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Company Information
Board of Directors

Shri K.V. Rajeshwar Rao	Chairman
Shri. K. Sudhir Rao	Vice Chairman
Shri. K. Suhan Rao	Managing Director
Shri. L. Venkateswara Rao	Non Executive Director
Dr. J.K. Devani	Non Executive Director
Shri. V. Subramanian	Non Executive Director
Shri H. Anantha Krishnan	Nominee Director- LIC
Shri D. Sudhakar Rao	Nominee Director- IDBI
Shri. C.V. Kamalaker	Additional Director

Auditors

Alapati Vadde & Co.
8-3-728, Flat # 102, Sai Sandilya Apts
Yellareddyguda, Ameerpet, Hyderabad- 500 073
ANDHRA PRADESH

Senior Executives

Shri. A.N. Kadam	General Manager
Smt. Y. Sailaja	Company Secretary

Registered Office

Balapur Village, Dharmabad Taluk
Nanded District, MAHARASHTRA- 431 809.
Tel: 02465-244782, Telefax: 02645 280688
Email: factory@pioneerdistilleries.com

Corporate Office

7-1-19/3, Kundanbagh, Begumpet
Hyderabad- 500 016, ANDHRA PRADESH.
Tel: 040- 23757654-56, Fax: 040- 23745452
Email: info@pioneerdistilleries.com

Bankers

State Bank of Mysore
(Industrial Finance Branch)
Greenlands, Hyderabad. ANDHRA PRADESH
State Bank of Indore
Triveni Complex, Abids,
Hyderabad. ANDHRA PRADESH

Financial Institutions

Industrial Development Bank of India
Life Insurance Corporation of India

**Registrars and
Share Transfer Agents**

Venture Capital and Corporate Investments Limited
6-2-913/914, III Floor, Progressive Towers
Khairatabad, Hyderabad- 500 004
ANDHRA PRADESH
Tel: 040- 23322262/64, Fax: 040- 23324803

Listed at

The Bombay Stock Exchange Limited
The Pune Stock Exchange Limited

LETTER TO THE STAKEHOLDERS



K.V. RAJESHWAR RAO
Chairman

Dear Stakeholders,

‘Pioneer Distilleries Limited’ has nurtured growth and development over the last few years. Sound Management practices, robust business plans, restructuring of existing growth engines and contribution by each of our employee have collectively resulted in the growth of our business.

Over the last 7 years of commercial operations your Company has learnt to build sustainable values, remain close to its customers and manage the future by proper anticipation. As you are aware, your Company faced financial stress due to delay in commencement of production owing to extraneous factors beyond the control of management. But the Company has settled out with the term lending institutions and as of now all the payments to the institutions/banks are in accordance with the agreed schedule. Keeping in view the improved operational and financial performance, your company is confident of meeting all the future commitments.

During the year, on the operational front, the Company has achieved a capacity utilisation of 109.45% with a turnover of about Rs. 4441.71 Lakhs. I am happy to inform you that your Company has recorded a net profit of Rs. 134.69 lakhs. We are not going to rest on this achievement and that there will be a continuous endeavour and commitment towards achieving a sustained high growth on all parameters. In the ensuing year, the Company plans to increase its existing Extra Neutral Alcohol (ENA) capacity from 50KLPD to 100KLPD. Project appraisal in this regard is complete and the finance modalities have also been chalked out. Next year, with the capacity being doubled, we expect a much better and improved performance.

Your Company has also been exploring diversification of its business activities by the setting up of Absolute Alcohol and Carbon-di-oxide plant at the factory premises. Commercial production of both the products is on and your management expects an increased share of revenue from both products from next year onwards.

Your Company has a strategic perspective and agenda towards growth and towards future opportunities. I would like to reiterate that it is committed to ensure:

- continuous commitment to value creation.
- uncompromising attitude for quality of the products.
- equal treatment of all stakeholders without any discrimination and this process will be transparent and in accordance with highest norms of corporate governance.

Our satisfaction comes not only from robust financial figures but the fact that the success is built upon core sustainable values. I thank you for the confidence reposed in the Company and for the fact that you have stood by us over the period of transformation.

I have enjoyed continued support from the Board of Directors and I take this opportunity to express my gratitude to the Board, all the shareholders and well wishers for their understanding and abiding confidence.

Very sincerely,

K.V. RAJESHWAR RAO
22nd May, 2006

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the **Thirteenth Annual General Meeting** of the members of Pioneer Distilleries Limited will be held on **Thursday, the 22nd day of June, 2006 at 12.00 Noon** at the Registered Office of the Company at Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra- 431809 to transact the following business:

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2006 and the Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. Jayendra Kumar Devani, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri. L. Venkateswara Rao, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint M/s Alapati Vadde & Co as Statutory Auditor who shall hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix remuneration.

Special Business
Increase in Authorised Share Capital

5. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.
“RESOLVED THAT pursuant to Section 94(1)(a) of the Companies Act, 1956, Authorised Share Capital of the Company be increased from Rs.13,50,00,000/- divided into 110,00,000 (One crore ten lakhs) Equity shares of Rs.10/- each and 25,00,000 (Twenty five lakhs) Preference shares of Rs.10/- each to Rs.15,00,00,000/- divided into 125,00,000 Equity shares of Rs.10/- each and 25,00,000 Preference Shares of Rs.10/- each and that Clause V of the Memorandum of Association of the Company be altered accordingly.”

6. To consider and, if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution.

“RESOLVED THAT pursuant to Section 31 of the Companies Act, 1956, Articles of Association of the Company be altered by substituting the following Article for Article 3:

The Share Capital of the Company is Rs. 15,00,00,000 (Rupees Fifteen Crores) divided into 125,00,000 (One Crore Twenty Five lakhs only) Equity Shares of Rs.10/- each and 25,00,000 (Twenty Five Lakhs only) Preference Shares of Rs.10/-each.”

Preferential Allotment

7. To consider and, if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution.

“RESOLVED THAT in terms of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the enabling provisions of the Memorandum and Articles of Association of the Company, Listing Agreement entered into by the Company with the Stock Exchanges where the shares of the Company are listed and subject to the regulations/rules/guidelines issued by the Securities and Exchange Board of India (SEBI) and all such other bodies/institutions as may be relevant and subject to such conditions and modifications as may be stipulated while granting such permissions and approvals/sanctions and which may be agreed by the Board of Directors of the Company (hereinafter referred to as “the Board” which term shall be deemed to include any Committee of Directors for the time being duly authorised by the Board to exercise the powers conferred on the Board by this resolution) consent of the Company be and is hereby given to the Board to create, issue, offer and allot to the promoter group members (which term shall include directors, promoter directors, their families, relatives,

friends and associates) and/or non promoters, and to such other persons as may be considered expedient 17,20,000 number of Equity Shares of the Company of the face value of Rs.10/- each at a premium of Rs.9/- per Equity Share, the price whereof is determined on the basis of the valuation report as prepared by M/s. Alapti Vadde & Co, Statutory Auditors in accordance with the provisions of Chapter XIII of SEBI (Disclosure and Investor Protection) Guidelines, 2000.

RESOLVED FURTHER THAT the relevant date for the proposed issue of equity shares shall be **23rd May, 2006** as per the provisions of Chapter XIII of the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution the Board/Committee of Directors be and is hereby authorised to take all such steps and do all such acts, deeds, matters and things and execute all such deeds/ documents as may be necessary and settle any query or doubt that may arise with regard to the said issue and allotment of Equity Shares and utilisation of the proceeds of the issue.”

Appointment of Sole Selling Agent

8. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

“**RESOLVED THAT** pursuant to the provisions of Section 294 and other applicable provisions, if any, of the Companies Act, 1956, approval be and is hereby accorded to the appointment of SKVM Agencies, Hyderabad as Sole Selling Agents of the Company for the sale of Carbon Di-oxide (Co₂) manufactured by the Company for a period of 3 years from the date of commencement of commercial production of Co₂ on such terms and conditions as contained in the agreement, a copy of which is produced before this meeting and intialled by the Chairman for the purpose of identification.”

Appointment of Director

9. To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

“**RESOLVED THAT** Shri. C.V. Kamalaker who was appointed as an Additional Director in the meeting of the Board of Directors held on 22nd May, 2006 and who holds office upto the date of the Thirteenth Annual General Meeting and in respect of whom notice has been received under Section 257 of the Companies Act, 1956 from the members signifying intention to propose Shri. C.V. Kamalaker as a candidate for the office of Director of the Company be and is hereby appointed as a Director of the Company.”

By the order of the Board
For **PIONEER DISTILLERIES LIMITED**

Date: 22nd May, 2006
Place: Hyderabad

Y. SAILAJA
Company Secretary

NOTES

1. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item no.5 to item no. 9 is annexed herewith.
2. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member. A blank proxy form is enclosed which, to be valid, should be duly completed, stamped and deposited with the Company at least 48 hours before the commencement of the meeting.**
3. Corporate members intending to send their authorized representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the Meeting.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from 16th June, 2006 to 21st June, 2006. *(Both days inclusive).*
5. Members are requested to intimate any change in their addresses to M/s Venture Capital and Corporate Investments Ltd, Registrar and Share Transfer Agents of the Company.
6. Non-Resident Indian Members are requested to inform the Company's Registrars and Transfer Agents, M/s Venture Capital and Corporate Investments Limited, immediately of the change in the residential status on return to India for permanent settlement.
7. Members are requested to bring the attendance slip along with their copy of Annual Report to the Meeting.
8. **Particulars of Directors seeking appointment / reappointment in pursuance of clause 49 of the Listing Agreement entered into with the Bombay and Pune Stock Exchanges:**
 - (1) Dr. Jayendra Kumar Devani, aged about 65 years is a Dental Surgeon and a resident of Nairobi, Kenya. He is BDS (Bom), LDS, RCS (Edin) and a fellow of Academy of Dentistry International (USA). He is one of the main NRI investors in the Company from Kenya. He is a Non-Executive Director on the Board of the Company and retires by rotation. He is not on the Board or the Committee of any other Company in India.
 - (2) Shri. L. Venkateswara Rao aged about 49 years is the Non-Executive Promoter Director of the Company. He is an Engineering graduate and has been actively associated with the Company since incorporation. His contribution to the Company during the construction, and commissioning of the factory has been significant. He retires by rotation and being eligible has offered himself for reappointment on the Board of the Company. He is on the following Committees of the Company:
 - Audit Committee
 - Share Transfer Committee and
 - Investor Redressal and Grievance Committee

Apart from the above he is not a Director on the Board of any other Company.
 - (3) Shri. C.V. Kamalaker aged about 64 years is a post graduate in law from the University of Madras. He is the retired General Manager (Law) from the Industrial Finance Corporation of India Ltd. He has over 37 years of rich experience in corporate laws, property law, personal law, insurance law and banking law. He has dealt extensively with various industries while working in IFCI and later on as consultant in India Law Services Branch at Bangalore. He is on the following Committees of the Company:
 - Audit Committee
 - Remuneration Company.

