limited, Shaw Wallace Breweries Limited and Shaw Wallace Financial Services Limited [Shaw Wallace Group]. This agreement also contained a non-compete clause restricting the promoters of Shaw Wallace & Company Limited, from competing for 5 years from the date of closing of that agreement with the business of the Company anywhere in the world.

The acquisition of the Shaw Wallace Group included the acquisition of shareholding in Shaw Wallace & Company Limited held by various other entities. This was achieved by acquiring the shares in such shareholding companies, which hitherto were owned by the promoters of the Shaw Wallace Group. In respect of each of these acquisitions, within the overall consideration, specific considerations were earmarked to reflect the strategic values of such acquisitions.

The cost of investments allocated for the acquisition of such entities, as referred to above, prima-facie indicates that a premium has been paid for acquisition of these investments, thereby giving rise to recognition of goodwill on consolidation.

The acquisition of Shaw Wallace Group has given to the Group access to very valuable brands, critical distilling and manufacturing capacities and distribution capabilities in important markets in India and abroad. The management of the Group believes that this reflects intrinsic value far in excess of the investment in Shaw Wallace Group and that there is no condition requiring impairment of such goodwill.

c) SWCL, RITL, SWFSL, SWBL, PDPL, PIG, RGSC, SSC, SDC, TRMC, SWOL, JIHL and MI became subsidiaries of the Company during the year. The figures of the current period include figures relating to these subsidiaries as given below:

| | Rs. Million |
|---|---|
| **Liabilities:** | |
| Secured Loans | 5.473 |
| Unsecured Loans | 75.592 |
| Current Liabilities | 422.627 |
| Provisions | 658.689 |
| Deferred Tax Liability | 14.260 |
| **Assets:** | |
| Net Block of Fixed Assets | 203.056 |
| Goodwill on Consolidation | 10,767.430 |
| Investments | 1,872.045 |
| Inventories | 103.787 |
| Sundry Debtors | 236.154 |
| Cash and Bank Balances | 1,242.938 |
| Other Current Assets | 89.383 |
| Loans and Advances | 763.347 |
| Profit/(Loss) after tax for the year* | (3,381.957) |

* Profit/ (Loss) after tax for the period before minority interest, where-ever applicable

9. a) Kingfisher Radio Limited [(formerly known as Variegate Trading Limited) ("Acquirer")] made a Public Announcement on December 26, 2005 to the public shareholders of HL, a subsidiary company since amalgamated with the Company as explained in Note 6 above, to acquire 1,415,026 equity shares which represented 14.86% of the fully paid up shares of HL, for the purpose of delisting the equity shares of HL, in terms of SEBI (Delisting of Securities) Guidelines 2003, the orders of the Hon'ble Supreme Court dated March 7th, 2005 and May 4th, 2005 in Civil Appeal No.D17807 of 2003 and other allied matters between the Kishore Chhabria Group and the UB Group (referred to in the Hon'ble Supreme Court orders as private parties) and SEBI. The Company together with its wholly owned subsidiary, PDL, since amalgamated with the Company were persons acting in concert with Kingfisher Radio Limited. Subsequently, a Corrigendum to the Public Announcement was issued on January 19, 2006. The Discovered price determined from the reverse book-building process as per the Guidelines was Rs.350 per share. As the Acquirer was under no obligation to accept the Discovered price, the same was rejected.

Therefore, the Acquirer was under no obligation to acquire any shares tendered and the Delisting proposal was not to be proceeded with. A public announcement to this effect was made on January 25, 2006.

b) Before the Scheme referred to in Note 6 above became effective, the Company along with its wholly owned subsidiary PDL, since amalgamated with the Company as explained in Note 6 above, divested 968,000 shares (10.17%) in HL, an erstwhile subsidiary of PDL and an ultimate subsidiary of the Company since amalgamated as explained in Note 6 above, in terms of Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003. The Profit on Sale of shares (net) in HL aggregating to Rs. 106.812 Million is included in the Profit and Loss Account for the year.

