Consolidated Financials

Auditors' Report

TO THE BOARD OF DIRECTORS OF GODREJ CONSUMER PRODUCTS LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. We have audited the attached Consolidated Balance Sheet of Godrej Consumer Products Limited and its subsidiaries as at March 31, 2006 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended, annexed thereto. These consolidated financial statements are the responsibility of Godrej Consumer Products Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. We did not audit the financial statements of the subsidiaries whose financial statements reflect the Group's share of total assets of Rs. 2834 lakhs as at March 31, 2006 and the Group's share of total revenues of Rs. 4251 lakhs and net cash outflow amounting to Rs. 3469 lakhs for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries is based solely on the report of the other auditors.

4. As stated in Note 3 of Schedule 18 to the Consolidated Financial Statements, certain subsidiaries whose financial statements reflect the Group's share of total assets of Rs. 8,213 lakhs as at March 31, 2006 and the Group's share of total revenues of Rs. Nil lakhs and net cash inflow amounting to Rs.198 lakhs for the year ended on that date have not been audited and have been considered in the consolidated financial statements based solely on the unaudited separate financial statements certified by the management.

5. We report that the consolidated financial statements have been prepared by the management of Godrej Consumer Products Limited in accordance with the requirements of Accounting Standard (AS) 21 - Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.

6. Based on our audit and on consideration of the reports of other auditors on separate financial statements and the management's certification of the unaudited financial statements, in our opinion, the consolidated financial statements, give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) in case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Godrej Consumer Products Limited Group as March 31, 2006;

   b) in case of the Consolidated Profit and Loss Account, of the consolidated results of operations for the year ended on that date; and

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

For and on behalf of
Kalyaniwalla & Mistry
Chartered Accountants

Viraf R. Mehta
Partner
Membership No: 32083
Mumbai, April 26, 2006

Consolidated Balance Sheet as at March 31, 2006

	Schedule		Rs. Lac
SOURCES OF FUNDS			
1. Shareholders' Funds			
(a) Share capital	1	2258.44	
(b) Reserves & surplus	2	5610.05	
			7868.49
2. Loan Funds			
Secured loans	3		6872.05
3. Deferred Tax Liability (net)			656.81
TOTAL			**15397.35**
APPLICATION OF FUNDS			
4. Fixed Assets	4		
(a) Gross block		17707.93	
(b) Less : Depreciation		9918.11	
(c) Net block		7789.82	
(d) Capital work-in-progress		705.90	
			8495.72
5. Goodwill			8514.10
6. Investments	5		100.58
7. Current Assets, Loans and Advances			
(a) Inventories	6	10046.70	
(b) Sundry debtors	7	3032.57	
(c) Cash and bank balances	8	2634.26	
(d) Loans and advances	9	1427.97	
		17141.50	
8. Less : Current Liabilities and Provisions			
(a) Liabilities	10	17873.08	
(b) Provisions	11	981.47	
		18854.55	
Net Current Assets			(1713.05)
TOTAL			**15397.35**
Significant Accounting Policies	17		
Notes to Consolidated Accounts	18		

The Schedules referred to above form an integral part of the Balance Sheet.

As per our Report attached
for and on behalf of
Kalyaniwalla & Mistry
Chartered Accountants

Viraf Mehta
Partner
Mumbai, April 26, 2006

Signatures to Consolidated Balance Sheet and Schedules 1 to 11, 17 and 18

Adi Godrej - Chairman and Managing Director
Jamshyd Godrej - Director
Bala Balachandran - Director
Rama Bijapurkar - Director
Bharat Doshi - Director
Hoshedar Press - Executive Director & President
Sunil Sapre - Executive Vice President (Finance & Commercial) and Company Secretary

Consolidated Profit & Loss Account for the year ended March 31, 2006

	Schedule	Rs. Lac
INCOME		
Sales (gross)		73432.60
Less : Excise duty		3460.53
		69972.07
Other income	12	877.71
		70849.78
EXPENDITURE		
Materials consumed and purchase of goods	13	33623.23
Expenses	14	23229.56
Inventory change	15	(1005.62)
Interest and financial charges (net)	16	647.42
Depreciation		1146.98
		57641.57
Profit Before Tax		13208.21
Provision for taxation		
– Current tax		(1175.66)
– Deferred tax		137.61
– Fringe Benefit Tax		(90.00)
Profit after taxation		12080.16
Tax adjustments in respect of previous years		50.28
Profit for the year		12130.44
Surplus brought forward		803.24
Profit available for appropriation		**12933.68**
Appropriations :		
Dividend on equity shares:		
– Interim		7904.54
(Details as per Directors Report)		
Tax on distributed profits		1108.61
Transfer to General Reserve		1214.00
Surplus carried forward		2706.53
TOTAL		**12933.68**
Basic and diluted earnings per share of Rs. 4 each (in rupees)		21.47
Significant Accounting Policies	17	
Notes to Consolidated Accounts	18	

The Schedules referred to above form an integral part of the Profit and Loss Account.