He is not on the Board of any other Company.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item No. 5 and 6

The Company proposes to expand its operations by increasing the existing ENA capacity from 50KLPD to 100KLPD. To meet the funds requirement for the expansion activity, it is considered expedient to increase the Authorised Share Capital of the Company from Rs. 13.50 Crores to Rs.15.00 Crores. The increase in the Authorised Capital requires your approval. Consequent upon the increase in Authorised Share Capital, Memorandum and Articles of Association of the Company require alteration.

None of the Directors is in any way concerned or interested in the resolution except upto the extent of their equity holding in the Company.

Item No. 7

As mentioned in the aforesaid item no.5 and 6, the Company is going in for expansion of its operations by increasing the existing ENA capacity from 50KLPD to 100 KLPD. The expansion will involve installation of additional fermentation and distillation sections, turbine, revamping of 10 TPH Boiler and installation of Bio-gas and Reverse Osmosis plant, additional storage for finished products. The project has been appraised by the State Bank of Mysore (SBM) and State Bank of Indore (SBIn) and term loan of Rs 14.00 Crores (SBM: Rs.7.00 crores, SBIn: Rs7.00 Crores) has already been sanctioned in this regard. To part finance the project cost, it is proposed to create, issue, offer, allot equity shares through preferential allotment either to the existing members of the company, to the promoter group members (which term shall include directors, promoter directors, their families, relatives, friends and associates) and/or non promoters, and to such other persons as may be considered expedient.

In accordance with the provisions of Section 81 of the Companies Act, 1956, any increase in the subscribed capital of a Company by a further issue and allotment of shares is to be offered to the existing shareholders of the Company in the manner laid down in the said Section, unless the shareholders decide otherwise in a general meeting. The listing agreement with the stock exchanges also provides, inter alia, that the Company in first instance should offer all the shares and debentures to be further issued for subscription pro rata to the equity shareholders unless the shareholders decide otherwise in a general meeting.

The consent of the shareholders is therefore being sought pursuant to the provisions of Section 81(1A) of the Companies Act, 1956, SEBI (Disclosure and Investor Protection) Guidelines, 2000 and the Listing Agreements entered into with the Stock Exchanges, authorising the Board to raise additional capital by further issue of equity shares to meet the project cost of the proposed expansion.

The information as required under the SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI is given hereunder:

- i.) Object of issue:** The issue of equity shares vide preferential allotment is to meet the capital expenditure requirements of the proposed expansion of increasing ENA capacity to 100 KLPD. The expansion programme will involve (i) installation of fermentation and distillation sections (ii) installation of turbine (iii) revamping of 10TPH Boiler (iv) installation of Bio-gas and Reverse Osmosis plant (v) Storage facility for finished products at the factory premises.
- ii.) Allotment to the Promoters:** Promoters along with others intend to subscribe to the offer.
- iii) Shareholding pattern** of the Company before and after the issue of shares will be as under:

	Category	Pre Issue Holding		Post Issue Holding	
		No. of shares held	% of Share holding	No. of shares held	% of Share holding
A	Promoters Holding				
1	Indian Promoters	4510980	45.166	5084540	43.430
	Foreign Promoters	—	—	—	—
2	Persons acting in Concert	908970	9.101	908970	7.764
	Sub Total	5419950	54.267	5993550	51.194
B	Non Promoter Holding				
3	Institutional Investors				
	-a. SICOM	539925	5.406	539925	4.612
	Sub- Total	539925	5.406	539925	4.612
4	Others				
a.	Private Corporate Bodies	186601	1.868	186601	1.594
b.	Indian Public	2097542	21.001	3243942	27.708
c.	NRIs / OCBs	1718865	17.210	1718865	14.682
d.	Any Other	24717	0.247	24717	0.211
	Sub- Total	4027725	40.327	5174125	44.195
	GRAND TOTAL	9987600	100.00	11707600	100.00

iv.) **Proposed time of allotment:** The allotment will be complete within 15 days from the approval of the members at this meeting.

v.) **Identity of proposed allottees:** The promoters viz., Shri K.V. Rajeshwar Rao, Shri K. Sudhir Rao, Shri K. Suhan Rao and Shri L. Venkateswara Rao together with their relatives and persons acting in concert hold 54.267% of the paid up capital before the proposed preferential offer. Their shareholding will be 51.194% of the post preferential offer. The issue of equity shares will be made to the following persons, the details whereof are:

Promoters

- a) Shri. K.V. Rajeshwar Rao - 70,000 shares
- b) Shri. K. Sudhir Rao - 2,23,000 shares
- c) Shri. K. Suhan Rao - 2,24,000 shares
- d) Shri. L. Venkateswara Rao - 56,600 shares

Non Promoters

- e) Shri. D. Kishore Kumar - 2,58,000 shares
- f) Shri.Ch. Anil Rao - 2,98,000 shares
- g) Shri. D. Anil Kumar - 2,93,400 shares
- h) Shri. D. Rajender Rao - 2,97,000 shares

The details of the post issue equity shareholding of the allottees will be as given hereunder:

Name	Post-issue equity Holding	% to the total Post issue share capital*
I Promoters		
Shri. K.V. Rajeshwar Rao	6,59,340	5.632
Shri. K. Sudhir Rao	19,11,000	16.323
Shri. K. Suhan Rao	18,51,960	15.818
Shri. L. Venkateswara Rao	4,61,880	3.945
II Non Promoters		
Shri. D. Kishore Kumar	3,28,500	2.806
Shri. Ch. Anil Rao	3,77,850	3.227
Shri. D. Anil Kumar	3,59,500	3.071
Shri. D. Rajender Rao	3,62,000	3.092
Total	63,12,030	53.914

* Paid up share capital will increase from Rs. 9,98,76,000/- consisting of 99,87,600 equity shares of Rs.10/- each to Rs.11,70,76,000/- consisting of 1,17,07,600 equity shares. For the purpose of arriving at shares held by the proposed allottees, the aggregate of existing share capital and share capital arising out of proposed allotment of equity shares through preferential issue has been taken into account as post issue share capital. The details are given below.

No. of shares of Rs.10/- each

(i) Existing Equity share capital	99,87,600
(ii) Equity shares proposed to be allotted	17,20,000
Post issue Equity share capital	<u>1,17,07,600</u>

vi.) **Pricing of the shares:** Pricing of the shares is determined in accordance with the provisions of Chapter XIII of the SEBI (Disclosure and Investor Protection) Guidelines, 2000. Certificate from M/s. Alapati Vadde & Co, Statutory Auditors, will be available for inspection during working hours from 9.30 a.m. to 6.00p.m. on all working days and also at the meeting.

vii.) **Change in control or Composition of the Board:**

There will be no change in the composition of the Board or in the control of the company on account of the proposed preferential allotment.

Your Directors recommend passing of the resolution. None of the Directors of the Company is concerned or interested in the proposed resolution except to the extent of his holding of equity shares and to the extent of his subscribing to equity shares.

Item No. 8

The Company is setting up Carbob-di-oxide (Co₂) plant at the factory premises. Co₂, which emerges as a by-product in the fermentation process will be treated further at the plant to produce commercial grade Co₂.

In this regard the Board of Directors have at their meeting held on 25th January, 2006 approved the agreement with SKVM Agencies, Hyderabad for establishing Co₂ purification and liquification plant at the factory premises. Further, the Board has also approved the appointment of SKVM Agencies as

the Sole Selling Agent and distributor for the Co₂ produced from the factory. SKVM Agencies has the expertise and knowledge in Co₂ purification, liquification, bottling and sales/marketing and as such your Board recommends the appointment of SKVM Agencies as Sole Selling Agent for a period of 3 years from the date of commencement of commercial production of Co₂. Your approval for the resolution is solicited.

None of the Directors is in any way concerned or interested in the resolution.

Item No. 9

Shri. C.V.Kamalkar is an advocate and legal consultant by profession and has vast experience of about 37 years in legal matters. He is the retired General Manager from the Industrial Finance Corporation of India Limited (IFCI) and has represented IFCI Ltd and the India Law Services on the Board of various Companies as Nominee Director over a period of 20 years.

His expertise in legal matters, will immensely benefit the Company in view of the ever increasing compliance provisions under the Companies Act, SEBI Regulations and other related statutory provisions.

Shri. C.V. Kamalkar was appointed as an Additional Director on the Board of the Company on 22nd May, 2006 and your management feels that his experience and services will be immensely beneficial to the Company. In accordance with the norms of the Listing agreement, Shri. C.V. Kamalkar will be an Independent Director on the Board of the Company making it more broad based.

Notice has been received member under Section 257 of the Companies Act, 1956 proposing his appointment as a Director on the Board of the Company. Your approval for the purpose is solicited.

None of the Directors is in any way concerned or interested in the resolution.

By the order of the Board
For **PIONEER DISTILLERIES LIMITED**

Date: 22nd May, 2006
Place: Hyderabad

Y. SAILAJA
Company Secretary

DIRECTORS' REPORT

Your Directors present their Thirteenth Annual Report together with the Audited Accounts for the financial year ended 31st March, 2006.

Financial Results

Your Company's performance during 2005-06 is summarized below:

Particulars	Amount (Rs. In Lakhs) 31.03.2006	Amount (Rs. In Lakhs) 31.03.2005
Sales and other income	4441.71	4365.38
Profit before interest and Depreciation and Taxes	567.42	403.11
Interest	186.10	48.34
Depreciation	211.03	183.60
Profit/Loss before Tax	165.48	167.17
Provision for MAT Tax	13.92	13.11
Provision for Deferred Tax	16.87	59.73
Net Profit	134.69	94.33

For the financial year 2005-2006 the Company has achieved a total turnover of Rs. 4441.71 lakhs with a capacity utilisation of 109.45% when compared to turnover of Rs. 4362.93 lakhs and capacity utilization of 113% in the previous year. The turnover when compared with the previous year has more or less been on the same level. This is due decrease in the prices of molasses (basic raw material) resulting in corresponding decrease in selling price of the products. Though during the year there has been increase in turnover quantitatively, the same is not reflected value wise.

Dividend

The Directors do not recommend any dividend for the year under review.

