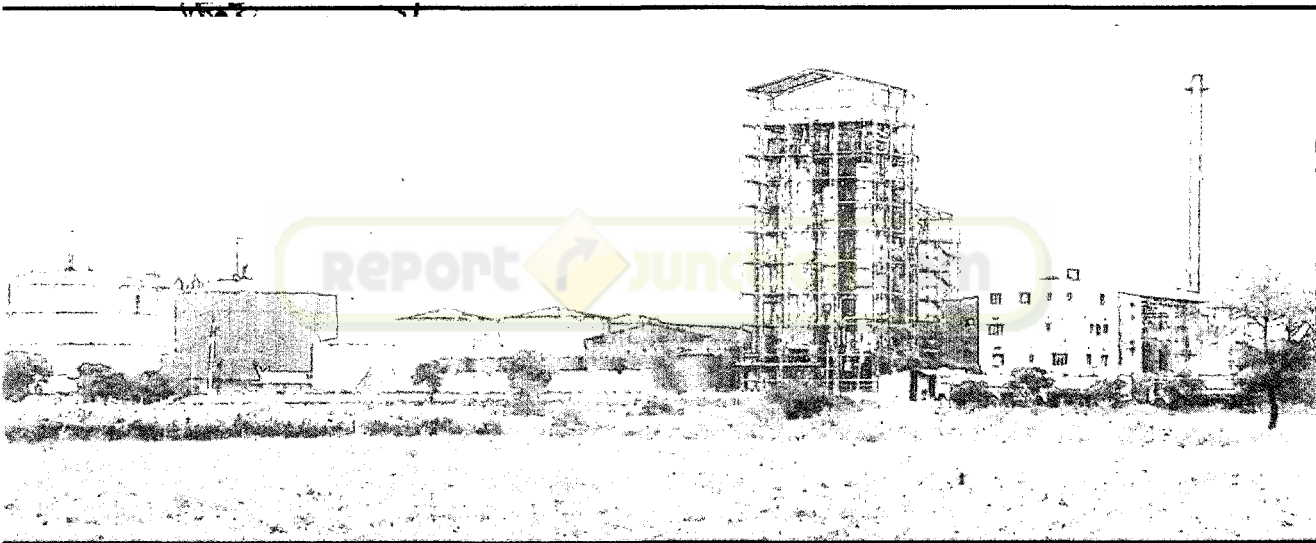


PIONEER



PIONEER DISTILLERIES LIMITED

**Fourteenth Annual Report
2006-2007**

CONTENTS

	Page No.
Company Information	3
Chairman's Message	4
Notice to the Shareholders	5
Directors' Report	11
Report on Corporate Governance	15
Management Discussion & Analysis Report	24
Certificate on Corporate Governance	28
Auditor's Report	29
Balance Sheet	32
Profit & Loss Account	33
Schedules forming part of the accounts	34
Balance Sheet Abstract & Business Profile	47
Cash Flow Statement	48
ECS Mandate Form	49
Proxy Form and Attendance Slip	51

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
Shri. V. Subramanian	Non Executive Director
Shri H. Anantha Krishnan	Nominee Director- LIC
Shri D. Sudhakar Rao	Nominee Director- IDBI
Shri. C.V. Kamalaker	Non Executive 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
Shri K. Hari Narayana Rao,	Sr.Manager - Finance and Accounts
Smt. V.Roja Rani	Company Secretary

Registered Office

8-2-311/C, Mithilanagar,
Road No.10, Banjara Hills,
Hyderabad - 500 034. (A.P)
Ph no: +91-40-23542920, 32437722/55,
Fax: 040-2354 2921
Email: info@pioneerdistilleries.com

Factory Address

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

14th Annual Report

LETTER TO THE STAKEHOLDERS



K.V. RAJESHWAR RAO
Chairman

Dear Stakeholders,

At the outset, I thank all of you for the privilege bestowed on me to serve as the Chairman of the Company. I am pleased to report that your Company's performance for the Financial Year 2006-2007 has been excellent as evident from the Financial Statements placed before you.