10 a) On March 29, 2006, the Company had issued 17,502,762 Global Depository Shares (GDSs) representing 8,751,381 Equity shares (two GDSs representing one equity share of par value Rs.10 each) at US $ 7.4274 per GDS aggregating to US Dollars 130 Million. These GDSs are listed on Luxembourg Stock Exchange. The net proceeds of Rs.5,654.928 Million, from the issue of GDS has been utilised for the repayment of debt, to fund acquisitions and for other general corporate purposes, except for Rs. 1,119.731 Million which, pending utilisation, has been kept in bank deposit account outside the country at the year-end. The proceeds have since been fully utilised for the purpose stated above.

b) (i) Simultaneously, the Company had issued 100,000, 2% Convertible Bonds in Foreign Currency (FCCB) denominated in Bond certificates of US$1,000 each aggregating US$ 100 Million. The FCCBs are, at the option of FCCB holders, convertible into fully paid Equity Shares of Rs.10/- of the Company (Equity Shares) or GDS, with two GDS representing one fully paid Equity Shares of Rs.10/- of the Company, at any time on or after May 9, 2006 upto the close of business on March 15, 2011 at an initial conversion price of Rs.858 per share with a fixed rate of exchange on conversion of Rs.44.43 equal to US$ 1.00, subject to adjustments in the manner specified in the Offering Circular (OC) dated March 29, 2006 upon occurrence of certain events. The Company, subject to fulfillment of certain conditions, has an option to mandatorily convert these FCCBs into Equity Shares, in whole but not in part, at any time on or after September 29, 2007 but not less than seven business days prior to the Maturity Date (March 30, 2011), at a conversion price to be determined in the manner specified in the OC. The Company, subject to fulfilment of certain conditions and obtaining requisite approvals, has an option to redeem these FCCBs, in whole but not in part, at an Early Redemption Amount, to be determined in the manner specified in the OC so that together with any interest and unpaid interest it represent a gross yield of 6.50 percent to the FCCB holders, on a semi annual basis, together with accrued or unpaid interest. The outstanding FCCBs on the Maturity Date (March 30, 2011) will be redeemed at 127.07 percent of the principal amounts of the FCCBs.

(ii) Since the market price of the Company's Equity Shares is less than the initial conversion price of FCCB, the option embedded in the said FCCB to subscribe to Equity Shares is, at the year-end, anti-dilutive.

(iii) The net proceeds of Rs.4,369.330 Million from the issue of FCCB has been utilised for the repayment of debts.

**11. Fixed Assets**

Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) - Rs. 13.188 Million (2005: Rs. 8.374 Million).

**12. Current Assets, Loans and Advances**

a) Loans and Advances include:

i) An amount of Rs 307.873 Million (2005: Rs. 257.641 Million) due from a Tie-up Unit secured by the assets of the Tie-up unit.

ii) Advance for acquisition of trade marks amounting to Rs. 223.030 Million (2005: Rs.218.693 Million) paid by AOIL pursuant to a license agreement entered on December 30, 2002 with Guinness United Distillers & Vintners Amsterdam, BV to use its license trade marks in specific territories. AOIL will acquire title to the trade marks only upon the expiry of the licence agreement of 5 years or termination thereof, whichever is earlier and the same has been confirmed by an independent legal opinion.

b) Certain confirmation of balances from Sundry Debtors, Loans and Advances, Deposits and Sundry Creditors are awaited and the account reconciliations of some parties where confirmations have been received are in progress. Adjustment for differences, if any, arising out of such confirmations/reconciliations would be made in the accounts on receipt of such confirmations and reconciliation thereof. The Management is of the opinion that the impact of adjustments, if any, is not likely to be significant. In the opinion of the management, all current assets, loans and advances including advances on capital accounts would be realised at the values at which these are stated in the accounts, in the ordinary course of business.

**13.** A Scheme of Amalgamation for amalgamation of SWFSL with SWBL, subsidiaries of SWCL, with effect from the Appointed Date, being April 1, 2005 have been approved by the Board of Directors of the respective companies. The Consolidated Financial Statements of SWCL, incorporated in these financial statements, have been prepared without giving effect to the Scheme. The Scheme would be given effect to on the effective date i.e., the date on which all High Court orders are received and filled with the respective Registrars of Companies.