Expansion Activity

Your Company proposes to increase the existing ENA capacity from 50 KLPD to 100 KLPD for manufacture of both grain and molasses based alcohol. Civil works and erection activity with regard to the proposed expansion is being carried on at the factory premises and the commercial production for the increased capacity is expected to be commence from September 2006. This apart, the Company has also set up of Carbon-di-oxide (Co₂) plant at the factory premises. The Co₂ which

is released in the fermentation process and which otherwise goes as waste is treated in the Co₂ plant to produce commercial grade Co₂. The production of Co₂ has commenced in the month of May, 2006.

Further Issue of Equity Shares

As mentioned above, your Company is embarking on a substantial expansion activity by increasing its existing ENA capacity to 100KLPD. In this regard, the project has been appraised by the State Bank of Mysore (SBM) and State Bank of Indore (SBI) and term loan of Rs. 14.00 Crores has been sanctioned (SBM: Rs.7.00 Crores; SBI: Rs.7.00 Crores) in this regard. To part finance the project cost of the expansion, it is proposed to raise equity vide preferential allotment from the promoters and/or non-promoters and others. In this regard, the Board has recommended for further issue of 17,20,000 Equity shares of Rs.10/- each at premium of Rs.9/- per share to the Promoters, Non-promoters and others. The said issue of Shares is in accordance with the provisions of Chapter XIII of the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

Future outlook

The outlook of profitability and margins of the Company depends greatly upon the domestic industry scenario, the trends in the molasses prices and ultimately the sale prices of the products. Your Company is well equipped to face the normal market competition. However, the Company's long term competitive position will depend on its ability to carry out diversification and expansion programmes that provide adequate financial returns and on its ability to manage operating expenses effectively. With the proposed increase in ENA capacity and commissioning of Carbon-di-oxide plant, your management is towards this direction and foresees a good year in terms of both operational and financial performance.

Personnel

The provisions of Section 217(1A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended are not applicable to your Company as none of employees was in receipt of remuneration which in aggregate is

Rs. 24,00,000/- or more per year nor was in receipt of remuneration for any part of the year, of Rs. 2,00,000/- per month.

Directors

During the year, Shri. S. Gopalan has resigned from the Board of Company w.e.f. 1st August, 2005 while Shri. C.V. Kamalaker has been reappointed as an Additional Director w.e.f. 22nd May, 2006. His appointment was approved by the Board of Directors unanimously at their meeting held on 22nd May, 2006. His appointment as a Director under Section 257 of the Companies Act is placed for approval of the members.

Dr. Jayendra Kumar Devani and Shri. L. Venkateswara Rao retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Statutory Auditors

M/s Alapati Vadde & Co, Auditors of the Company holds office until the conclusion of the ensuing Annual General Meeting. The Company has received letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224(1-B) of the Companies Act, 1956. Accordingly the proposal for their appointment has been placed for approval of the members at the ensuing Annual General Meeting.

Directors' Responsibility Statement pursuant to the provisions of Section 217(2AA) of the Companies (Amendment Act) 2001

Your Directors hereby confirm:

- That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- That such accounting policies have been selected and applied and that such judgements and estimates have been made as are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the period.
- That proper and sufficient care for the maintenance of adequate accounting records has been taken in accordance with the

provisions of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

- That the annual accounts of the Company have been prepared on a going concern basis.

Disclosure as per the Listing Agreement

The Company's shares are listed on the Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai the Pune Stock Exchange Limited at Shivleela Chambers, 752, Sadashivpeth, R.B. Kumthekar Marg, Pune. The annual listing fees to both the stock exchanges has been paid.

Energy, Technology and Foreign Exchange

Energy conservation is a consistent focus area for the Company from both cost control and social responsibility perspective. Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 regarding conservation of energy, technology absorption and foreign exchange earnings and outgo forms part of this report as Annexure 1.

Corporate Governance

Detailed report on Corporate Governance and Management Discussion and Analysis Report giving the details of industry structure and development, opportunities and threats thereof form part of this report.

Acknowledgement

Your Directors take this opportunity to express their gratitude and appreciation for the support and co-ordination extended by the banks viz, State Bank of Mysore, State Bank of Indore and Financial institutions viz, IDBI and LIC. Further we convey our thanks to all the shareholders, executives, staff of the Company for their continued co-operation support and confidence in the Company.

For and on behalf of the Board

K. SUDHIR RAO

Vice Chairman

K. SUHAN RAO

Managing Director

Date: 22nd May, 2006

Place: Hyderabad

ANNEXURE 1

CONSERVATION OF ENERGY

FORM- A

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

A. Power and Fuel Consumption:

Electricity:

	2005-2006	2004-2005
(a) Purchased		
Total Units (KWH)	320353	648139
Total Amount (Rs. in lakhs)	2085417	3111937
Rate per Unit (in Rs)(inclusive of demand charges)	6.51	4.80
(b) Own generation (Through Rice Husk)		
Total Units (KWH)	3945476	3304356
Units per tonne of rice husk	152	127
Total Amount	33585460	35589106
(c) Own generation (Through Diesel Oil)		
Total Units (KWH)	139043	145129
Units per litre of Diesel	2.84	2.46
Total Amount	1598314	1538426
Rate/Unit (in Rs)	11.50	10.60

B. Consumption per unit of production:

	2005-2006	2004-2005
Power (KWH/Litre of Alcohol)	0.27	0.25
Cost of Power (Rs./Litre of Alcohol)	2.24	2.42

FORM C

	2005-2006	2004-2005
Foreign Exchange Earnings and outgo:		
a. Earnings in Foreign Exchange Export of Goods	Nil	Nil
b. Expenditure in Foreign Currency towards Travelling Expenses	43700	Nil

For and on behalf of the Board

Date: 22nd May, 2006
Place: HyderabadK. SUDHIR RAO
Vice ChairmanK. SUHAN RAO
Managing Director

ANNEXURE 2

REPORT ON CORPORATE GOVERNANCE

Pioneer Distilleries Limited aims at implementing, adhering and achieving qualitative excellence and transparent Corporate Governance by taking into its fold responsibility towards all the stakeholders and Statutory Authorities. The Company has formulated its policy on Corporate Governance as a code for the Directors and Senior Management Personnel, adherence to which will be confirmed annually. Formulation of such code is only an initial step in the direction towards the ever increasing commitment for corporate transparency. Your management will strive towards improving and enhancing its vision towards this goal. We believe that pursuit towards achieving good Corporate Governance is an ongoing process thereby ensuring integrity, transparency and accountability in all our dealings with our employees, shareholders, customers and the community at large.

Your Board of Directors present the Corporate Governance Report for the year 2005-06 in accordance with Clause 49 of the Listing Agreement.

Board Composition

The Board of Directors comprises of 9 Directors consisting of 2 Executive Directors and 7 Non-Executive Directors. The Chairman of the Company is Non- Executive Director whereas there are 4 Independent Directors on the Board of which 2 are Nominee Directors from Financial Institutions. During the year, 7 Board Meetings were held on 27.05.2005, 08.07.2005, 23.07.2005, 10.08.2005, 20.10.2005, 16.11.2005 and 25.01.2006.

None of the Directors on the Board of the Company are either members in more than ten Committees nor they act as Chairman of more than five committees across all Companies in which they are Directors. Details of attendance at the Board Meetings during the year and at the Annual General Meeting are given hereunder. The total number of Directorships and Committee memberships (*other than Pioneer*) held by them is also given hereunder:

Sl. No.	Name of the Director	Category of Directorship	No. of Board Meetings Attended	Attendance at last AGM	No. of Committee Memberships
1	K.V. Rajeshwar Rao	Chairman	5	No	Nil
2	K. Sudhir Rao	Vice Chairman	7	Yes	Nil
3	K. Suhan Rao	Managing Director	7	Yes	Nil
4.	L. Venkateswara Rao	Non- Executive Director	7	No	Nil
5.	J.K. Devani	Non-Executive Director	4	No	Nil
6.	H. Anantha Krishnan	Nominee Director- LIC	4	No	Nil
7.	D. Sudhakar Rao	Nominee Director- IDBI	4	No	Nil
8.	V. Subramanian	Non-Executive Director	7	Yes	Nil
9.	C.V. Kamalaker (Appointed on 22-05-2006)	Additional Director	-	No	Nil

Audit Committee

The Audit Committee of the Company consists of 4 Directors of which 3 are Independent Directors. All the members of the Committee are Non-Executive Directors with the Chairman of the Committee Shri. V. Subramanian being an Independent Director. Following Directors are members of the Committee:

- (i) Shri. V. Subramanian, Non-Executive Independent Director
- (ii) Shri. L. Venkateswara Rao, Non-Executive Promoter Director
- (iii) Shri. H. Ananthkrishnan, Nominee Director- LIC
- (iv) Shri C.V. Kamalaker, Non-Executive Independent Director (Additional Director)

During the year under review 5 meetings of the Committee were held on 27.05.2005, 23.07.2005, 10.08.2005, 20.10.2005 and 25.01.2006. The Audit Committee of the Company has the powers to investigate any activity, seek information from any employee and can secure attendance of outsiders with relevant expertise, if it considers necessary. The Role of the Audit Committee includes the following:

- (i) Oversight of the Company's financial reporting process and disclosure of its financial information.
- (ii) Recommending to the Board, the appointment, reappointment and, if required, the replacement or removal of the Statutory Auditor and fixation of Audit fees.
- (iii) Reviewing with the management, the annual financial statements and quarterly financial statements before submission to the Board for approval.
- (iv) Reviewing with the management performance of statutory and internal auditors, adequacy of the internal control systems, reviewing the adequacy of internal audit function and discussion with the internal auditors of any significant findings.

Investor Redressal/Grievance Committee

The Investors Redressal/Grievance Committee looks into the redressal of investor complaints under the Chairmanship of Shri. L. Venkateswara Rao, Non-Executive Director. Following are members of the Committee:

- (i) Shri. L. Venkateswara Rao, Non- Executive Director
- (ii) Shri. K. Sudhir Rao, Vice Chairman
- (iii) Shri. K. Suhan Rao, Managing Director.

During the year under review the Committee met on the following dates: 08.04.2005, 15.07.2005, 21.10.2005 and 20.04.2006. No investor complaints were received during the year.

Share Transfer Committee

The Share Transfer Committee has the following members:

- (i) Shri. K. Sudhir Rao, Vice Chairman
- (ii) Shri. K. Suhan Rao, Managing Director
- (iii) Shri. L. Venkateswara Rao, Non Executive Director

The Committee processes all the Share Certificates received for transfers, consolidation, splitting in accordance with the provisions of the Companies Act and the Listing Agreement. Compliance Certificate in accordance with Clause 47(c) of the Listing Agreement with regard to the transfers/splitting/consolidation is obtained by the Company from a Practising Company Secretary every six months and submitted to the Stock Exchanges.