As per our Report attached
for and on behalf of
Kalyaniwalla & Mistry
Chartered Accountants

Viraf Mehta
Partner
Mumbai, April 26, 2006

Signatures to Consolidated Profit & Loss Account and Schedules 12 to 18

Adi Godrej - Chairman and Managing Director
Jamshyd Godrej - Director
Bala Balachandran - Director
Rama Bijapurkar - Director
Bharat Doshi - Director
Hoshedar Press - Executive Director & President
Sunil Sapre - Executive Vice President (Finance & Commercial) and Company Secretary

Consolidated Cash Flow Statement for the year ended March 31, 2006

	Rs. Lac
A. Cash Flow from operating activities :	
Profit before tax	13208.23
Adjustments for :	
Depreciation	1146.98
Foreign exchange	(61.75)
Profit on sale of fixed assets	(146.43)
Profit on sale of investment	(38.71)
Dividend income	(2.74)
Discount on prepayment of Deferred Sales Tax Loan	(3.25)
Interest income	(38.62)
Interest expense	686.04
Bad debts written off	2.17
Provision for doubtful debts and advances	(8.49)
Write in of old balances	(62.26)
Others	82.38
Operating profit before working capital changes	14763.55
Adjustments for :	
Inventories	(1200.81)
Trade and other receivables	(724.30)
Trade payables	2800.72
Cash generated/(used) from operations	15639.16
Direct taxes paid	(1373.58)
Net Cash from operating activities	**14265.58**
B. Cash Flow from investing activities :	
Purchase of fixed assets	(1661.06)
Proceeds from sale of fixed assets	2188.46
Purchase of investments	(45759.89)
Sale of investments	31551.45
Interest received	39.07
Dividend received	2.74
Net Cash (used)/generated in investing activities	**(13639.23)**
C. Cash Flow from financing activities :	
Buyback of equity share capital	(477.42)
Proceeds from borrowings	18621.43
Repayments of borrowings	(12373.95)
Cash credits (net)	275.25
Interest paid	(558.94)
Dividend paid	(7797.60)
Tax on distributed profits	(1109.62)
Net Cash (used)/generated in financing activities	**(3420.85)**
Net increase/(decrease) in cash and cash equivalents	(2794.50)
Cash and cash equivalents (Opening Balance)	5428.76
Cash and cash equivalents (Closing Balance)	2634.26

Consolidated Cash Flow Statement for the year ended March 31, 2006

	Rs. Lac
Notes :	
1. Cash and Cash equivalents	
Cash on hand and balances with banks	2632.57
Effect of exchange rate changes	1.69
Cash and cash equivalents	**2634.26**

2. To finance working capital requirements, the Company's Bankers have sanctioned a total fund-based limit of Rs. 1900 lac. Of this, limits utilised as on March 31, 2006 is Rs. 432.49 lac.

For and on behalf of
Kalyaniwalla & Mistry
Chartered Accountants

Viraf Mehta
Partner
Mumbai, April 26, 2006

Adi Godrej - Chairman and Managing Director
Jamshyd Godrej - Director
Bala Balachandran - Director
Rama Bijapurkar - Director
Bharat Doshi - Director
Hoshedar Press - Executive Director & President
Sunil Sapre - Executive Vice President (Finance & Commercial) and Company Secretary

Schedules forming part of Consolidated Accounts for the year ended March 31, 2006