The year 2006-2007 is the most memorable in the history of Pioneer Distilleries, registering exceptionally good results in terms of turnover and profitability. The phenomenal results, after the successful completion of the expansion of plant capacity from 50 KLPD to 100 KLPD, indicate not only our capabilities but also a strong base to sustain and excel our growth in the years to come. I am sure that this performance being one of the best in the industry would reinforce the confidence of all our stakeholders.

The sheer size of India's Distillery market is growing at a fast pace and attracting the attention of global players. The emerging business structures and rapid technological changes have sailed over the geographical barriers, redefining competition in the market. The challenge therefore is to remain competitive and achieve our goals and continue to deliver value to the stakeholders.

During the year, on the operational front, your Company has achieved the capacity utilization of 94.56% with a turnover of Rs.5349.04 Lakhs. I have a great pleasure to inform you that, your company has recorded a net profit of Rs. 527.67 Lakhs, registering a growth rate of 292% for the year 2006-2007. Our endeavor will be continuous till we take the company to great heights in the years to come. Considering the performance during the year the Board of Directors are pleased to recommend a Dividend @ 10% for the Year 2006-2007.

As a part of further expansion and diversification of its business activities in the direction of exploring new opportunities, your company has identified Bio Gas based power generation project. Your company has taken steps for setting up of the said power project at factory premises, and has approached the bankers for appraisal of the project. The management is planning to complete the construction activity during this year and is expected to start commercial production in the first quarter of 2008. I am confident that the revenues generated from the power project will improve the profitability of the company in the years to come and step up its other allied activities.

I believe that the current performance levels are only an indication of our potential and this should set the pace to accelerate our growth in the years to come. I am sure that all our stakeholders and investors are looking up to re-define the benchmark of performance of the company.

I would like to reiterate that your company is committed to ensure:

- Uncompromising attitude for quality of the products;
- Equal treatment of all stakeholders without any discrimination and transparent policy in accordance with highest norms of corporate governance; and
- A prosperous and profitability organization.

I have enjoyed the continued support from the Board of Directors. I take this opportunity to express my gratitude to the Board, Government Authorities, Financial Institutions, Bankers, Esteemed Customers and shareholders for their support and encouragement in all our endeavors. I also thank all the employees at various levels in the organization for their continued dedication, commitment and support in achieving this remarkable performance and looking forward for your unflinching support in the years to come.

Very Sincerely,

K.V. RAJESHWAR RAO
Chairman
16th August, 2007

NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the **Fourteenth Annual General Meeting** of the Members of Pioneer Distilleries Limited will be held at 10.30 A.M on Wednesday the 19th day of September 2007 at Hotel Green Park, Greenlands, Ameerpet, Hyderabad -500 016 to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2007 and the Profit and Loss Account for the year ended 31st March, 2007 along with the Auditors' Report and Directors' Report thereon.
2. To declare Dividend for the Year ended 31st March, 2007.
3. To appoint a Director in place of Shri K.V.Rajeshwar Rao, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri.V.Subramanian, who retires by rotation and being eligible, offers himself for reappointment.
5. 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 the Statutory Auditor's Remuneration.

Special Business

6. Revision in the Remuneration payable to Sri K.Sudhir Rao, Vice Chairman of the Company :

To consider and if thought fit, to pass with or without modification(s) the following resolution as a **SPECIAL RESOLUTION**.

"RESOLVED THAT in supersession of the Resolution passed by the Members in the 12th Annual General Meeting held on

25.08.2005 and subject to the provisions of Sections 198, 269, 309, 314 and other applicable provisions, if any, of the Companies Act 1956, read with Schedule XIII thereof as amended upto date, the consent of the Company be and is hereby accorded to the revision in the remuneration payable to Sri K.Sudhir Rao, Vice Chairman of the Company with effect from 01.04.2007 and upto the expiry of the term of his appointment i.e. 28.02.2010.

Salary : Rs. 2,00,000/- P.M.