Remuneration Committee

All the members of the Remuneration Committee are Non Executive and Independent Directors, the details whereof are given under:

- (i) Shri. V. Subramanian Non- Executive, Independent Director
- (ii) Shri. H. Ananthkrishnan, Nominee Director- LIC and
- (iii) Shri. C.V. Kamalaker, Non-Executive Independent Director (Additional Director)

Shri. V. Subramanian is the Chairman of the Committee. None of the Non-Executive Directors are paid any remuneration apart from sitting fees paid for attendance at the Board Meetings and Committee Meetings.

Remuneration of Directors

Executive Directors are paid remuneration within the limits envisaged under Schedule XIII of the Companies Act, 1956. As of now none of Non-Executive Directors of the Company are paid any remuneration apart from the sitting fees in respect of Board Meetings and Committee meetings attended by them. The details of remuneration of Executive Directors are given hereunder:

Name and Designation	Salary	Benefits, bonuses etc
K. Sudhir Rao, Vice Chairman	Basic Salary: Rs. 75,000 p.m. H.R.A: Rs. 40,000 p.m.	There is no performance linked incentive or stock options.
K. Suhan Rao, Managing Director	Basic Salary: Rs. 75,000 p.m. H.R.A: Rs. 40,000 p.m.	There is no performance linked incentive or stock options.

Shareholding of Non-Executive Directors

The shareholding of Non-Executive Directors in the Company is given hereunder (as on 31.03.2006):

Name	No. of shares held	% topaid –up capital
Shri. K.V. Rajeshwar Rao	5,89,340 (5.90%)	5.90
Shri. L. Venkateswara Rao	4,05,280 (4.05%)	4.05
Dr. Jayendra Kumar Devani	9,08,970(9.10%)	9.10
Shri. V. Subramanian	—	—
Shri. C.V. Kamalaker	—	—
Shri. H. Ananthkrishnan	—	—
Shri. D. Sudhakar Rao	—	—

General Body Meetings

The details of the previous Annual General Meetings of the Company are given hereunder:

Year	Date and Time	Particulars of Special Resolutions passed
2002	23 rd November, 2002 at 1.00 P.M. at the Registered Office of the Company.	No special resolutions were passed by postal ballot.
2004	26 th June, 2004 at 12.00 Noon at the Registered Office of the Company.	1) Issue of 5% Redeemable Preference Shares to IDBI in accordance with the terms of settlement proposal entered into by the Company- (<i>Approved unanimously</i>) 2) Approval for reissue of Forfeited Equity Shares under Clause 23(a) of the Listing Agreement- (<i>Approved unanimously</i>). No special resolutions were passed by postal ballot.
2005	25 th August, 2005 at 12.00 Noon at the Registered Office of the Company.	1) Appointment of Shri. K. Suhan Rao as Managing Director 2) Appointment of Shri. K. Sudhir Rao as Vice Chairman 3) Alteration of Article 121(a) and Article 144 of Articles of Association. 4) Reissue of 44,800 forfeited equity shares. (All the resolutions were approved unanimously.) No special resolutions were put through postal ballot.

Disclosures

- (i) During the year 2005-06 no material transactions were entered into by the Company with the Promoters or Directors or the management.
- (ii) The Company has complied with the requirements of Stock Exchanges/SEBI or any other Statutory Authority on matters related to capital markets as applicable from time to time.
- (iii) The Company has complied with the mandatory requirements of Clause 49 of the Listing Agreement.

With regard to non-mandatory requirements,

- (i) the Company has set up Remuneration Committee with Non-Executive Directors as members of the Committee.
- (ii) half yearly declaration of financial performance is posted on the Company website.

Efforts will be made for compliance with other non-mandatory requirements of Clause 49 of the Listing Agreement.

Means of Communication

- Quarterly unaudited financial results are normally published in the following newspapers :
Deshdoot Times (English Newspaper)
Deshdoot (Marathi Newspaper)
- The latest financial results and latest announcements by the Company are available on the website – www.pioneerdistilleries.com.
- No presentations were made to the institutional investors or the Analysts during the year.
- Management Discussion and Analysis forms part of the Annual Report.

General Shareholder Information

1. The Annual General Meeting is proposed to be held on Thursday, the **22nd June, 2006 at 12.00 Noon** at the Registered Office of the Company at Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra-431809.
2. Financial Calender: The tentative financial calendar for the year 2006-2007 which is subject to change is as under:

1 st quarter unaudited results	2 nd fortnight of July, 2006
2 nd quarter unaudited/half year results	2 nd fortnight of October, 2006
3 rd quarter unaudited results	2 nd fortnight of January, 2007
4 th quarter and Annual results	Last week of May, 2007
Annual General Meeting for the year 2007	July, 2007

3. Date of Book Closure: The share transfer books of the Company shall remain closed from 16th June, 2006 to 21st June, 2006 (both days inclusive).
4. Dividend payment date: No dividend is recommended for the year.
 1. Listing on Stock Exchanges
 - (i) The Bombay Stock Exchange Limited and
 - (ii) The Pune Stock Exchange Limited
 2. Stock Code:

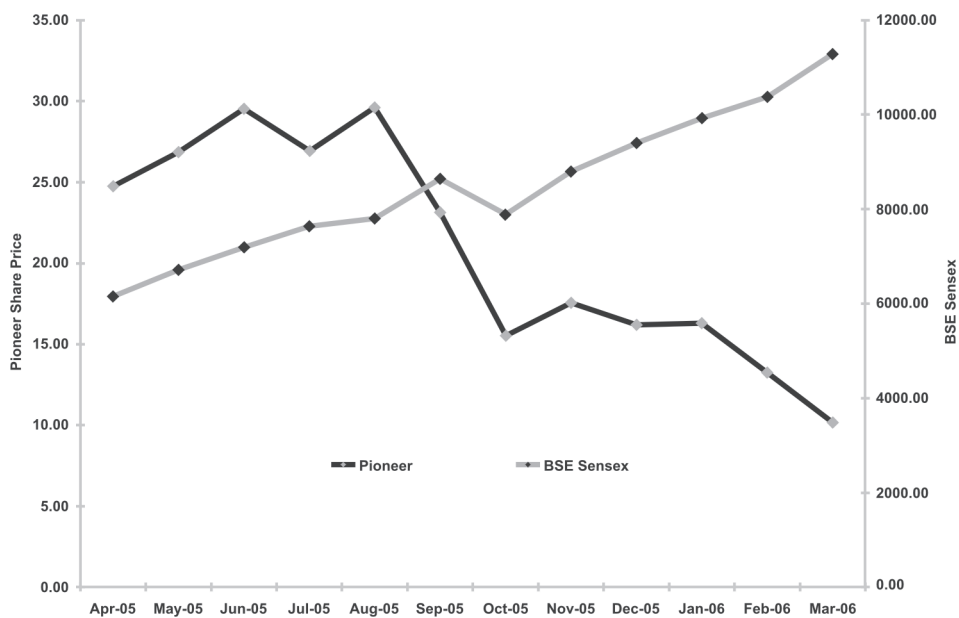
The Bombay Stock Exchange Limited	531879	PIONEE DISTL
The Pune Stock Exchange Limited	160202	PIODI

3. DMAT ISIN of the Company in NSDL and CDSL for equity shares: INE889E01010

4. Market Price: Details of share price traded during the year under review on BSE:

Month	Share PriceHigh (Rs)	Share PriceLow (Rs)
April 2005	29.10	21.10
May 2005	28.95	22.75
June 2005	41.50	22.55
July 2005	33.25	25.00
August 2005	31.50	25.50
September 2005	34.40	23.15
October 2005	24.20	15.50
November 2005	20.80	16.00
December 2005	17.50	14.90
January 2006	19.80	14.60
February 2006	16.40	12.70
March 2006	13.20	9.55

Share Price Performance in comparison with BSE Sensex:



5. Registrar and Transfer Agents: Venture Capital and Corporate Investments Limited is the Registrar and Share Transfer Agent of the Company responsible for both physical and DMAT share transaction processing.
6. Share Transfer System: The share transfer process is carried out by Venture Capital and Corporate Investments Limited within 30 days from the date of the receipt of the shares for transfer. Once the transfers are processed, the details thereof are furnished to the Company for approval. The transfers are considered and approved by the Share Transfer Committee of the Company.
7. Shareholding Pattern as on 31st March, 2006

Category	No. of shares held	Percentage of Shareholding
Promoters	4510980	45.17
Persons Acting in Concert	908970	9.10
Banks, Financial Institutions	539925	5.40
Companies (Central/State Govt. Institutions/Non- Govt. Institutions)	—	—
FII's	—	—
Private Corporate Bodies	162390	1.63
Indian Public	2117052	21.20
NRI's/OCB's	1730365	17.32
Others	17918	0.18

Distribution of Shareholding as on 31st March, 2006

Shareholding of nominal value of (Rs.)	No. Of Share Holders	% to Total	Share Amount	% to total
Upto - 5000	1425	59.85	35,72,740	3.58
5001 -10000	537	22.55	49,60,750	4.97
10001 - 20000	193	8.11	32,66,060	3.27
20001 - 30000	80	3.36	20,78,570	2.08
30001 – 40000	17	0.71	6,22,160	0.62
40001 – 50000	51	2.14	24,74,040	2.48
50001 - 100000	25	1.05	17,14,940	1.72
100001 and above	53	2.23	8,11,86,740	81.29
	2381	100.00	9,98,76,000	100.00

8. Dematerialisation of Shares: The Company has entered into tripartite agreements with NSDL and CDSL and Venture Capital and Corporate Investments Limited in accordance with the SEBI Guidelines.

The details as on 31.03.2006 are as under:

Equity Shares	No of Shares	% to Total Holding
NSDL	6612954	66.21
CDSL	470966	4.71
PHYSICAL	2903680	29.08
TOTAL	9987600	100

The Company issued 5% Redeemable Preference Shares to Financial Institutions viz, IDBI (17,00,000 shares) and LIC (6,50,000 shares). These shares have been issued in dematerialized form and are held in NSDL. However, these preference shares are not listed on the Stock Exchanges and hence are not tradable.