		Rs. Lac
SCHEDULE 1 : SHARE CAPITAL		
Authorised:		
62,500,000 Equity shares of Rs. 4 each		2500.00
		2500.00
Issued, Subscribed and Paid up:		
56,461,019 Equity shares of Rs. 4 each fully paid		2258.44
		2258.44
Of the above, 56,460,844 shares have been issued for consideration other than cash pursuant to the scheme of arrangement with Godrej Soaps Limited.		
SCHEDULE 2 : RESERVES AND SURPLUS		
Capital Investment Subsidy Reserve		
As per last balance sheet		15.00
Capital Redemption Reserve		
As per last balance sheet	128.98	
Add: Transfer from General Reserve	5.74	
		134.72
General Reserve		
As per last balance sheet	1774.14	
Add: Transfer from Profit and Loss Account	1214.00	
	2988.14	
Less: Transfer to Capital Redemption Reserve on buy-back of shares	5.74	
Less: Premium on buy-back of shares	471.68	
		2510.72
Foreign Currency Translation Reserve		243.08
Profit & Loss Account		2706.53
		5610.05
SCHEDULE 3 : SECURED LOANS		
Sales tax deferment loan		54.92
Loans from banks		
– Cash Credit		432.49
– Term Loans		6384.64
		6872.05

Schedules forming part of Consolidated Accounts for the year ended March 31, 2006

SCHEDULE 4 : FIXED ASSETS **Rs. Lac**

Assets	Gross Block					Depreciation					Net Block
	As at 01.04.2005	Assets of subsidiaries as on take over date	Additions	Deductions	As at 31.03.2006	As at 01.04.2005	Accumulated depreciation of subsidiaries as on take over date	Deductions	For the year	As at 31.03.2006	As at 31.03.2006
Tangible Assets:											
Land											
- Freehold	385.51	—	—	374.08	11.43	—	—	—	—	—	11.43
- Leasehold	125.55	91.89	—	—	217.44	10.63	91.89	—	1.30	103.82	113.62
Buildings	3451.96	—	—	1782.08	1669.88	641.93	—	254.06	68.46	456.33	1213.55
Plant & Machinery	9789.32	342.50	290.21	56.37	10365.66	5281.48	241.57	27.86	627.99	6123.18	4242.48
Furniture & Fixtures	191.92	—	19.35	122.72	88.55	90.91	—	44.97	10.44	56.38	32.17
Office Equipment	359.83	35.36	17.39	58.42	354.16	151.91	31.66	15.76	18.14	185.95	168.21
Vehicles	87.30	59.08	—	16.54	129.84	45.14	25.64	7.91	14.04	76.91	52.93
Intangible Assets:											
– Trademarks	3520.06	1254.18	—	—	4774.24	1674.02	820.12	—	398.93	2893.07	1881.17
Assets acquired under Finance Lease											
– Vehicles	76.64	—	26.63	6.54	96.73	16.32	—	1.53	7.68	22.47	74.26
Total This Year	**17988.09**	**1783.01**	**353.58**	**2416.75**	**17707.93**	**7912.34**	**1210.88**	**352.09**	**1146.98**	**9918.11**	**7789.82**
Capital work-in-progress											705.90
Total											8495.72

Note: Trademarks represent the cost of acquisition of certain Godrej soaps, toiletries and detergent brands acquired in pursuance of scheme of demerger and snuggy brand. The remaining amortisation period of the trademarks is between five to seven years.

Schedules forming part of Consolidated Accounts for the year ended March 31, 2006

	Rs. Lac
SCHEDULE 5 : INVESTMENTS	
Long Term Investments (Quoted)	
2500 Ordinary shares in Creightons plc of 1 pence each	0.58
(Market value as of March 31, 2006 - Rs. 0.05 lac)	
Current Investments (Unquoted)	
900641 units of Birla Sunlife Mutual Fund - Liquid Scheme	100.00
	100.58
SCHEDULE 6 : INVENTORIES	
(at lower of cost and net realisable value)	
Stores and spares	339.08
Raw materials	3181.30
Work-in-progress	1083.92
Finished goods	5442.40
	10046.70
SCHEDULE 7 : SUNDRY DEBTORS	
(Unsecured)	
Debts outstanding for a period exceeding six months	
– Considered doubtful	29.23
Debts outstanding for a period less than six months	
– Considered good	3032.57
	3061.80
Less: Provision for doubtful debts	29.23
	3032.57
SCHEDULE 8 : CASH AND BANK BALANCES	
Cash on hand	10.04
Cheques on hand	75.21
Balances with scheduled banks	
– on current accounts	2524.77
– on deposit accounts	24.24
	2634.26
SCHEDULE 9 : LOANS AND ADVANCES	
(Unsecured and considered good unless otherwise stated)	
Advances recoverable in cash or in kind	
or for value to be received	628.48
(net of advances considered doubtful Rs. 9.48 lac)	
Deposits and balances with	
– Customs & Excise authorities	617.10
– Other deposits	182.39
	1427.97