**14.** As required under Section 205C of the Companies Act, 1956, the Company has transferred Rs. 3.890 Million (2005: Rs. 7.669 Million) to the Investor Education and Protection Fund (IEPF) during the year. On March 31, 2006, no amount was due for transfer to the IEPF.

**15. Exceptional and other non-recurring items [(Debit)/Credit] include:**

Rs. Million

| **Sl.No.** | **Particulars** | **2006** | 2005 |
|---|---|---|---|
| i) | Profit on sale of a long term investment | - | 243.828 |
| ii) | Provision for diminution in the value of investments | - | (15.774) |
| iii) | Provision for amount due from a tie-up unit consequent to certain developments initiated by its lenders | - | (182.920) |
| iv) | Turnover Tax provided during the year consequent to the decision by Hon'ble Supreme Court of India after the Balance Sheet date. | - | (146.637) |

**15. Exceptional and other non-recurring items (Contd.)**

Rs. Million

| Sl.No. | Particulars | 2006 | 2005 |
|---|---|---|---|
| v) | The pending disputes between HL and BDA Limited, its erstwhile wholly-owned subsidiary (BDA), relating to the issues arising out of the audited accounts for the years upto March 31, 2004 and those relating to certain expenses aggregating to Rs. 13.496 Million and the possession of share certificates have been mutually resolved during the year and the two companies have withdrawn all pending litigations against each other. As part of the settlement, HL sold its entire investment in the subsidiary and consequently BDA ceased to be a subsidiary of HL in March 2005. Following the above settlement, the amount recoverable from BDA on various accounts has been written-off, to pave way for litigation-free environment, to concentrate on future opportunities for focused growth /development of business and to improve profitability. | - | (201.003) |
| | | - | (302.506) |

**16. Borrowing Costs**

| | | 2006 | 2005 |
|---|---|---|---|
| a) | Interest capitalised on fixed assets | **0.957** | 0.683 |
| b) | Interest included in the Closing Stock of Malt and Grape Spirit under maturation | **48.801** | 45.166 |

**17. Segment Reporting**

The Group is engaged in the business of manufacture, purchase and sale of Beverage Alcohol (Spirits and Wines) including through Tie-up Manufacturing/ brand franchise, which constitutes a single business segment. The Group's operations outside India did not exceed the quantitative threshold for disclosure envisaged in AS-17 on 'Segment Reporting' issued by the Institute of Chartered Accountants of India. In view of the above, primary and secondary reporting disclosures for business/geographical segments, as envisaged in AS-17 are not applicable to the Group.

**18. Related Party Disclosures**

**a) Names of related parties and description of relationship**

| Associates with whom transactions have taken place during the year | Key Management Personnel | Employees' Benefit Plans where there is significant influence |
|---|---|---|
| Baramati Grape Industries Limited (BGIL) * | Mr. V K Rekhi, Managing Director | McDowell & Company Limited Staff Gratuity Fund (McD SGF) |
| Utkal Distilleries Limited (Utkal) | Mr. S. D Lalla, Executive Director of SWCL (w.e.f June 14, 2005) | McDowell & Company Limited Officers' Gratuity Fund (McD OGF) |
| United Van Der Horst Limited [Schedule 17 Note 4(b)] | | |
| UB Distilleries Limited [Schedule 17 Note 4(c)] | | |

* Amalgamated with the Company with effect from April 1, 2005 (Note 6 above)