Commission: The Commission payable will be in addition to the Salary, Perquisites and Allowances, the amounts of which, based on the net profits of the Company in a particular year, shall be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

In addition to the salary and commission as stated above Shri.K.Sudhir Rao, Vice Chairman shall be entitled to the following :-

CATEGORY A:

- (i) **Housing:**
HRA to the extent of 20% of the salary.
- (ii) **Medical/Reimbursement:**
Expenses incurred for self and his family subject to a ceiling of one month's salary per year or three months' average salary in a period of three years.
- (iii) **Leave Travel Concession:**
Actual Expenditure incurred for self and family once in a year.
- (iv) **Club Fee:**
Fees of clubs subject to a maximum of two clubs, excluding the admission and life membership.
- (v) **Insurance:**
Personal Accident Insurance, Medical

14th Annual Report

Insurance and such other insurance subject to the overall limits.

CATEGORY B:

- i) Contribution towards Provident Fund and Superannuation Fund/Pension Fund to the extent either these singly or put together are not taxable under the Income Tax Act, 1961.
- ii) Gratuity payable in accordance with the rules of the Company will not be included in the computation of ceiling on remuneration.
- iii) Provision of car with driver for use on Company's business and telephone (mobiles) at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Vice Chairman.
- iv) Earned/Privilege Leave on full pay and allowances as per rules of the Company. Leave accumulated but not availed of during his tenure may be encashed as per the rules of the Company.

Overall Remuneration

The aggregate of the Salary, Perquisites and Allowances in any financial year shall not exceed the limits prescribed from time to time under section 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, for the time being in force.

Minimum Remuneration

"RESOLVED FURTHER THAT in the event of no profits or inadequacy of profits in any year Sri K. Sudhir Rao shall be entitled to the remuneration by way of salary, perquisites and allowances not exceeding the limits specified above and he shall be entitled for Annual Increments as per the Rules and Policies of the Company".

7. Revision in the Remuneration payable to Sri K.Suhan Rao, Managing Director of the Company:

To consider and if thought fit, to pass with or without modification(s) the following resolution as a **SPECIAL RESOLUTION**.

"RESOLVED THAT in supersession of the Resolution passed by the Members in the 12th Annual General Meeting held on 25.08.2005 and subject to the provisions of Sections 198, 269, 309, 314 and other applicable provisions, if any, of the Companies Act 1956, read with Schedule XIII thereof as amended upto date, the consent of the Company be and is hereby accorded to the revision in the remuneration payable to Sri K.Suhan Rao, Managing Director of the Company with effect from 01.04.2007 and upto the expiry of the term of his appointment i.e. 28.02.2010.

Salary : Rs. 2,00,000/- P.M.

Commission : The Commission payable will be in addition to the Salary, Perquisites and Allowances, the amount of which, based on the net profits of the Company in a particular year, shall be subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

In addition to the salary and commission as stated above Shri.K.Suhan Rao, Managing Director shall be entitled to the following:-

CATEGORY A:

- (i) **Housing:**
HRA to the extent of 20% of the salary.
- (ii) **Medical Reimbursement:**
Expenses incurred for self and his family subject to a ceiling of one month's salary per year or three months' average salary in a period of three years.
- (iii) **Leave Travel Concession:**
Actual Expenditure incurred for self and family once in a year.

PIONEER DISTILLERIES LIMITED**(iv) Club Fee:**

Fees of clubs subject to a maximum of two clubs, excluding the admission and life membership.

(v) Insurance:

Personal Accident Insurance, Medical Insurance and such other insurance subject to the overall limits.

year Shri.K.Suhan Rao shall be entitled to the remuneration by way of salary, perquisites and allowances not exceeding the limits specified above and he shall be entitled for Annual Increments as per the Rules and Policies of the Company”.

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

CATEGORY B:

- i) Contribution towards Provident Fund and Superannuation Fund/Pension Fund to the extent either these singly or put together are not taxable under the Income Tax Act, 1961.
- ii) Gratuity payable in accordance with the rules of the Company will not be included in the computation of ceiling on remuneration.
- iii) Provision of car with Driver for use on Company's business and telephone (mobiles) at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Managing Director.
- iv) Earned/Privilege Leave on full pay and allowances as per rules of the Company. Leave accumulated but not availed of during his tenure may be encashed as per the rules of the Company.