Schedules forming part of Consolidated Accounts for the year ended March 31, 2006

	Rs. Lac
SCHEDULE 10 : CURRENT LIABILITIES	
Sundry creditors	
– Small scale industrial units	542.51
– Others	11905.01
Unclaimed dividend	250.47
(There is no amount due and outstanding to be credited to Investor Education and Protection Fund)	
Other liabilities	1799.34
Advances and deposits	429.68
Interest accrued but not due	123.02
Interim dividend payable	2823.05
	17873.08
SCHEDULE 11 : PROVISIONS	
Provision for tax on distributed profits	395.93
Provision for retirement benefits	360.27
Provision for Taxation	225.27
(net of advance payment of taxes)	
	981.47
SCHEDULE 12 : OTHER INCOME	
Dividend income	2.74
Profit on sale of Investments	38.71
Profit on sale of Fixed Assets	146.78
Claims received	555.65
Discount on pre-payment of deferred sales tax loan	3.25
Provision for doubtful debts and advances written back	8.49
Miscellaneous Income	122.09
	877.71
SCHEDULE 13 : MATERIALS CONSUMED AND PURCHASE OF GOODS	
Raw materials consumed	
Stocks at the commencement of the year	3039.52
Add : Purchases (net)	30750.65
	33790.17
Less : Stocks as at the close of the year	3181.30
Raw materials consumed during the year	30608.87
Purchase of goods for resale	3014.36
	33623.23

Schedules forming part of Consolidated Accounts for the year ended March 31, 2006

		Rs. Lac
SCHEDULE 14 : EXPENSES		
Salaries, wages and allowances		4366.17
Contribution to provident fund and other funds		200.89
Employee welfare expenses		186.83
Stores and spares consumed		434.77
Power and fuel		2107.72
Processing charges & other manufacturing expenses		841.24
Rent		261.40
Rates and taxes		745.64
Repairs and maintenance:		
– Machinery		128.84
– Buildings		38.44
– Other assets		60.96
Insurance		144.06
Establishment expenses		536.73
Travel & conveyance		669.96
Freight		2525.91
Commission		50.81
Discount		25.72
Advertisement and publicity		5717.39
Sales promotion		1495.12
Selling and distribution expenses		952.11
Bad debts written off		2.17
Miscellaneous expenses		1567.19
Excise Duty on increase in finished goods inventory		169.49
		23229.56
SCHEDULE 15 : INVENTORY CHANGE		
Stocks at the commencement of the year:		
Finished goods	4893.98	
Work-in-progress	626.72	
		5520.70
Less :		
Stocks at the close of the year :		
Finished goods	5442.40	
Work-in-progress	1083.92	
		6526.32
Increase in Inventory		**(1005.62)**
SCHEDULE 16 : INTEREST AND FINANCIAL CHARGES (Net)		
Interest Paid		
– on term loans and advances	208.61	
– on bank cash credit	7.81	
– other interest	205.91	
		422.33
Less : Interest Received		
– on customer balances	3.60	
– other interest	35.02	
		38.62
Other financial charges		263.71
		647.42

Significant Accounting Policies

SCHEDULE 17 : SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Convention

The consolidated financial statements are prepared under the historical cost convention, on accrual basis, in accordance with the generally accepted accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956.

b) Fixed Assets

Fixed Assets are stated at cost of acquisition or construction, less accumulated depreciation. Cost includes all expenses related to acquisition and installation of the concerned assets.

Fixed Assets acquired under finance lease are capitalised at the lower of their fair value and the present value of the minimum lease payments.

c) Intangible Assets

The cost of acquisition of trademarks is amortised equally over a period of ten years.

d) Investments

Investments are classified into current and long term investments. Long term investments are carried at cost. Provision for diminution, if any, in the value of investment is made to recognize a decline, other than temporary. Current investments are stated at lower of cost and net realisable value.

e) Inventories

Inventories are valued at lower of cost and net realisable value. Cost is computed on the weighted average basis and is net of cenvat. Finished goods and work-in-progress include cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Finished goods also include excise duty. Provision is made for cost of obsolescence and other anticipated losses, whenever considered necessary.

f) Provisions and Contingent Liabilities

Provisions are recognised in the accounts in respect of present probable obligations, the amount of which can be reliably estimated.