**18.**

### b) Summary of the transactions with related parties

Rs. Million

| Sl. No. | Nature of transactions * | 2006 Associates | 2006 Key Management personnel | 2006 Employees' Benefit Plans where there is significant influence | 2006 Total | 2005 Associates | 2005 Key Management personnel | 2005 Employees' Benefit Plans where there is significant influence | 2005 Total |
|---|---|---|---|---|---|---|---|---|---|
| a) | Purchase of goods | | | | | | | | |
| | -BGIL | - | - | - | - | 2,688.002 | - | - | 2,688.002 |
| | -Utkal | 0.522 | - | - | **0.522** | 8.993 | - | - | 8.993 |
| | -Others | - | - | - | - | 47.626 | - | - | 47.626 |
| b) | Sale of goods | | | | | | | | |
| | -BGIL | - | - | - | - | 34.868 | - | - | 34.868 |
| | -HL | - | - | - | - | 2,837.976 | - | - | 2,837.976 |
| | -Utkal | 3.691 | - | - | **3.691** | 1.446 | - | - | 1.446 |
| c) | Income from sale by Tie-up Units | | | | | | | | |
| | -Utkal | 22.521 | - | - | **22.521** | 77.470 | - | - | 77.470 |
| | -BGIL | - | - | - | - | 60.376 | - | - | 60.736 |
| | -Others | - | - | - | - | 1.908 | - | - | 1.908 |
| d) | Income from Brand Franchise | | | | | | | | |
| | -Utkal | 7.542 | - | - | **7.542** | - | - | - | - |
| e) | Sale / (Purchase) of fixed assets | | | | | | | | |
| | -HL | - | - | - | - | (13.142) | - | - | (13.142) |
| | -Utkal | 0.077 | - | - | **0.077** | - | - | - | - |
| | -Others | - | - | - | - | (0.821) | - | - | (0.821) |
| f) | Other Income | | | | | | | | |
| | -BGIL | - | - | - | - | 11.732 | - | - | 11.732 |
| | -HL | - | - | - | - | 0.964 | - | - | 0.964 |
| g) | Commission on Sales | | | | | | | | |
| | -BGIL | - | - | - | - | 34.299 | - | - | 34.299 |
| | -HL | - | - | - | - | 39.195 | - | - | 39.195 |
| h) | Rental Deposit | - | 2.359 | - | **2.359** | - | 1.950 | - | 1.950 |
| i) | Finance (including loans and equity contributions in cash or in kind) | | | | | | | | |
| | -BGIL | - | - | - | - | 2,576.455 | - | - | 2,576.455 |
| | -HL | - | - | - | - | (2,633.869) | - | - | (2,633.869) |
| | -Utkal | 27.669 | - | - | **27.669** | (57.553) | - | - | (57.553) |
| j) | Guarantees and collaterals given | | | | | | | | |
| | -BGIL | - | - | - | - | 50.000 | - | - | 50.000 |
| k) | Managing Directors' Remuneration | - | 20.772 | - | **20.772** | - | 16.757 | - | 16.757 |
| l) | Rent | - | 2.305 | - | **2.305** | - | 1.949 | - | 1.949 |
| m) | Contribution to Gratuity Fund | | | | | | | | |
| | - McD OGF | - | - | 56.376 | **56.376** | - | - | 50.239 | 50.239 |
| | - McD SGF | - | - | 26.867 | **26.867** | - | - | 27.861 | 27.861 |
| n) | Amount due from | | | | | | | | |
| | -Utkal | 335.894 | - | - | **335.894** | 294.386 | - | - | 294.386 |
| o) | Amount due to | | | | | | | | |
| | -BGIL | - | - | - | - | 2.656 | - | - | 2.656 |

* Excludes Reimbursement of Expenses and Cost sharing arrangements.

The above information has been determined to the extent such parties have been identified on the basis of information provided by the Company, which has been relied upon by the auditors.

**19.** (a) The Group's significant leasing arrangements in respect of operating leases for premises (residential, office, stores, godown, etc), which are not non-cancellable, range between 11 months and 3 years generally (or longer in certain cases) and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are charged as Rent under Schedule 15 to the accounts.

Leasing arrangements entered into prior to April 1, 2001 have not been considered for treatment under AS 19 'Accounting for Leases'.

(b) During the year, the Group has acquired computer equipments on finance leases. The lease agreement is for a primary period of 48 months and the Group has an option to renew for a secondary period. There are no exceptional/restrictive covenants in the lease agreements.