9. Plant Locations: The factory of the Company is located at Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra 421809.
10. Address for correspondence: All shareholders correspondence should be addressed to the Corporate Office at 7-1-19/3, Kundanbagh Begumpet, Hyderabad - 500 016. Tel: 040- 23757654/55/56.
Shareholders can contact the following official with regard to all company secretarial matters:
Smt. Y. Sailaja, Company Secretary and Compliance Officer.

For and on behalf of the Board

Date: 22nd May, 2006
Place: Hyderabad

K. SUDHIR RAO
Vice Chairman

K. SUHAN RAO
Managing Director

ANNEXURE 3

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. Industry structure and development

As compared to the previous year, there has been decline in the prices of molasses (raw material). The low price of raw material has resulted in reduction of sale prices when compared to the previous year. As such, though there has been quantitative increase in sales during the year under review, the same is not reflected value wise.

The turnover During the year has been 4441.71 lakhs while the capacity utilization has been 109.45%. The expansion activity of increasing the existing ENA capacity from 50 KLPD to 100KLPD is in progress and the commercial production is expected to commence by September 2006. As informed in the 12th Annual Report, the Company has completed the erection of Absolute Alcohol (Ethanol) plant. The plant has begun commercial production from the month of November, 2005 and for the year ended 31st March 2006, there has been a turnover of about 8520 lakh litres of Ehanol. With the expansion activity in progress and diversification of business by manufacture of Ethanol, Carbon-di-oxide, your Company foresees a much improved financial and operational performance in the ensuing financial year.

2. Opportunities and Threats

As mentioned in the previous Annual Report, use of grains viz, jowar, bajra, rice etc as raw material as an alternative raw materials has been an opportunity for the manufacture of alcohol. Feasibility Reports for tapping this opportunity have been conducted by the Company which are quite promising. The Company has also obtained license for the manufacture of grain based alcohol. But the reduction in prices of molasses has resulted in the management taking some more time to decide to commence the production. In fact there is market for grain based alcohol and your management will take a decision taking into account all the factors of profitability of the project.

Ethanol as an opportunity has been tapped by your Company. The plant is in operation and the product is being supplied to pharmaceutical Companies. This apart, your Company is also processing the Carbon-di-oxide (Co₂) generated in the fermentation process in the new Co₂ plant to manufacture commercial grade Co₂.

With the dedication of the management towards exploring new opportunities coupled with the Company's competitiveness and product quality, your Company will continue to explore and pursue the new opportunities. Though there has been seldom difficulty in marketing of the Company products, availability and prices of molasses , policies of the Government and pollution laws can be considered as possible threats to the industry. Beside, new competitors may enter into market in which the Company operates or existing competitors could decide to focus more on the existing market thereby intensifying the highly competitive conditions that already exist. The management expects that the Company's revenue growth will be derived from continued selling of products to existing customers, selling of products to new customers and planned introduction of new products. The success of these efforts will depend on the Company's effective sales and marketing efforts, ability to attract new as well as retain new and existing customers and quality of products being manufactured.

3. Segment wise or product-wise performance

The product wise performance of the Company is given hereunder:

- (i) Rectified Spirit (RS): Production of RS during the financial year 31st March, 2006 has been 150,74,109 BL.
- (ii) Extra-Neutral Alcohol (ENA): Production of ENA during the financial year 31st March, 2006 has been 133,47,506 BL.
- (iii) Absolute Alcohol (Ethanol): Production of Absolute Alcohol during

the financial year 31st March, 2006 has been 10,74,279 BL. *(The Commencement of production of Absolute Alcohol began during the month of November, 2005)*

4. Financial and Operational Performance

The financial statements of the Company are prepared in compliance with the provisions of the Companies Act, 1956 and the Generally Accepted Accounting Principles in India. In terms of Clause 49 of the Listing Agreement, the management accepts the responsibility for the integrity and objectivity of the financial statements and the basis for various estimates used in preparing such financial statements.

The turnover of the Company during the current financial year which stands at Rs. 4441.71 lakhs with a profit after tax of Rs. 134.69 lakhs.

During the year, the Company has made all the payments to term loan institutions in accordance with the schedule. State Bank of Mysore (SBM) and State Bank of Indore (SBIIn) have sanctioned term loan of Rs.14.00 Crores (SBM: Rs.7.00 Crores and SBIIn: Rs.7.00 Crores)

The working capital requirements of the Company are financed by the State Bank of Mysore, IFB, Hyderabad. The working capital loan limits of the Company during the year have been increased from Rs. 350.00 lakhs to Rs. 550.00 lakhs.

5. Internal Control Systems and Adequacy

The internal control systems of the Company provide reasonable assurance that the transactions are properly recorded and are executed in accordance with proper management authorization and that the assets are safeguarded against loss from unauthorized use or disposition and that the accounting records are adequate for preparation of financial statements and other financial information. The internal auditors perform the audit periodically to ascertain their adequacy and effectiveness. The top management and the Audit Committee of the Company review the findings, recommendations and functions of Internal Auditors.

6. Human Resources

The management believes that continued success of the Company will depend on its ability to hire, assimilate and retain skilled and quality personnel. It recognizes the fact that loss of any key employee, its inability to retain skilled employees could harm the Company's business. Therefore every effort is made to provide excellent staff welfare measures to promote employee satisfaction and thereby attract and retain efficient manpower. Further, the Company conducts regular training programmes for the employee to keep them updated with the ever changing technology.

For and on behalf of the Board

K. SUDHIR RAO
Vice Chairman

K. SUHAN RAO
Managing Director

Date: 22nd May, 2006
Place: Hyderabad

CERTIFICATION ON CODE OF CONDUCT**By the Statutory Auditor**

To
The Members of
Pioneer Distilleries Limited

I have examined the compliance of conditions of Corporate Governance by Pioneer Distilleries Limited, Nanded (Dt), Maharashtra for the period ended 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchange(s).

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

In my opinion and to the best of my information and according to the explanations given to me,

- I certify that the Company has complied with the conditions of corporate governance as stipulated in the above-mentioned Listing Agreement.
- I state that no investor grievances are pending against the Company for a period exceeding one month as per records maintained by the Company.
- I further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Alapati Vadde & Co**
Chartered Accountant

Viswanath Vadde
Proprietor
Membership No. 208360

Place: Hyderabad
Date: 22nd May, 2006

By the Managing Director

To
The Members
Pioneer Distilleries Limited

I hereby Certify that all the members of the Board of Directors of the Company and Senior Management Personnel have affirmed compliance with the Code of Conduct which has been framed for the Company for the financial year ended 31st March, 2006.

Date: 22nd May, 2006
Place: Hyderabad

For **PIONEER DISTILLERIES LIMITED**

K. SUHAN RAO
Managing Director

**AUDITORS' REPORT
TO THE MEMBERS OF PIONEER DISTILLERIES LIMITED**

I have audited the attached Balance Sheet of M/s. **PIONEER DISTILLERIES LIMITED** (the Company) as at March 31, 2006 and the Profit and Loss Account of the company for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's Management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in India. Those Standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, I enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to my comments in the Annexure referred to above, I report that:

- i. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit;
- ii. In my opinion, proper books of account as required by law have been kept by the Company so far as it appears from my examination of the books;
- iii. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

- iv. In my opinion, the Balance Sheet, the Profit & Loss Account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section 3 (C) of section 211 of the Companies Act, 1956 to the extent applicable;
- v. On the basis of written representation received from the directors, as on 31st March 2006, and taken on record by the Board of Directors, I report that none of the directors are 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 Companies Act, 1956; and
- vi. In my opinion and to the best of my information and according to the explanations given to me, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a) In the case of Balance Sheet, of the state of affairs of the Company as at March 31, 2006;
 - b) In the case of Profit and Loss Account, of the profit of the Company for the year ended on that date; and
 - c) In the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

for **Alapati Vadde & Co**
Chartered Accountants

VISSWANATH VADDE
Proprietor
Membership No.: 208360

Place: Hyderabad
Date: 22nd May 2006

ANNEXURE TO THE AUDITOR'S REPORT

The Annexure referred to in the auditors' report to the members of Pioneer Distilleries Limited ("the Company") for the year ended March 31, 2006. I report that:

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of Fixed Assets.

The Company has a phased programme of physical verification of its fixed assets which, in my opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were physically verified by management during the year and no material discrepancies were identified during such verification.

Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

2. The inventories have been physically verified by the management at reasonable intervals during the year.
3. In my opinion, the procedures of physical verification of inventories followed by management are reasonable and adequate in relation to the size of the Company and the nature of its business.
4. The company has maintained proper records of inventory. The discrepancies noticed during physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
5. The Company has neither granted nor taken any loans, secured or unsecured to / from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Consequently clauses 4(iii)(a) to 4(iii)(d) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

6. In my opinion and according to the information and explanations given to me, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for purchase of inventory and fixed assets and for the sale of goods. In my opinion and according to the information and explanations given to me, there is no continuing failure to correct major weaknesses in internal controls.
7. Based on the audit procedures performed by me and according to the information and explanations given by the management, I am of the opinion that transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered and the transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
8. The Company has not accepted any deposits from the public and consequently, the directives issued by the Reserve Bank of India and the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable to the Company.
9. In my opinion, the company has an internal audit system commensurate with the size and nature of its business.
10. I have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956, and are of the opinion that prima facie the prescribed accounts records have been made and maintained. I have not, however made a detailed examination of the records with a view to determining whether they are accurate or complete.