Contingent liabilities are disclosed in respect of possible obligations that arise from past events but their existence is confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

g) Revenue Recognition

Sales are recognised when goods are supplied and are recorded net of returns, trade discounts, rebates, sales taxes and excise duties.

Export incentives are accounted on accrual basis and include the estimated value of export incentives receivable under the Duty Entitlement Pass Book Scheme.

Dividend income is recognised when the right to receive the same is established.

Interest income is recognised on a time proportion basis.

h) Foreign Currency Transactions

Transactions in foreign currency are recorded at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the period end exchange rates. Forward exchange contracts, remaining unsettled at the period end, backed by underlying assets or liabilities are also translated at period end exchange rates. Premium or discount on forward foreign exchange contracts is amortised over the period of the contract and recognised as income or expense for the period. Exchange gains/ losses are recognised in the Profit and Loss Account except for exchange differences relating to fixed assets, which are adjusted in the cost of the asset.

i) Research and Development Expenditure

Revenue expenditure on Research & Development is charged to the Profit and Loss Account of the year in which it is incurred. Capital expenditure incurred during the year on Research & Development is shown as addition to fixed assets.

j) Retirement Benefits

Retirement benefits to employees comprise payments under defined contribution plans like provident fund and family pension. Payments under defined contribution plans are charged to the profit and loss account. The liability in respect of defined benefit schemes like gratuity and leave encashment benefit on retirement is provided on the basis of actuarial valuation at the end of each year. The liability for retirement gratuity is funded through a trust created for the purpose.

k) Depreciation

Leasehold land is amortised equally over the lease period.

Depreciation is provided pro rata to the period of use, on the Straight Line Method at the rates specified in Schedule XIV to the Companies Act, 1956, except for computer hardware which is depreciated over 4 years.

Depreciation in the subsidiary companies is provided on the Straight line method over the expected useful lives of the respective assets ranging between 3 years to 10 years.The impact on depreciation of the difference in expected useful lives between the holding company and subsidiaries is not material.

l) Taxes on Income

Current tax is the amount of tax payable on the taxable income for the year determined in accordance with the provisions of the Income Tax Act, 1961 and applicable tax laws prevailing for overseas subsidiaries.

Deferred tax is recognised on timing differences; being the differences between the taxable incomes and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets other than on unabsorbed tax losses and tax depreciation are recognized and carried forward only when there is a reasonable certainty of their realisation. The tax effect is calculated on the accumulated timing differences at the year end based on the tax rates and laws enacted or substantially enacted on the balance sheet date.

m) Incentive Plans

The Company has a scheme of Performance Linked Variable Remuneration (PLVR) which rewards its employees based on Economic Value Addition (EVA). The PLVR amount is related to actual improvements made in EVA over the previous year when compared with expected improvements. The EVA awards flow through a notional bank whereby only pre-specified portion of the bank is distributed each year and balance is carried forward. Only the amount distributed out of notional bank is charged to profit and loss account. The notional bank is held at risk and charged to EVA of future years and payable at that time if future performance so warrants.

n) Segment Reporting

Segment revenue, results, assets and liabilities have been identified to represent segments on the basis of their relationship to the operating activities of the segment. Revenue and expenses, which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under “Unallocated expenses”. Unallocated assets mainly relate to fixed assets at corporate and regional offices not directly identifiable to any segment.

Notes to Consolidated Accounts

SCHEDULE 18 : NOTES TO CONSOLIDATED ACCOUNTS

1. Principles of Consolidation

The consolidated financial statements relate to Godrej Consumer Products Limited, the holding company and its majority owned subsidiaries (collectively referred to as Group). The consolidation of accounts of the Company with its subsidiaries has been prepared in accordance with Accounting Standard (AS) 21 'Consolidated Financial Statements'. The financial statements of the parent and its subsidiaries are combined on a line by line basis and intra group balances, intra group transactions and unrealised profits or losses are fully eliminated.

In the consolidated financial statements, 'Goodwill' represents the excess of the cost to the Company of its investment in the subsidiaries and/or joint ventures over its share of equity, at the respective dates on which the investments are made. Alternatively, where the share of equity as on the date of investment is in excess of cost of investment, it is recognised as 'Capital Reserve' in the consolidated financial statements.