The minimum lease payments and their present value, for each of the following periods are as follows:

Rs. Million

| Particulars | 2006 Present Value of payments | 2006 Minimum lease payments | 2005 Present Value of payments | 2005 Minimum lease payments |
|---|---|---|---|---|
| Later than one year and not later than five years | 8.042 | **8.368** | - | - |
| Later than five years | - | - | - | - |
| | 8.042 | **8.368** | - | - |
| Not later than one year | 4.348 | **4.782** | - | - |
| | 12.390 | **13.150** | - | - |
| Less: Finance Charges | | **0.760** | | - |
| Present value of net minimum lease payments | **-** | **12.390** | **-** | **-** |

**20. Earnings Per Share:**

| | | 2006 | 2005 |
|---|---|---|---|
| a) | Net Profit after tax and loss attributable to Minority (Rs. Million) | **1,269.400** | 124.182 |
| b) | Basic number of Equity Shares of Rs.10 each and outstanding during the year.* | **82,892,946** | 51,720,028 |
| c) | Weighted Average number of Equity Shares of Rs.10 each and outstanding during the year.* | **76,563,042** | 51,720,028 |
| d) | Basic/Diluted Earnings Per Share after loss attributable to Minority (Rs.)** | **16.58** | 2.40 |

* including Equity shares to be issued referred to in Note 6(III) and net of 11,588,984 Equity shares held by subsidiaries. [ Note 6 (iv) (b) ].

** Also refer Note 10 above.

**21. Taxes on Income:**

| | 2006 | Rs. Million 2005 |
|---|---|---|
| **a) Current Taxation** | | |
| Provision for current taxation includes: | | |
| i) Income Tax [including relating to earlier year Rs. 81.502 Million (2005: Nil)] | 118.518 | 163.437 |
| ii) Wealth Tax | 12.000 | 4.200 |
| | **130.518** | 167.637 |

b) **Deferred Taxation**

The net Deferred Tax (Asset) / Liability as on March 31, 2006 amounting to Rs. 85.810 Million (2005: Rs.30.835 Million) has been arrived at as follows:

Rs. Million

| Particulars | Deferred Tax (Asset)/ Liability as on 1.4.2005 | Adjustment on Amal-gamation | Adjustment on Consolidation | Current Year charge / (credit) | **Deferred Tax (Asset) / Liability as on 31.03.2006** |
|---|---|---|---|---|---|
| Difference between book and tax depreciation | 147.672 | 239.219 | 11.615 | (75.541) | **322.965** |
| Turnover Tax Provision | (46.465) | (19.771) | - | 66.236 | - |
| Provision for Doubtful Debts | (61.571) | (5.416) | - | (21.671) | **(88.658)** |
| Unabsorbed Business Loss/ Depreciation Allowance | - | (88.055) | - | 13.428 | **(74.627)** |
| Others | (8.801) | (5.471) | (5.869) | (53.729) | **(73.870)** |
| | 30.835 | 120.506 | 5.746 | (71.277) | **85.810** |

**22.** There was a fire at one of the Mumbai office of the Company and SWCL on April 25, 2006. Certain physical records (such as original vendor invoices, cash/bank vouchers, challans for statutory payments, etc), furniture and fixtures, computers and electrical installations of the Company were either totally destroyed or damaged. However, the books of account maintained on computer system were not affected at all which were made available to auditors for their verification. The Group has lodged an insurance claim of Rs.21.6 Million and has received an on account payment of Rs.4 Million. Loss, if incurred, will be accounted for as and when the claim is settled.

**23.** a) Previous year's figures have been regrouped / rearranged wherever necessary.

b) In view of the amalgamation and demerger described in Note 6 above and inclusion of subsidiaries acquired during the year, the figures for the current year are not comparable with those of previous year.

**J. MAJUMDAR**
Partner
For and on behalf of
**Price Waterhouse**
Chartered Accountants
Bangalore
November 6, 2006

**V.S.VENKATARAMAN**
Company Secretary

**VIJAY MALLYA**
Chairman

**M.R.DORAISWAMY IYENGAR**
Director
Chennai
November 6, 2006

**V.K.REKHI**
Managing Director

**P.A.MURALI**
Chief Financial Officer