11. According to the information and explanations given to me and on the basis of my examination of the books of account, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund and Employee State Insurance, Income tax, Sales tax, Excise duty, Cess and any other material statutory dues during the year with the appropriate authorities.
12. According to the information and explanations given to me, there are no undisputed amounts of Income Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty which are outstanding as at 31st March, 2006 for a period of more than six months from the date that they become payable.
13. According to the records of the Company, there are no dues of sales tax, income-tax and excise duty which have not been deposited with the appropriate authorities on account of any dispute.
14. The accumulated losses of the Company are not more than fifty percent of its net worth. The Company has not incurred cash losses during the financial year and in the immediately preceding financial year.
15. The company has defaulted in repayment of dues to IDBI and the same has been regularized as per the negotiated settlement agreed to by IDBI – Stressed Assets Stabilization Fund.
16. The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other Securities. Accordingly, clause 4(xii) of the Order is not applicable.
17. In my opinion and according to the information and explanations given to me, the company is not a chit fund / nidhi / mutual benefit fund / society. Accordingly, clause 4(xiii) of the Order is not applicable.
18. According to the information and explanations given to me, the Company is not dealing or trading in shares, Securities, Debentures and other investments. Accordingly, clause 4(xiv) of the Order is not applicable.
19. The Company has not given any guarantee for loans taken by others, from banks or financial institutions.
20. According to the information and explanations given to me and on the basis of our examination of the books of account, the term loans obtained by the Company were applied for the purpose for which such loans were obtained.
21. According to the information and explanations given to me and on an overall examination of the balance sheet of the company, I am of the opinion that no funds raised on short-term basis have been used for long-term investment. Further, a part of the long-term funds has been used to finance working capital and short-term investments.
22. The Company has made preferential allotment of 44,800 forfeited equity shares at the rate of Rs.29 per share (Face Value of Rs.10/- each) to two directors of the Company during the period under audit and the price at which shares have been issued is not prejudicial to the interest of the Company.
23. The Company has not issued any debentures. Accordingly, clause 4(xix) of the Order is not applicable.
24. The Company has disclosed the end use of money raised by way of reissue of forfeiture shares, which has been verified by me.
25. According to the information and explanations given to me, no fraud on or by the Company has been noticed or reported during the course of our audit.

for **Alapati Vadde & Co**
Chartered Accountants

VISSWANATH VADDE
Proprietor
Membership No.: 208360

Place: Hyderabad
Date: 22nd May 2006

AUDITOR'S CERTIFICATE

I have examined the above Cash Flow Statement of M/s Pioneer Distilleries Limited, for the period ended on 31st March, 2006. The statement has been prepared by the Company in accordance with the requirement of clause 32 of the Listing Agreement with the Bombay Stock Exchange Limited and Pune Stock Exchange Limited and is based on and is agreement with the corresponding Profit and Loss and Balance Sheet of the Company covered by my report of 23rd May 2006 to the members of the Company.

for **Alapati Vadde & Co**
Chartered Accountants

VISSWANATH VADDE
Proprietor
Membership No.: 208360

Place: Hyderabad
Date: 22nd May 2006

BALANCE SHEET AS AT 31st MARCH, 2006

	Schedule	As At 31.03.2006		As At 31.03.2005	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS :					
Shareholders Funds :					
Share Capital	1	123688000		124764000	
Reserves and Surplus	2	9925200	133613200	8850000	133614000
Loan Funds :					
Secured Loans	3	202826932		199378971	
Unsecured Loans	4	187060386		140172300	
Sub-total			389887318		339551271
Deferred Tax Liability	5		41435382		39748601
TOTAL			564935900		512913872
APPLICATION OF FUNDS :					
Fixed Assets :					
Gross Block	6	468402246		451406837	
Less: Depreciation		120653854		100015933	
Net Block			347748392		351390904
Capital Work in Progress			83397893		3276749
			431146285		354667653
Current Assets and Loans & Advances :					
Inventories	7	71010976		62046246	
Sundry Debtors	8	1610447		4524526	
Cash and Bank Balances	9	5105519		3443093	
Loans and Advances	10	69629725		82183997	
Sub-total		147356667		152197862	
Less: Current Liabilities and Provisions	11	27754615		17463205	
Net Current Assets			119602052		134734657
Miscellaneous Expenditure (to the extent not written off)	12(a)	6347422		2202298	
Profit & Loss Account Balance	12(b)	7840141		21309263	
TOTAL			14187563		23511561
			564935900		512913872
Notes on Accounts	19				

As per my report attached
For Alapati Vadde & Co.,
Chartered Accountants

For and on behalf of the Board

Visswanath Vadde
Proprietor
Membership No : 208360

K. SUDHIR RAO
Vice Chairman

K. SUHAN RAO
Managing Director

Date : 22nd May, 2006
Place : Hyderabad

Y. SAILAJA
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006

	Schedule	Year Ended 31st March, 2006 Rs.	Year Ended 31st March, 2005 Rs.
INCOME:			
Sales		443906049	436292558
Other Income	13	265644	245056
TOTAL		444171693	436537614
EXPENDITURE:			
Material consumed	14	237333372	312326281
Power and Fuel		35903630	38542416
Employee Remuneration	15	11447026	10975558
Excise Duty		39892365	25354424
Other Expenses	16	35308466	32868306
(Increase)/Decrease in Stocks	17	27544559	(23840533)
TOTAL		387429417	396226452
Profit Before Interest, Depreciation and Amortisation			
Less : Interest	18	56742276	40311162
Depreciation		18610046	4834103
Preliminary Expenses Written off	12(a)	21103398	18360339
		480377	399216
Profit/(Loss) for the year		16548456	16717504
Provision for taxation - MAT		1392553	1310861
Profit/(Loss) after Current Tax		15155903	15406643
Less: Provision for Deferred Taxation		1686781	5973292
Profit/(Loss) after Tax		13469122	9433351
Net Profit		13469122	9433351
Earning per Share - Basic (Rs.)		1.29	1.05
Diluted (Rs.)		1.09	0.90

As per my report attached
For Alapati Vadde & Co.,
Chartered Accountants

For and on behalf of the Board

Visswanath Vadde
Proprietor
Membership No : 208360

K. SUDHIR RAO
Vice Chairman

K. SUHAN RAO
Managing Director

Date : 22nd May, 2006
Place : Hyderabad

Y. SAILAJA
Company Secretary

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2006

	As at 31-03-2006 Rs.	As at 31-03-2005 Rs.
SCHEDULE 1: SHARE CAPITAL		
Authorised:		
25,00,000 - Preference Shares of Rs.10/- each	25000000	25000000
1,10,00,000 - Equity Shares of Rs.10/- each	110000000	110000000
	<u>135000000</u>	<u>135000000</u>
Issued and subscribed:		
23,50,000 - 5% Redeemable Preference Shares of Rs.10/- each	23500000	23500000
1,00,50,000 - Equity Shares of Rs.10/- each	100500000	100500000
	<u>124000000</u>	<u>124000000</u>
Paid up:		
23,50,000 - 5% Redeemable Preference Shares of Rs.10/- each	23500000	23500000
99,87,600 - Equity Shares of Rs.10/- each (Previous year 99,42,800 @ Rs.10/- each)	99876000	99428000
Forfeited Shares(62,400 @Rs.5/- each) (Previous year 1,07,200 @ Rs.5/- each)	312000	536000
Share Application Money	0	1300000
	<u>123688000</u>	<u>124764000</u>
SCHEDULE 2: RESERVES AND SURPLUS		
Share Premium Account	851200	0
Capital Reserve	9074000	8850000
	<u>9925200</u>	<u>8850000</u>
SCHEDULE 3: SECURED LOANS		
Term Loan - IDBI	68007000	83700000
Term Loan - LIC	26517671	31500000
Term Loan (I) - SBM	39399787	48699787
Term Loan (II) - SBM	16350000	0
Term Loan - State Bank of Indore	14264980	0
Interest Accrued and Due	6958992	0
Working Capital Loan from Bank	31328502	35479184
	<u>202826932</u>	<u>199378971</u>
SCHEDULE 4: UNSECURED LOANS		
Sales Tax Deferment	170736589	136793503
From Others	16323797	3378797
	<u>187060386</u>	<u>140172300</u>
SCHEDULE 5: DEFERRED TAX		
Defferred Tax Liability	39748601	39748601
Add: Timing Difference originating during the year	1686781	
	<u>41435382</u>	<u>39748601</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2006
SCHEDULE - 6 : Fixed Assets

Particulars	Gross Block			Depreciation			Net Block		
	As at 1-04-2005 Rs.	Additions Rs.	Deduction Rs.	As at 1-04-2005 Rs.	For the Year Rs.	Adjust- ment Rs.	As at 31-03-2006 Rs.	As at 31-03-2006 Rs.	As at 31-03-2005 Rs.
Land	11002279	12798027	0	23800306	0	0	0	23800306	11002279
Factory Buildings	41329998	56235	0	41386233	1380826	0	8897401	32488832	33813423
Non-Factory Buildings	30233867	0	0	30233867	492812	0	3066498	27167369	27680181
Plant & Machinery	320916150	4121985	0	325038135	74832104	0	91364264	233673871	246084046
Furniture and Fittings	749206	72131	0	821337	30032	0	357109	464228	440174
Office Equipment	1265663	325579	0	1591242	48790	0	575054	1016188	775873
Electrical Equipment	8271622	0	0	8271622	392902	0	3311017	4960605	5353307
Vehicles	4316114	98351	818570	3596896	1789497	465476	1665013	1931883	2528616
Tools and Tackles	1530775	19554	0	1550329	49017	0	563404	986925	1040657
Generator	2393426	51375	0	2444801	389513	0	505240	1939561	2008913
Water Supply and Treatment Plant	19833988	0	0	19833988	5588211	0	6640726	13293263	14345777
Secondary Treatment Plant	7259741	0	0	7259741	2065148	0	2448462	4811279	5194583
Lab Equipment	330479	0	0	330479	76807	0	92305	238174	253872
Fire Fighting and Safety Equipment	276555	0	0	276555	6797	0	81133	195422	208558
Computers	676102	269740	0	945842	430348	0	548745	397097	245764
Misc. Items	920873	0	0	920873	479192	0	537483	383390	441681
TOTAL	451406837	17813977	818570	468402246	100015932	21103398	465476	347748392	351390904
Previous Year	387290123	64558498	441784	451408837	8204251	18360339	386657	351380904	30524872
Capital Work-in-Progress								83397883	3276749

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2006

	As at 31-03-2006 Rs.	As at 31-03-2005 Rs.
SCHEDULE 7 : INVENTORIES		
(As Verified and certified by Management)		
Stores and Spares	2310925	1311637
Raw Material	50588716	15078716
Stocks under Process	1990261	2301935
Finished Goods	16121074	43353959
	<u>71010976</u>	<u>62046246</u>
SCHEDULE 8 : SUNDRY DEBTORS		
(Unsecured and Considered good)		
Outstanding for more than six months	12102	82645
Other Debtors	1610447	4524526
	<u>1622549</u>	<u>4607170</u>
Less: Provision for doubtful debts	12102	82645
	<u>1610447</u>	<u>4524526</u>
SCHEDULE 9 : CASH AND BANK BALANCES		
Cash in hand	622229	1200566
Balance with scheduled banks		
In current accounts	375489	142527
In deposit accounts	4107800	2100000
	<u>5105519</u>	<u>3443093</u>
SCHEDULE 10 : LOANS AND ADVANCES		
(Unsecured and Considered good)		
Advance - Raw material	25932927	50366294
Advance - Stores and Consumables	4782688	1091298
Advance - Others	1786961	1145587
Prepaid Expenses	6191148	1666712
Deposits	727259	1877272
Balances with Excise Department	26340039	24850324
Sales tax Receivable	2665355	0
Advance Tax paid	1203344	1186510
	<u>69629722</u>	<u>82183997</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31st MARCH, 2006