Overall Remuneration

The aggregate of the Salary, Perquisites and Allowances in any financial year shall not exceed the limits prescribed from time to time under section 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, for the time being in force.

Minimum Remuneration

“RESOLVED FURTHER THAT in the event of no profits or inadequacy of profits in any

Date: 16th August, 2007
Place: Hyderabad

V. ROJA RANI
Company Secretary

NOTES

1. Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 in respect of the special business items is annexed hereto.
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 of the Company. 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 Share Transfer books of the Company will remain closed from 14-09-2007 to 19-09-2007 (both days inclusive) for the purpose of Dividend & Annual General Meeting.
5. Dividend on shares @ 10% as recommended by the Board of Directors, if declared by the Company at the meeting, and will be paid subject to the provisions of Section 205A of the Companies Act, 1956, to those shareholders whose names appear on the Register of Members of the Company as on 14-09-2007 or to their mandates, to the extent eligible, and also to the beneficial owners of equity shares held in electronic form on

14th Annual Report

the same date as per the details furnished by the Depositories for this purpose.

6. Bank Mandates

In order to provide protection against fraudulent encashment of the dividend warrants, members holding shares in physical form are requested to intimate to the Registrar & Share Transfer Agent under the signature of the Sole / First holder, the following information for incorporation in the Dividend Warrants:

Name of the Sole / First holder and Folio Number.

Name of the Bank, its branch and the Account Number allotted by the said Bank

Complete address of the Bank with Pincode number

7. The Securities and Exchange Board of India (SEBI) and the Department of Company Affairs have made it mandatory for all the listed companies to offer Electronic Clearing Service (ECS) facilities for payment of dividend, wherever applicable. This facility offers various benefits like timely credit of dividend to the shareholders' account, elimination of loss of instruments in transit or fraudulent encashment etc. Currently, the facility is available at locations specified by RBI. In the case of shareholders staying at locations not currently covered by ECS, the bank account details will be used for suffixing along with the name of the shareholder on the Dividend Warrant. In view of the above,

- i. Shareholders holding shares in Physical Form and desirous of availing the facility are requested to complete the ECS Form attached to this Annual Report and forward the same to the Company's Registrar and Transfer Agent.
- ii. Shareholders holding shares in Dematerialised Form are requested to provide the Bank details to their Depository participants for incorporation in their records. The

Depository in turn would also forward the required information to the Company and the Company's Registrar and Transfer Agent.

8. Members are requested to intimate any change in their addresses to M/s Venture Capital and Corporate Investments Ltd, Registrar and Share Transfer Agent of the Company.
9. Non-Resident Indian Members are requested to inform the Company's Registrar and Transfer Agent, M/s Venture Capital and Corporate Investments Limited, immediately of the change in the residential status on return to India for permanent settlement.
10. A Member desirous of getting any information on the accounts or operations of the Company is requested to forward his/her queries to the Company at least seven days prior to the date of the meeting for consideration of the management to deal at the meeting.
11. Members are requested to bring the attendance slip along with their copy of Annual Report to the Meeting.

PIONEER DISTILLERIES LIMITED**Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.****Item No. 6**

The appointment and payment of remuneration to Sri K.Sudhir Rao, Vice Chairman of the Company, for a tenure of 5 years, i.e., with effect from 01.03.2005 to 28.02.2010 was approved by the members in the Annual General Meeting held on 25th August, 2005.

Sri K.Sudhir Rao, aged about 48 years is a MS in Computer Science and has about 12 years of experience in Distillery Industry. He has been actively involved in the day to day affairs of the Company, with emphasis on Finance, production activity and the overall administration of the Company.

Sri K.Sudhir Rao, is one of the co-promoters of the Company. His business acumen and qualities of leadership have contributed immensely to the growth and stability of the Company. He is along with the Managing Director of the company, instrumental in completing the expansion of plant capacity from 50 KLPD to 100 KLPD during the last Financial Year. He is actively involved in Company's modernization and expansion plans. He is presently over seeing the setting up of the Bio Gas based power plant at factory along with the Managing Director of the company.