2. On 31st October 2005, Godrej Consumer Products Limited acquired 100 per cent ownership interest in Keyline Brands Limited a UK based FMCG company and its subsidiaries Inecto Manufacturing Limited, Cuticura Labs Limited, Inecto Limited and Cosmetics That Care Limited. The acquisition was made through the wholly owned subsidiaries Godrej Netherlands B.V. and Godrej Consumer Products (UK) Limited.

Accordingly the consolidated financial statements include the results of the subsidiaries for the period from the acquisition date and their assets and liabilities as on the balance sheet date.

This being the first time that GCPL is preparing Consolidated financial statements, no corresponding previous year figures are applicable and are thus not given.

3. The financial statements of the subsidiaries used in the consolidation are drawn upto the same reporting date as of the Company i.e. year ended March 31, 2006. The financial statements of Godrej Netherlands B.V. and Godrej Consumer Products (UK) Limited (the investment companies) and Cuticura Labs Limited, Inecto Limited and Cosmetics That Care Limited (the dormant subsidiary companies) have not been audited for the period ended March 31, 2006 and have been consolidated on the basis of accounts certified by the Management.

4. Particulars of Subsidiaries:

The subsidiary companies considered in the consolidated financial statements are:

S. No.	Name of the company	Country of Incorporation	Percentage of Holding
1.	Godrej Netherlands B.V.	Netherlands	100%
2.	Godrej Consumer Products (UK) Limited (100% subsidiary of Godrej Netherlands B.V.)	UK	100%
3.	Keyline Brands Limited (100% subsidiary of Godrej Consumer Products (UK) Limited)	UK	100%
4.	Inecto Manufacturing Limited (100% subsidiary of Keyline Brands Limited)	UK	100%
5.	Cuticura Labs Limited (100% subsidiary of Keyline Brands Limited)	UK	100%
6.	Inecto Limited (100% subsidiary of Keyline Brands Limited)	UK	100%
7.	Cosmetics That Care Limited (100% subsidiary of Keyline Brands Limited)	UK	100%

5. Contingent Liabilities

		March 31, 2006 Rs. Lac
a)	Claims for excise duties, taxes and other matters:	
	i) Excise duty demands aggregating Rs. 61.77 lac (Previous Year Rs.61.77 lac) against which the Company has preferred appeals (net of tax)	40.98
	ii) Sales tax demands aggregating Rs. 31.22 lac (Previous Year Rs.31.01 lac) against which the Company has preferred appeals (net of tax)	20.71
	iii) Other matters - Rs. 2.50 lac (Previous Year Rs. 2.50 lac) (net of tax)	1.66
b)	Excise duty demands and penalties in respect of toilet soaps cleared from Malanpur Factory during the period of joint venture with Procter & Gamble, confirmed by CESTAT vide its order dated February 2002. The amount of duty and penalty which is to be quantified by the Commissioner of Excise in accordance with the findings of CESTAT is estimated at Rs. 1212.82 lac (Previous Year Rs.1424.59 lac). The Company has filed an appeal against the order of CESTAT before the Supreme Court of India. By a subsequent CESTAT order passed in September 2004, all the assessments for the period April 1993 to March 1996 have been held to be provisional, thus negating the earlier stand of CESTAT. (net of tax)	1008.70
c)	Guarantees issued by banks, excluding guarantees issued in respect of matters reported in (a) above	236.48
d)	Guarantees of GBP 3 million given by the Company for securing loan availed by Godrej Netherlands B.V. a wholly owned subsidiary	2324.40

6. Capital Commitments

Estimated value of contracts remaining to be executed on Capital account, to the extent not provided	2167.67

7. Share Capital

The Company has during the year bought back 143,448 equity shares of Rs.4 each at an average price of Rs.332.82 per share aggregating Rs.477.42 lac in terms of the resolution passed by the Board of Directors at their meeting held on May 10, 2005. The shares so bought back have been extinguished.

The nominal value of the shares bought back and extinguished has been reduced from the paid up share capital and the premium paid for buy-back has been appropriated from the General Reserve account. Consequently, the Issued, Subscribed and Paid-up capital of the Company has been reduced by Rs.5.74 lac.