	As at 31-03-2006 Rs.	As at 31-03-2005 Rs.
SCHEDULE 11 : CURRENT LIABILITIES AND PROVISIONS		
A. Current Liabilities		
Creditors - Capital Goods	5044186	3703880
Creditors - Raw Material & Chemicals	1331538	1316585
Creditors - Stores and Spares	1119372	1585424
Creditors - Others	4043888	332422
Creditors - Transporters	5562217	2401792
Creditors - Expenses	5853442	3963701
Trade Deposits	3407419	2848540
Total - A	<u>26362062</u>	<u>16152344</u>
B. Provisions		
Provision for Taxation	1392553	1310861
Total - B	<u>1392553</u>	<u>1310861</u>
Total (A + B)	<u>27754615</u>	<u>17463205</u>
SCHEDULE 12 (a) : MISCELLANEOUS EXPENDITURE (TO THE EXTENT NOT WRITTEN OFF)		
Preliminary Expenses not written off	6827799	2195709
Add: Expenses incurred during the year	0	405805
Less: Preliminary Expenses written off	480377	399216
	<u>6347422</u>	<u>2202298</u>
SCHEDULE 12 (b) : PROFIT AND LOSS ACCOUNT		
Net Profit / (Loss) Brought Forward	(21309263)	(30742614)
Add : Net Profit/(Loss) as per P&L A/c	13469122	9433351
Profit / (Loss) Carried to Balance Sheet	<u>(7840141)</u>	<u>(21309263)</u>

**SCHEDULES ANNEXED TO AND FORMING PART OF THE
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31st MARCH, 2006**

	For the Year ended 31st March,2006 Rs.	For the Year ended 31st March,2005 Rs.
SCHEDULE 13 : OTHER INCOME		
Interest on Fixed Deposits	20239	108801
Misc. Income	245405	327883
	<u>265644</u>	<u>436684</u>
SCHEDULE 14 : RAW MATERIAL CONSUMED		
Molasses Consumed		
Opening Stock	10929816	2809278
Add: Purchases	267434077	315424165
Less: Closing Stock	49631553	10929816
Consumption of Molasses	228732340	307303627
Chemicals Consumed	8601032	5022654
Consumption of Raw Material	<u>237333372</u>	<u>312326281</u>
SCHEDULE 15 : EMPLOYEE REMUNERATION		
Salaries and Wages	8777422	7959708
Contribution to PF and other Funds	1637928	1121106
Other Welfare Expenses	1031676	1894744
	<u>11447026</u>	<u>10975558</u>

**SCHEDULES ANNEXED TO AND FORMING PART OF THE
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31st MARCH, 2006**

	For the Year ended 31st March,2006 Rs.	For the Year ended 31st March,2005 Rs.
SCHEDULE 16: OTHER EXPENSES		
[Manufacturing Expenses]		
Repairs and Maintenance	6712254	5416380
Labour Charges	809024	576944
Husk Feeding Charges	1864882	1526642
Ash Removing Expenses	1505341	1158123
Stores and Spares	4122289	2839021
[General and Administrative Expenses]		
Rent	564700	533300
Rates and Taxes	2609942	676924
Insurance	1134219	1151324
Bank Charges	1495783	733923
Restructuring Fee	1455045	0
Travelling and Conveyance	1609399	1425696
Office Maintenance	942579	726036
Books and Periodicals	45251	27913
Printing and Stationery	232591	178128
Sundry Expenses	312451	162343
Communication Cost	928009	721115
Safety and Security	1054613	757645
Legal and Professional	867645	897426
Supervision Charges	796334	626348
Hire Charges	696832	759726
Sales Promotion Expenses	500746	9332279
Directors' Remuneration	2760000	945000
Directors' Sitting Fee	107000	8000
Auditors' Remuneration:		
As Auditors	25000	27550
For tax audit	15000	16530
For Certifications and taxation matters	62500	43000
Expenses reimbursed	12629	1500
Meeting Expenses	619067	379636
Advertisement	200536	149748
Loss on Sale of Asset	253094	0
Cash Loss Account	213798	0
Charity and Donations	258923	404832
Vehicle Maintenance	508892	582629
Provision for doubtful debts	12102	82645
TOTAL	35308466	32868306

**SCHEDULES ANNEXED TO AND FORMING PART OF THE
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31st MARCH, 2006**

	For the Year ended 31st March,2006 Rs.	For the Year ended 31st March,2005 Rs.
SCHEDULE 17 : (INCREASE) / DECREASE IN STOCKS		
Opening Stock		
Finished Goods	43353959	20276874
Work-in-Process	2301935	1538486
Closing Stock		
Finished Goods	16121074	43353959
Work-in-Process	1990261	2301935
(Increase)/ Decrease in stocks	<u>27544559</u>	<u>(23840533)</u>
SCHEDULE 18 : INTEREST		
On Term Loans to Banks and Institutions	14024436	1607454
On Working Capital Loans to Banks	4585609	3225930
Interest on Car Loans	0	719
	<u>18610046</u>	<u>4834103</u>

SCHEDULE NO .19: NOTES TO ACCOUNTS
1. SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of preparation of financial statements** : The accompanying financial statements have been prepared in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis and in compliance with the requirements of the Companies Act, 1956 and as per the guidelines issued by the Securities and Exchange Board of India.

b) **Fixed Assets** : Fixed Assets are stated at cost less accumulated depreciation. Direct costs are capitalized until fixed assets are ready for use. The cost of fixed assets includes taxes duties, freight and other incidental expenses relating to the acquisition and installation of the respective assets.

Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized as required by Accounting Standard (AS – 16) issued by the Institute of Chartered Accountants of India.

Capital Work-in-progress comprises outstanding advances paid to acquire fixed assets and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

c) **Depreciation** : Depreciation on fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation for assets purchased/sold during the period is proportionately charged.

d) **Revenue Recognition** : Revenue from sale of good is recognized when significant risks and rewards in respect of ownership of products are transferred to the customers. Revenue from product sales is stated exclusive of excise duty, sales tax, transport pass fee and export pass fee

e) **Expenditure** : Purchases of Raw Material (Molasses) does not include excise duty, VAT, but inclusive of central sales tax, transportation charges and other incidental expenses. Provisions are made for all known losses and liabilities.

f) **Inventories** : Inventories are valued at the lower of cost and net realizable value. Cost of inventories comprises all cost of purchase, cost of conversions, and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

- a) Raw Materials : Weighted average method.
- b) Finished Goods : FIFO and appropriate share of production overheads
(Cost of ENA includes Excise Duty Liability)
- c) Stores & Spares : At Cost
- d) Work-in-process : Cost of Raw Material Plus proportionate overheads

g) **Miscellaneous expenditure**: Preliminary and Pre-Operative expenditure is being written off over a period of ten years. During the year the company has incurred an amount of Rs. 50,00,000/- and Rs.5,00,000/- on IDBI (SASF) and LIC term loans respectively towards Restructuring fees which is a result of negotiated settlement. The above mentioned fee has been treated as deferred revenue expenditure which is to be written off over a period of four years in consonance with the loan repayment period.

h) **Employee Retirement Benefit:**

- i) Provident Fund: Contributions payable to the recognized provident fund, which is a defined contribution scheme, is charged to the profit and loss account.
- ii) Gratuity: Contribution payable to an approved gratuity fund (a defined benefit plan), determined by an independent actuary at the balance sheet date, are charged to profit and loss account.
- iii) Leave encashment: Leave encashment cost which is a defined benefit is accrued on actual valuation at the balance sheet date.

2. **Segment Reporting :**

The Company is primarily engaged in the business of Rectified Spirit, Extra Neutral Alcohol and allied products. Since the inherent nature of both these activities are integrated and governed by the same set of risk and returns and operating in the same economic environment, these have been grouped as a single segment in the financial segments. The said treatment is in accordance with the Accounting Standard (AS 17) on “Segment Reporting”

3. **Related Party disclosures :**

a) Names of Related Parties & relationship

Party Name	Relation
Pioneer I Serve Limited (formerly Raynolds Infovision Ltd.)	Associate
K. Sudhir Rao	Key Management Personnel (Vice-Chairman)
K. Suhan Rao	Key Management Personnel (Managing Director)

b) **Transactions with related parties :**

Name of the Related Party	Pioneer I Serve Ltd	K. Sudhir Rao	K. Suhan Rao
Description of the Relationship between the parties	Associate	Key Management Personnel (Vice-Chairman)	Key Management Personnel (Managing Director)
Volume of the transactions Either as an amount or as appropriate proportion	NIL	NIL	NIL
Any other elements of the Related party transactions	NIL	NIL	NIL
The amounts or appropriate Proportions of outstanding items Pertaining to related parties at the Balance Sheet date	NIL	NIL	NIL
Provisions for doubtful debts Due from such parties at that Date and amounts written off or Written back in the period in respect of debts due from or to related parties	NIL	NIL	NIL

Transactions with Key Management Personnel

Particulars of remuneration and other benefits paid to key management personnel during the year ended 31st March 2006

Name	Salary	Contributions Provident and other Funds	Sitting Fee	Total Remuneration
K. SUDHIR RAO	13,80,000	1,08,000	-	13,80,000
K. SUHAN RAO	13,80,000	1,08,000	-	13,80,000
TOTAL	27,60,000	2,16,000	-	27,60,000

4. Income Tax :

Income Taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profits offered for income taxes and the profit as per the financial statements are identified and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted regulations of the Indian Income Tax Act, 1961. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized.

Breakup of deferred tax liability as on 31st March 2006 is as under:

(Amount in Rs.)

Opening Deferred Tax Liability	3,97,48,601
Add: Tax effect of timing differences originating during the year	16,86,781
Closing Deferred Tax Liability	4,14,35,382

5. Secured Loans :

- a) Term Loan : Term Loans from Industrial Development Bank of India, Life Insurance Corporation of India and State Bank of Mysore are secured by first charge by way of equitable mortgage by deposit of title deeds to cover all immovable properties of the company and hypothecation of all movable properties both present and future subject to prior charges created/to be created in favour of Company's bankers for securing borrowings for working capital requirements. The mortgage/charges created above shall rank pari-passu with the charges created/to be created in favour of the Financial Institutions/Banks.

The above said loans are also guaranteed by some of the directors of the Company in their personal capacities.