The Company has made remarkable progress under his guidance and supervision and has embarked upon the expansion and diversification activities to achieve a much higher growth rate. Considering the efforts and time devoted and his endeavor to make the company to achieve greater milestones with his rich experience in the Distillery Industry and also keeping in view the responsibility with the increase in the complexities of business, approval of the Members is sought for payment of higher remuneration to Shri K.Sudhir Rao, Vice Chairman as set out in the Resolution.

The increase in the remuneration and terms was approved by the remuneration committee. Considering the recent trends in the remuneration payable to the top managerial personnel, the Board of Directors at their meeting held on 30.07.2007 has recommended a remuneration of Rs. 2,00,000/- P. M. plus commission, allowances and perquisites as detailed in the resolution subject to the approval of the Members in the Annual General Meeting and other necessary approvals, if any, for the remaining tenure of his appointment i.e. w.e.f 01.04.2007 to 28.02.2010.

Name of the Companies in which he is a Director.

1. Pioneer Urban Developers Limited — Director
2. Pioneer i Serve Limited — Director

The revision in remuneration payable to Sri. K.Sudhir Rao, requires the approval of the Members of the Company.

None of the Directors except Shri K.Sudhir Rao, Shri K.Suhan Rao, Shri K.V.Rajeshwar Rao and Shri.L.Venkateswara Rao are deemed to be concerned or interested in the above resolution.

This may be treated as a notice as required under section 302 of the Companies Act, 1956.

The Board recommends the resolution for the approval of the Members.

Item No.7

The appointment and payment of remuneration to Sri K.Suhan Rao, Managing Director of the Company, for a tenure of 5 years, i.e., with effect from 01.03.2005 to 28.02.2010 was approved by the members in the Annual General Meeting held on 25th August, 2005.

Sri K.Suhan Rao, aged about 43 years is a Mechanical Engineer and has about 12 years of experience in Distillery Industry. He has been actively involved in the day to day operations and technical affairs of

14th Annual Report

the Company, with emphasis on Finance, Marketing activities and the overall administration of the Company.

Sri K.Suhan Rao, is one of the co-promoters of the Company. His business acumen and qualities of leadership have contributed immensely to the growth and stability of the company. He is along with the Vice Chairman of the Company instrumental in completing the expansion of plant capacity from 50 KLPD to 100 KLPD during the last Financial Year. He is committed to the company's modernization and expansion plans. He is presently over seeing the setting up of the Bio Gas based power plant at factory premises.

The Company has made tremendous progress under his guidance and supervision and his experience is invaluable for the company. Considering the efforts and time devoted by Shri K.Suhan Rao in achieving the growth and success of the Company with his rich experience in the Distillery and related activities, besides keeping in view the increase in the responsibility of the Managing Director in the light of complexities of business, approval of the Members is sought for the payment of higher remuneration to Shri K.Suhan Rao, Managing Director as set out in the Resolution.

The increase in the remuneration and terms was approved by the remuneration committee. Considering the recent trends in the remuneration payable to the top managerial personnel, the Board of Directors at their meeting held on 30.07.2007 has recommended a remuneration of Rs.2,00,000/-P.M. plus commission, allowances and perquisites as detailed in the resolution subject to the approval of the Members in the Annual General Meeting and other necessary approvals, if any, for the remaining tenure of his appointment i.e. w.e.f 01.04.2007 to 28.02.2010.

Name of the Companies in which he is a Director.

1. Pioneer Urban Developers Limited — Director
2. Pioneer i Serve Limited — Director

The revision in remuneration payable to Sri. K.Suhan Rao, requires the approval of the Members of the Company.

None of the Directors except Shri K. Suhan Rao, Shri K. Sudhir Rao, Shri K.V.Rajeshwar Rao and Shri.L.Venkateswara Rao are deemed to be concerned or interested in the above resolution.

This may be treated as a notice as required under section 302 of the Companies Act, 1956.

The Board recommends the resolution for the approval of the Members.

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

Date: 16th August, 2007
Place: Hyderabad

V. ROJA RANI
Company Secretary