Notes to Accounts

8. Deferred Tax

	March 31, 2006 Rs. Lac
The breakup of net deferred tax liability as on March 31, 2006 is as under :	
Deferred tax liabilities :	
Difference between book and tax depreciation	798.00
	798.00
Deferred tax assets :	
Expenditure disallowable on payment	125.00
Provision for doubtful debts	10.00
Others	6.19
	141.19
Net deferred tax liability	**656.81**

9. Hedging Contracts

The Company uses forward exchange contracts to hedge its foreign exchange exposure in accordance with its forex policy as determined by a Forex Committee. As at March 31, 2006, the Company had 25 outstanding forward exchange contracts to purchase foreign currency aggregating to US Dollars 79,07,073 at an average rate of Rs. 45.05 per US Dollar. The uncovered foreign exchange exposure as at March 31, 2006 is US Dollar 27,16,536.

10. Leases

The Company has acquired some vehicles under finance leases. The liability for minimum lease payment is secured by hypothecation of the vehicles acquired under the lease. The minimum lease payments outstanding as on March 31, 2006, in respect of vehicles leased are as under:

Rs. Lac

Maturity Profile	Total of future minimum lease payments outstanding as on March 31, 2006	Unmatured finance charges	Present value of future minimum lease payments
Within one year	23.02	1.44	21.58
Later than one year and not later than five years	26.10	1.11	24.99
TOTAL	**49.12**	**2.55**	**46.57**

10. Leases Contd.

The Company has also acquired assets under operating leases. The liability for minimum lease payment is secured by hypothecation of the assets acquired under the lease. The minimum lease payments outstanding as on March 31, 2006, in respect of assets leased are as under :

Rs. Lac

Maturity Profile	Total of future minimum lease payments outstanding as on March 31, 2006	Unmatured finance charges	Present value of future minimum lease payments
Within one year	90.13	—	90.13
Later than one year and not later than five years	327.14	—	327.14
TOTAL	**417.27**	**—**	**417.27**

11. Profit and Loss Account

a) Sales includes distribution fees Rs. 161.74 lac.

b) The exchange differences included in the Profit & Loss Account is a loss of Rs.85.67 lac and premium in respect of forward exchange contracts to be recognised in subsequent accounting periods is Rs. 9.25 lacs.

c) Establishment expenses represent the company's share of various expenses incurred by Godrej Industries Ltd., a company under the same management for sharing of services and use of common facilities.

12. Incentive Plans

The amount carried forward in notional bank after distribution of PLVR for the financial year 2005-06 is Rs.2211 lac as on March 31, 2006. The said amount is not provided in the books of account and is payable in future, if performance so warrants.

13. Earnings per share

a)	Calculation of weighted average number of equity shares of Rs. 4 each	
	Number of shares at the beginning of the year	56604467
	Shares bought back and extinguished	143448
	Number of equity shares outstanding at the end of the year	56461019
	Weighted average number of equity shares outstanding during the year	56493148
b)	Net profit after tax available for equity shareholders (Rs. Lac)	12130.44
c)	Basic and diluted earnings per share of Rs.4 each (Rupees)	21.47

Notes to Accounts

14. Related Party disclosures

a) List of Related parties

Enterprise having control over reporting enterprise

Godrej & Boyce Mfg. Co. Ltd.

Subsidiaries

Godrej Netherlands B.V.

Godrej Consumer Products (UK) Limited

Keyline Brands Limited

Inecto Manufacturing Limited

Cuticura Labs Limited

Inecto Limited

Cosmetics That Care Limited

Enterprises under common control with whom transactions have taken place during the year

Godrej Industries Limited

Godrej Foods Limited

Godrej HiCare Limited

Godrej Agrovet Limited

Godrej Beverages & Foods Limited

Godrej Global Mid East FZE

Godrej Properties Limited

Gold Mohar Foods & Feeds Limited

Enterprise over which Key management personnel exercise significant influence

Godrej Investments Private Limited

Key Management Personnel & Relatives

Adi B. Godrej, Chairman and Managing Director

Hoshedar K. Press, Executive Director and President

Mrs. Parmeshwar A. Godrej, wife of Mr. Adi B. Godrej

Mrs. Khoorsheed H. Press, wife of Mr. Hoshedar K. Press

Transactions with Related Parties during the year ended March 31, 2006

Rs. Lac

Particulars	Enterprise having control over reporting enterprise	Enterprise under common control	Subsidiary Companies	Enterprise over which key management personnel exercise significant influence	Relatives of Key management personnel	Key management personnel	Total
Sale of goods	**11.17**	**1303.88**	—	—	—	—	**1315.05**
Purchase of materials, spares and capital equipment	**69.59**	**1073.24**	—	—	—	—	**1142.83**
Establishment and other expenses	**21.62**	**846.81**	—	—		—	**868.43**
Raw material taken on loan and returned during the year	—	—	—	—	—	—	—
Deposit placed against material loan and returned back	—	—	—	—	—	—	—
Finance Provided - Loan	—	—	**2405.37**	—	—	—	**2405.37**
Loans Repaid	—	—	**2405.37**	—	—	—	**2405.37**
Finance Provided - Equity	—	—	**4901.33**	—	—	—	**4901.33**
Interest received on Loan	—	—	**30.23**	—	—	—	**30.23**
Guarantees given	—	—	**2324.40**	—	—	—	**2324.40**
Dividend remitted	**3538.95**	**787.46**	—	**17.70**	—	**0.36**	**4344.47**
Managerial Remuneration	—	—	—	—	—	**279.66**	**279.66**
Sale of Residential properties	—	—	—	—	**2172.61**	—	**2172.61**
Lease rentals	—	—	—	—	**33.70**	—	**33.70**
Outstanding balances as at March 31, 2006							
Receivables	**1.56**	**182.28**	—	—	—	—	**183.84**
Payables	**5.02**	**242.90**	—	—	**33.70**	**111.15**	**392.77**
Guarantees outstanding	—	—	**2324.40**	—	—	—	**2324.40**

Notes to Accounts

b) The significant related party transactions are as under :

Nature of transactions	Enterprise having control over repo0rting enterprise	Amount (Rs. Lac)	Enterprise under common control	Amount (Rs. Lac)	Subsidiary Companies	Amount (Rs. Lac)	Key management personnel & Relatives	Amount (Rs. Lac)
Sale of goods		—	Godrej Global Mid East FZE	241.23		—		—
		—	Godrej Industries Ltd.	1045.76		—		—
Purchase of materials, spares and capital equipment		—	Godrej Global Mid East FZE	118.75		—		—
		—	Godrej Industries Ltd.	953.21		—		—
Establishment and other expenses		—	Godrej Industries Ltd.	848.62		—		—
Dividend remitted	Godrej & Boyce Mfg. Co. Ltd.	3538.95	Godrej Industries Ltd.	787.46		—		—
Finance Provided - Equity		—			Godrej Netherlands B.V.	4901.33		—
Finance Provided - Loan		—			Godrej Netherlands B.V.	2405.37		—
Loan Repaid		—			Godrej Netherlands B.V.	2405.37		—
Interest received on Loan		—			Godrej Netherlands B.V.	30.23		—
Guarantee given		—			Godrej Netherlands B.V.	2324.40		—
Managerial Remuneration		—				—	Adi B. Godrej	166.86
		—				—	H.K. Press	112.80
Sale of Residential properties		—				—	Mrs. P. A. Godrej	2077.63
		—				—	Mrs. K.H. Press	94.98
Lease Rentals		—				—	Mrs. P. A. Godrej	33.70

15. Segmental Reporting

The Company operates in two business segments : Soap and Personal Care. Soap includes Godrej brand and other brand toilet soap. Personal Care includes Hair colour, Shaving cream and gel, Talcum powder, Deodorant, Fairness cream, Liquid detergent and other toiletries.

Information about primary business segments **Rs. Lac**

	Soap	Personal Care	Unallocated	Total
Revenue				
External Sales	41318.37	28653.70	–	69972.07
Total Revenue	**41318.37**	**28653.70**	–	**69972.07**
Segment result before interest and taxation	5129.42	10653.41	–	15782.83
Unallocated expenses net of unallocated income	–	–	(1927.20)	(1927.20)
Interest expense (net)				(647.42)
Profit before tax				13208.21
Taxes				(1077.77)
Net Profit				12130.44
Segment Assets	13592.36	12719.93	7939.62	34251.91
Segment Liabilities	8013.10	10983.45	6730.05	25726.60
Total cost incurred during the year to acquire Segment assets	246.53	1812.55	77.51	2136.59
Segment depreciation	669.57	372.26	105.15	1146.98

Segments have been identified taking into account the nature of the products, the different risks and returns, the organisational structure and the internal reporting system.