All the above loans were utilized for the purpose of establishment of the distillery unit and related acquisition of Fixed Assets.

b) Working Capital loan :

Cash credit facility with State Bank of Mysore is secured by hypothecation of stocks of raw materials, semi-finished and finished goods, consumable stores and book debts; and secured by second charges on fixed assets of the Company ranking pari passu, inter-se with term loan lenders; and The above said loan is also guaranteed by some of the directors of the Company in their personal capacities.

6. Excise Duty :

The company is availing CENVAT credit on purchase of raw materials and is being utilized on sale of Special Denatured Spirit (SDS) and Ethanol, reversal of duty on sale of Extra Neutral Alcohol (ENA) and Rectified Spirit (RS) as required under sub-rule (3) (a) (i) of Rule 6 of CENVAT Credit Rules, 2004.

7. There are no overdue amounts exceeding Rs. 1.00 lakh which are outstanding for more than 30 days payable to Small Scale Industrial Undertaking(s) as at 31st March, 2006.

8. Dividend on Preference Shares has not been provided for the year due to carry forward loss.

9. Contingent Liabilities :

Estimated amount of Contracts remaining to be executed on account of Capital Account and not provided for (net of advances) is Rs. Nil.

10. Managerial Remuneration Paid/Payable :

	<u>2005-06</u>	<u>2004-05</u>
	Rs.	Rs.
Salary	1800000	700000
HRA	960000	245000

11. Confirmation of balances has not been received in respect of Sundry Creditors, Sundry Debtors, Loans and Advances. These accounts are subject to reconciliation and adjustments, if any.

12. Additional Information as required under part II of Schedule VI to the Companies Act, 1956.

13. Cash Flow Statement :

Cash Flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the Company are segregated.

Closing Balance of cash as per cash flow statement represents the following:

Cash in hand	6,22,229
Bank Balances	
In Current Accounts	3,75,489
In Deposit Accounts	41,07,800
Total	<u>51,05,519</u>

14. Additional information as required under part II of Schedule VI to the Companies Act, 1956.

	<u>2005-2006</u>		<u>2004-2005</u>	
	Qty. (Lakh Ltrs)	Value (Rs. in Lakhs)	Qty. (Lakh Ltrs)	Value (Rs. in Lakhs)
Licensed Capacity Alcohol (Ltrs)	150.00		150.00	
Installed Capacity * Alcohol (Ltrs)	150.00		150.00	
Actual Production Alcohol (Ltrs)	164.27		169.41	

*The figures are as certified by the management and not verified by the Auditors, being a technical matter.

Quantitative Details
a. Turnover

ENA	132.99	3744.815	94.53	2919.90
RS	0.41	11.150	38.50	956.94
SDS	26.26	462.760	28.26	484.99
ETHANOL	10.59	220.333	0.00	0.00
F.O	0.00	0.00	00.10	1.10

b. Opening Stock of Finished Goods :

ENA	4.62	117.05	7.85	131.59
RS	12.49	316.23	3.85	64.55
FO	0.01	0.26	0.10	1.70

c. Closing stock of Finished Goods:

ENA	1.22	32.01	4.62	117.05
RS	4.73	124.52	12.49	316.23
FO	0.09	2.56	0.01	0.26
Ethanol	0.08	2.12		

d. Consumption of Material:

i) Molasses (M.T)

Opening Stock	2276	109.29	1610	28.09
Purchases	67087	2674.34	64665	3154.24
Consumption	62993	2287.32	63998	3073.04
Closing Stock	6370	496.31	2276	109.29

ii) Rice Husk (M.T)

Opening Stock	769	7.45	807	9.43
Purchases	23906	332.82	36424	351.43
Consumption	24355	335.85	36462	353.41
Closing Stock	320	4.41	769	7.45

15. There are no foreign exchange earnings during the year.
16. The Company determines liability on Sales Tax Deferment on a Net Present Value basis and accordingly provision is made. Provision will be made in each year for the incremental liability. Amount Shown under the head Unsecured Loans (Schedule 4) includes sales tax amounting to Rs.1,707.37 lakhs collected under deferral scheme of Maharashtra State Government and is repayable in 14 years starting from the end of the 10th year in which it is so collected and earliest year to start repayment is 2009-2010.
17. **Earning per Share :**
- | | <u>2005-06</u> | <u>2004-05</u> |
|--|----------------|----------------|
| a. Calculation of weighted average no. of Equity shares of Rs.10/- each: | | |
| Number of equity share at the beginning of the year | 9942800 | 8442800 |
| Number of 5% Preference shares issued during the year | 0 | 2350000 |
| Number of equity shares issued during the year | 44800 | 1500000 |
| Number of shares outstanding at the end of the year | | |
| 5% Preference Shares | 2350000 | 2350000 |
| Equity Shares | 9987600 | 9942800 |
| Weighted average number of shares outstanding during the year | 12306915 | 10469923 |
| b. Net profit after tax (Rs.) | 13469122 | 9433341 |
| c. Basic earnings per share of Rs.10/- each | 1.29 | 1.05 |
| Diluted earnings per share of Rs.10/- each | 1.09 | 0.90 |
18. Paise rounded off to nearest rupee.
19. Previous years figures have been regrouped or reclassified wherever necessary to be in conformity with the current year's classification.
20. Schedules 1 to 19 form an integral part of the Balance Sheet and Profit and Loss Account.

As per my report of even date

For and on behalf of the Board

For Alapati Vadde & Co.,
Chartered Accountants

K. SUDHIR RAO
Vice Chairman

K. SUHAN RAO
Managing Director

Visswanath Vadde
Proprietor
Membership No : 208360

Y. SAILAJA
Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2006
 (pursuant to clause 32 of the Listing Agreement)

PARTICULARS	2005 - 2006		2004 - 2005	
	Rs.	Rs.	Rs.	Rs.
A. CASHFLOW FROM OPERATING ACTIVITIES				
Net Profit/(Loss) before tax	16548456		16717504	
Adjustment for				
Depreciation	21103398		18360339	
Interest	18610046		4834103	
Misc.exps written off	480377		399216	
Provision for doubtful debts	12102		82645	
Profit/Loss on sale of assets	253094		(49073)	
	57007472		40344734	
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES				
Adjustment for				
Inventories	(8964729)		(31209099)	
Trade and Other Receivables	2901975		(3150019)	
Trade Payables	10291405		6765372	
Loans and Advances	12554276		(43596729)	
Working Capital Finance	(4150682)		8390247	
CASH GENERATED FROM OPERATIONS BEFORE TAX	69639717		(22455495)	
Direct Taxes paid	(1392553)		(1310861)	
NET CASH GENERATED FROM OPERATIONS		68247164		-23766356
B. CASH FLOW FROM INVESTMENT ACTIVITIES				
Purchase of Fixed Assets	(17813977)		(64558498)	
Capital Work in Progress	(79899600)		670001	
Deferred revenue expenses	(4625500)		(405805)	
Sale of Fixed Assets	100000	(102239077)	101200	(64193102)
C. CASH FLOW FROM FINANCING ACTIVITIES				
Increase in				
Share Capital	(1076000)		32300000	
Capital Reserve				
(Profit on reissue of forfeited Shares)	1075200		7500000	
Borrowings from Banks & FI	639652		3800037	
Unsecured Loans	46888086		48439917	
Interest Paid	(11872599)	35654339	(4834103)	87205851
Net increase in cash and cash equivalents		1662426		(753607)
Opening Balance as at 1 st April, 2005		3443093		4196700
Closing Balance as at 31 st March, 2006		5105519		3443093

As per my report attached
For Alapati Vadde & Co.,
 Chartered Accountants

For and on behalf of the Board

Visswanath Vadde
 Proprietor
 Membership No : 208360

K. SUDHIR RAO
 Vice Chairman

K. SUHAN RAO
 Managing Director

Date : 22nd May, 2006
 Place : Hyderabad

Y. SAILAJA
 Company Secretary

15. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE:
 [Additional Information Pursuant to Part IV of Schedule VI of Companies Act, 1956 (as amended)]

I. Registration Details

Registration No. State Code

Balance Sheet
 Date Month Year

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue Right Issue

Bonus Issue Private Placement

Reissue of forfeited shares

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities Total Assets

Sources of Funds

Paid-up Capital Reserves & Surplus

Secured Loans Unsecured Loans

Application of Funds

Net Fixed Assets Investments

Net Current Assets Misc. Expenditure

Accumulated Losses

IV. Performance of the Company (Amount in Rs. Thousands)

Turnover Total Expenditure

(Includes Other Income)

+ - Profit before Tax + - Profit after Tax

Earnings Per Share in Rs. (Diluted) Dividend Rate %

V. Generic Name of Principal Product / Service of the Company

Item Code No. (ITC Code)

Production Description

As per my report attached
For Alapati Vadde & Co.,
 Chartered Accountants

For and on behalf of the Board

Visswanath Vadde
 Proprietor
 Membership No : 208360

K. SUDHIR RAO
 Vice Chairman

K. SUHAN RAO
 Managing Director

Date : 22nd May, 2006
 Place : Hyderabad

Y. SAILAJA
 Company Secretary

PIONEER DISTILLERIES LIMITED

Registered Office: Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra - 431 809.

ATTENDANCE SLIP

I hereby record my presence at the **13th Annual General Meeting** of the Company on **Thursday, the 22nd June, 2006 at 12.00 Noon** at the Registered Office of the Company at **Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra - 431 809.**

Folio No. / Client ID

No. of Shares held:

DP ID:

Name of the Member:

- 1 A Member/Proxy wishing to attend the meeting must complete this Attendance Slip and hand it over at the entrance.
- 1 If you intend to appoint a Proxy, please complete the Proxy Form below and deposit it at the Company's Registered Office 48 hours before the meeting. Please ensure that the Proxy brings this Attendance Slip with him/her for the meeting.

Name of the Proxy

Signature of the Member / Proxy

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PIONEER DISTILLERIES LIMITED

Registered Office: Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra - 431 809.

PROXY FORM

Folio No. / Client ID:

DP ID:

I/We of
being a member/members of **PIONEER DISTILLERIES LIMITED**, hereby appoint Mr/Ms..... of as my/our Proxy to attend and vote for me/us on my/our behalf at the **13th Annual General Meeting** of the Company to be held on **Thursday, the 22nd June, 2006 at 12.00 Noon** at the Registered Office of the Company at **Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra- 431 809** and at any adjournment thereof.

Signed this day of 2006.

Signature of

Affix 15 Paise Revenue Stamp

 the First / Sole holder

Note: The Proxy Form duly completed, must be deposited at the Registered. Office of the Company at Balapur Village, Dharmabad Taluk, Nanded District, Maharashtra- 431 809 not less than 48 hours before the time for holding the Meeting.