Quality Spirits International Limited

Report and Financial Statements

31 December 2006

Registered No 1994340

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Results and dividends

The profit for the year, after taxation, amounted to £2,653,000 *(2005 - £1,853,000)* The directors do not propose the payment of a dividend leaving profit of £2,653,000 (*2005 - £1,853,000)* to be taken to reserves

Principal activities

The principal activity of the Company continued to be that of distributor for its ultimate parent company, William Grant & Sons Holdings Limited, selling cream liqueurs and other alcoholic beverages

Review of the business

The business performed well within the context of being heavily dependent on blended scotch in European markets Volume growth was in line with the industry with progress being made in securing business in Latin America, Asia and emerging European markets

Net operating profit for the year was £3,093,000, an improvement of £1,109,000 compared to the previous year reflecting the increased business through emerging European markets, in particular Russia, and the growth in shipments to a major European retailer

All overhead expenditure was maintained at agreed levels, broadly in line with the previous year

Directors and their interests

The directors during the period were as follows

J M Harvey	(appointed 7 August 2006)
R Kennedy	
A K Lowndes	
A B C Short	(resigned 1 April 2007)
N A Swan	(resigned 31 January 2006)

None of the directors had any interest in the share capital of the Company or its ultimate parent, William Grant & Sons Holdings Limited, at 31 December 2006

Directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In the case of each of the persons who are directors of the Company at the date of approval of this report, so far as the director is aware, there is no relevant audit information of which the Company's auditors are

Directors' report

Directors' responsibilities in respect of the financial statements (continued)

unaware, and the director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of the information

Financial risk management

The Company's policy does not permit trading in any financial instruments The Company's principal financial instruments comprise of cash, borrowings and forward currency contracts, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results

The Company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk The Company has clear policies for managing each of these risks, as summarised below

Interest rate risk

The Company holds cash balances on floating rate short-term deposit and maintains borrowings, where this is considered to be commercially appropriate The Company's policy is to monitor the level of these balances to ensure that funds are available as required, recognising that interest earnings will be subject to interest rate fluctuations

Foreign currency risk

The Company buys and sells goods and services denominated in currencies other than sterling The Company manages receipts and payments through the operation of other denominated currency bank accounts As a result of the value of the Company's non-sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates

The Company seeks to mitigate its exposure to currency movements by working with the Group's Treasury Committee to enter into forward currency contracts, denominated in the same currency as the operating funds flow, to match the exposures anticipated in the business The forward contracts are entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency The Company will seek to have an agreed proportion of its current year exposures matched to forward contracts, with lower percentages covered for the following year

Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

By order of the board

George Tait

G D Tait
Secretary

23 October 2007

Independent auditors' report
to the shareholders of Quality Spirits International Limited

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains & Losses, the Balance Sheet and the related notes 1 to 12 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

Glasgow

23 October 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	*2006* *£000*	*2005* *£000*
Turnover	2	20,998	19,101
Cost of sales		(16,052)	(14,953)
Gross profit		4,946	4,148
Distribution costs		(994)	(910)
Administration expenses		(859)	(1,254)
		(1,853)	(2,164)
Operating profit	4	3,093	1,984
Interest receivable	5	7	25
Profit on ordinary activities before taxation		3,100	2,009
Tax on profit on ordinary activities	6	(447)	(156)
Profit for the period after taxation		2,653	1,853

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £2,653,000 *(2005 – £1,853,000)* in the period ended 31 December 2006

Balance sheet
at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed Assets			
Plant and machinery	7	4	8
Current assets			
Debtors	8	9,522	9,049
Cash at bank and in hand		12,991	19,201
		22,513	28,250
Creditors amounts falling due within one year	9	(14,665)	(23,059)
Net current assets		7,848	5,191
Total assets less current liabilities		7,852	5,199
Capital and reserves			
Called up share capital	10/11	-	-
Profit and loss account	11	7,852	5,199
Equity shareholders' funds		7,852	5,199

R Kennedy
Director

23 October 2007

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Leasing

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Related party transactions

Related party transactions with group companies have not been disclosed in accordance with the exemption for subsidiary undertakings contained in Financial Reporting Standard 8 "Related Party Disclosures"

Cash flow statement

Under Financial Reporting Standard 1 (Cash flow statements) the Company is exempt from the requirement to prepare a cash flow statement because it is a wholly owned subsidiary undertaking and consolidated financial statements which include the Company are publicly available

2. Turnover

Turnover represents the amounts derived from the provision of goods which fall within the Company's ordinary activities, stated net of Duty and VAT

An analysis of the turnover, profit and net assets by class of business and geographical origin has not been disclosed The directors are of the opinion that to disclose such information would be seriously prejudicial to the interests of the Company

Notes to the financial statements

at 31 December 2006

3. Staff costs

	2006	*2005*
	£000	*£000*
Salaries	225	235
Social security costs	22	22
	247	257

The average weekly number of employees during the year was as follows

	2006	*2005*
	No	*No*
Administration	2	3
Selling	2	2
	4	5

4. Operating profit

The aggregate remuneration of all UK directors, excluding pension contributions, was £327,000 *(2005 - £381,000)* The highest paid director received £131,000 *(2005 £138,000)* The number of directors to whom retirement benefits are accruing in respect of qualifying services under defined benefit schemes is 4 *(2005 - 4)*

All audit fees have been met by an intermediate parent company, William Grant & Sons Limited

5. Interest receivable

	2006	*2005*
	£000	*£000*
Other	7	25

Notes to the financial statements

at 31 December 2006

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2006	*2005*
	£000	*£000*
Current tax		
UK corporation tax	561	405
Tax overprovided in previous years	(135)	(249)
Foreign tax	21	-
Tax on profit on ordinary activities	447	156

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% *(2005 - 30%)* The differences are reconciled below

	2006	*2005*
	£000	*£000*
Profit on ordinary activities before tax	3,100	2,009
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2005 - 30%)*	930	603
Tax overprovided in previous years	(135)	(249)
Expenses not deductible for tax purposes	7	(18)
UK to UK transfer pricing	(376)	(341)
Other	21	161
Total current tax (note 6(a))	447	156

Notes to the financial statements

at 31 December 2006

7. Tangible fixed assets

	Plant and machinery
	£000
Cost	
At 1 January 2006 and 31 December 2006	44
Depreciation	
At 1 January 2006	36
Provided during the period	4
At 31 December 2006	40
Net book value	
At 31 December 2006	4
At 1 January 2006	8

8. Debtors

	2006	*2005*
	£000	*£000*
Trade debtors	9,453	8,891
Other debtors	69	53
Amounts owed by parent company and fellow subsidiaries	-	105
	9,522	9,049

9. Creditors: amounts falling due within one year

	2006	*2005*
	£000	*£000*
Trade creditors	(169)	(188)
Other creditors and accruals	(665)	(570)
Current taxation	(1,449)	(2,000)
Other taxes and social security costs	(7)	(7)
Amounts owed to parent company and fellow subsidiaries	(12,375)	(20,294)
	(14,665)	(23,059)

Notes to the financial statements

at 31 December 2006

10. Share capital

	Authorised		*Allotted, called up and fully paid*	
	2006	*2005*	*2006*	*2005*
	No	*No*	*£*	*£*
Ordinary shares of £1 each	100	100	100	100

11. Share capital, movement on reserves and reconciliation of movements in shareholders' funds

	Called up share capital	*Profit and loss account*	*Total equity shareholders' funds*
	£000	*£000*	*£000*
At 1 January 2005	-	3,346	3,346
Profit for the period after taxation	-	1,853	1,853
At 1 January 2006	-	5,199	5,199
Profit for the period after taxation	-	2,653	2,653
At 31 December 2006	-	7,852	7,852

12. Ultimate parent company

The Company's immediate parent undertaking is William Grant & Sons Enterprises Limited William Grant & Sons Holdings Limited is the ultimate parent undertaking The group of companies of which William Grant & Sons Holdings Limited is the ultimate parent undertaking is the largest group in which the Company is a member Consequently the Company is included in its group financial statements The address from which copies of these group financial statements are available to the public is The Registrar, Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB