

# Report of the Directors

The Directors of **United Breweries Limited** have pleasure in presenting their Report with Audited Accounts of your Company for the year ended March 31, 2004.

## FINANCIAL RESULTS

Your Company's performance for the Financial Year ended March 31, 2004 is summarised below :

(Figures in Crore)

	2003-2004 Rupees	2002-2003* Rupees
Net Turnover .....	<b>453.68</b>	395.35
Profit before Interest, Depreciation & Taxation .....	<b>43.33</b>	43.68
Interest .....	<b>32.45</b>	34.55
Depreciation .....	<b>6.69</b>	5.38
Profit Before Tax .....	<b>4.19</b>	3.75
Provision for Taxation :		
Current .....	<b>(0.32)</b>	—
Deferred Tax (Liability) / Asset .....	<b>(1.09)</b>	(2.31)
Profit After Tax available for appropriations .....	<b>2.78</b>	1.44
Balance your Directors propose to carry to Balance Sheet.....	<b>2.78</b>	1.44

\* Figures have been appropriately presented to reflect the current classification as per Audited Accounts.

## DIVIDEND

Due to insufficiency of profits for the year under review, your Directors consider it prudent to skip payment of dividend for the year.

## CAPITAL

The Authorised Capital of the Company remained unchanged at Rs.250 Crore comprising of Equity Share Capital of Rs.30 Crore and Preference Share Capital of Rs.220 Crore. The Issued, Subscribed and Paid-up Equity Share Capital stands at Rs.17.82 Crore.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The brewing industry in India is characterised by a large number of small sized units. Over 57 breweries produce only 6 million hectolitres representing about 76 million cases. By way of comparison, SAB Miller produces 31.7 million hectolitres in South Africa through just 7 plants.

Consumption also remains very low compared to international averages at just 0.6 litres per capita per year compared to a world average of almost 25 litres. In the context of the overall beverage alcohol industry in the country, beer constitutes the smallest segment behind Country Spirits and IMFL.

Almost 70% of the population in India, (i.e. over 700 million people) being below the age of 34, constitutes a powerful argument for increase in the demand for beer. Low per capita consumption of beer in the country and changes to cultural attitudes towards the consumption of alcoholic products in recent times provide a further compelling case for the industry.

The full potential of the industry has been held back by a variety of regulatory constraints, most significantly, the regulation and taxation of beer which has lower alcohol content is clubbed with that of spirits. Universally beers and wines are treated on a different footing, both in regard to the taxation, as well as in respect of distribution, which is generally freer than for spirits. High Tax rates have greatly hampered the growth of Beer Industry in India, as it has led to increased prices which encourage growth of cheap and illicit liquor. The high dependence of State Governments on the revenues from taxation of alcoholic products has caused the levels to be kept unreasonably high.





## Report of the Directors (Contd.)

Harmonisation of tax structure across states and change in the present system of taxation wherein tax incidence based on alcohol content rather than ad valorem basis shall go a long way in improving the position of Beer Industry in India. Your Company is leading the dialogue with State Governments in this regard. Various States have begun to respond positively and it would be reasonable to assume that regulatory changes will result in progressive deregulation of the industry over the next several years.

Strong Beer, with an alcohol content between 6% and 8%, has witnessed the fastest growth in recent times. Higher alcoholic content and better value perception per rupee spent has resulted in higher consumption of such beers.

Kingfisher Strong, which entered into the fray 4 years back, has crossed sales of 10 million cases, growing by 29% compared to the 3% growth in the Strong Beer segment. This growth is evidence of the strong franchise enjoyed by your Company's flagship brand.

Historically, the consumption of beer has been seasonal in nature. Your Company is making efforts through promotional and awareness campaigns to de-emphasize the extent of seasonality and encourage consumption of beer even during the monsoons.

The consumption of beer is unevenly spread across the country with a geographic distribution of North 20%, East 8%, West 26% and South 46%. The fastest growing markets have been those in the States of Karnataka, Maharashtra, Tamil Nadu, Andhra Pradesh and Goa.

### OPERATIONS

#### Sales :

Your Company has achieved a growth of 9% in volumes sold during the year bringing the total to 33.10 million cases. During the same period the industry is estimated to have grown by 2%. Net sales for the year under review stood at Rs. 4537 million as against Rs.3954 million in the previous year representing a growth of 14.74% over the comparable figure in the previous year.

The Kingfisher family continued to lead the industry. Kingfisher Premium Lager sold over 18.8 million cases representing a growth of 1.56% over the previous year in a declining market. Kingfisher Strong recorded sales of over 10 million cases achieving a growth of about 29%. During the same period, the Strong Beer Industry is estimated to have grown by 3% only. Almost one of every 3 beers consumed in the country during the year was a Kingfisher.

A significant innovation in the launch of a pint pack of UB Export Lager in several critical markets of the country has opened up a new segment, driving both volumes and market shares. This innovation which delivered superior price value equation to the consumer offers a value 330 ml pack in key markets, mainly UB Export in Karnataka, Kingfisher Premium Lager in Goa and Kalyani Black Label in Kolkata. This growth driver not only increased the volumes but it has also succeeded in expanding the market, of which your Company has taken a significant share.

Your Company's market share improved by 300 basis points to 40%, replicating a growth of 300 basis points in the previous year. Significantly, in a very short span of time, Kingfisher Strong has established a sizeable 20% market share of the Strong Beer market, making it one of the most successful brand launches in the industry in recent times. Your Company continues to invest in its brands ensuring top of mind recall with customers.

Your Company has exploited the potential of underserved interior markets by delivering value to the consumer through superior cold stock management. This has been achieved by offering innovative coolers to points of sale in these markets which has helped to capture market share. This was accomplished successfully in Andhra Pradesh and other markets are now being targeted.

New capacities in Australia and New Zealand have been created through Contract Brewing Agreements which will further enhance the Company's Brands and improve retention.

#### Manufacturing expenses :

The manufacturing expenses were at about 54% of the net sales (PY - 48%). The increase is mainly due to higher salience of strong beer in the product mix and increasing bottling costs. The continuing constraints in the prices and availability of bottles has accounted for a further cost push. The introduction of the pint pack which has a larger component of bottle costs also contributed to this increase. However, both the Strong Beer and Pint Packs have led the overall growth recorded by

## Report of the Directors (Contd.)

your Company in both volumes and profits. Your Company has undertaken a two-way initiative which is both market and internally focused to improve margins.

### **Personnel and Other Operating Expenses :**

Personnel expenses stood at 6.59% of Net Sales as against 7% in the FY03. Other operating expenses were at 13.06% of net sales. This is primarily on account of increased volumes during the year at higher productivity levels.

### **Advertisement and Brand Promotion :**

Your Company spent 7.5% of net sales on Advertisement and Brand promotion during the year compared to 8.3% of the previous year. Innovative methods have, however, ensured that the recall of your Company's brands with target customers is retained at its traditional high levels.

The flagship brand Kingfisher Premium Lager Beer has over the years been associated with several life style platforms and the efforts were further strengthened through our association with India Fashion Week and Kingfisher Fashion awards during the year under review. The Kingfisher Calendar, in its second year has been a run-away success bagging international acclaim and awards in addition to its huge popularity with the public.

The Company has launched the new look Kingfisher with the "flying bird" across various markets. The launch was backed by various marketing inputs in the form of promotional materials, merchandise and innovations like branded elevators all sporting the "Its flying" theme.

Kingfisher East Bengal Football Club did India proud by winning the ASEAN Cup during the year. It is the first Indian football team to win an international tournament. Kingfisher leveraged this success with a multimedia campaign including television and events. It also generated tremendous publicity for the brand.

Our roster of brand ambassadors continued to grow and your Company continues its association with Baichung Bhutia for Kingfisher, Prosenjit for Kalyani Black Label, Upendra for UB Export Lager and an emerging star Karun Chandok, yet again for Kingfisher. Your Company has also signed up Vinod Kambli for London Pilsner.

### **Profit Before Interest, Lease Rentals, Depreciation and Taxation : (PBIDT)**

Despite unprecedented cost push during the year, the PBIDT for the year under review was Rs.433.3 million as against the Previous Year figure of Rs. 436.8 million.

### **Interest, Lease Rentals and Depreciation :**

Interest paid amounted to Rs.324.51 million, and Depreciation accounted for Rs.66.9 million. Infusion of Rs. 2138.47 million by way of Preference Capital will bring about a significant reduction in the finance charges in future.

### **Profit Before and After Taxation :**

The profit before taxation stands at Rs.74 million, before a non-recurring charge of Rs.32 million, being a provision made against advances to a brewing entity, which has now been ordered for winding up by BIFR (profit of Rs.57 million reported in FY03 before an exceptional non recurring item in the form of diminution in value of investment). The profit after taxation during the year is Rs.27.80 million as against a profit of Rs.14.40 million in the previous year.

### **Status of Strategic Partnership :**

Your Company holds 40% stake in McDowell Alcobev Ltd., the Joint Venture Company with S&N. McDowell Alcobev Ltd. already owns a network of breweries and strong regional brands which has further enhanced your Company's leadership position.

Scottish & Newcastle plc. are to induct Rs. 2000 million through participation in the Rights Issue for Redeemable Optionally Convertible Preference Shares (ROCPS). Your Company has filed the Letter of Offer with the Securities & Exchange Board of India (SEBI) in the month of May for the ROCPS aggregating to Rs.2138.47 million and the final regulatory approvals are awaited as at the date of this report. Your Company has availed a Bridge finance facility of Rs. 2500 million against the forthcoming Rights Issue out of which Rs.500 million has already been repaid.

During the year under review, Scottish Courage Limited, a subsidiary of Scottish & Newcastle plc., has placed Rs. 500 million by way of an external commercial borrowing in your Company.





### PROSPECTS

Your Directors are anticipating a gradual deregulation of the brewing industry making beer more accessible and affordable across a broader spectrum of consumers. This will spur demand. Given the youthful demographics of the country, whose preference is for low alcohol beverage, such as beer, in preference to spirits, it is anticipated that the industry will witness substantial growths in the years to come.

However, these growths can be realised only in a favourable regulatory environment. Your Company has been at the forefront in educating Governments on the need to differentiate the taxation and regulation of beer from taxation and regulation of spirits. Progress has been slow but steady and there are imminent signs of a further, though gradual, deregulation in the industry.

On the marketing front, innovative promotions and communication continue in your Company's brand building effort. Being category leaders, the Company has led from the front. One such effort was the launch of the 5 Litre Keg in Bangalore. This initiative positioned as "Pub @ home" has taken the city by storm. This provides the consumer an opportunity to enjoy the great taste of Kingfisher Draught Beer in his own home. Your Company also continued with sponsorship of appropriate events like corporate football, hockey and cricket.

An important initiative and invention was the launch of 250 ml pack variant of London Pilsner Premium Beer in Maharashtra. Based on the soft drink model of bottle return, the new variant is available at a low price of just Rs.16. The launch was supported with necessary PR and marketing inputs with Vinod Kambli being the Brand Ambassador. Kingfisher Pint, Lager and Strong Beer versions were also launched in different markets as planned. The price of cans was also rationalised to promote consumption.

Control of capacity is the key to success factor in the industry. Your Company continues to invest in both technology and capacities to cater to future needs.

### INTERNAL CONTROL SYSTEM

Your Company has evolved a system of internal controls to ensure assets are safeguarded and transactions are authorised, recorded and correctly reported. The adequacy of the internal controls system is reviewed by the Audit Committee of the Board of Directors. The Internal Audit Department evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting.

The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with specific standards with regard to availability and suitability of policies and procedures and extent of adherence, it further evaluates adequacy of segregation of duties, reliability of Management Information Systems including controls in the area of authorisation procedures including steps for safeguarding assets. Planned periodic reviews are carried out resulting in identification of control deficiencies, opportunities for bridging gaps with best practices and formalisation of time bound action plans to minimise risk. The implementation process is further reviewed and reported by the Internal Audit department after an appropriate period.

It is to be understood that the overall internal control system is never static but dynamic, reflecting the current requirements at all times. The Board, however, believes that appropriate procedures and controls are operating and monitoring practices are in place.

### OPPORTUNITIES & THREATS

The demographic profile in the country and the low penetration beer consumption in comparison to the international parallels offers the expectation of substantial and sustainable growth in demand for beer in the next several years. The tie-up with Scottish & Newcastle plc. offers opportunities to introduce a bouquet of international brands within the country, induct the latest brewing and logistic technology and to leverage their distribution strengths to market your Company's products more aggressively in the international markets.

The increasing entry of foreign competition in the market could be a potential future threat though your Company is taking proactive steps to ensure its continued dominance in the industry.

## Report of the Directors (Contd.)

### RISKS & CONCERNS

While the fundamental drivers to growth are in place as detailed above, Government regulations in the form of taxation levels, restriction in communication and entry of foreign competition, either through local manufacturing arrangements or through imports, will have a bearing on the development of the market in future.

Government levies and taxation have a direct bearing on the profitability of the industry. The recent consolidation of the glass container industry has resulted in a sharp escalation to input costs in this vital area of packaging. Your Company has explored a number of avenues to contain the risk of continued increase in the face of static selling prices.

### HUMAN RESOURCES

Your Company values its human resources and considers it as an invaluable asset. Employees are motivated to bring out the best within themselves. Performance is recognised with an appropriate compensation package.

Your Company is also implementing a profit sharing scheme whereby a part of the profits earned in excess of budgets will be paid out to the achieving employees as a special bonus.

The HR Department ensures smooth and harmonious Industrial Relations at all the units. Your Company's human resources have played a vital role in achieving the improved results. Your Directors express their appreciation for the dedication and hard work put in by the employees throughout the year. 1733 employees form part of the human capital of your Company.

### SUBSIDIARY COMPANIES

The Company has made an application to the Central Government seeking exemption from attaching the Accounts etc. of its subsidiaries viz. Associated Breweries & Distilleries Ltd., London Pilsner Breweries Pvt. Ltd., London Draft Pubs Pvt. Ltd. and Mangalore Breweries & Distilleries Ltd., with the Balance Sheet of the parent Company. If, in terms of the approval granted by the Central Government, the Accounts, etc., of the above subsidiaries are not required to be attached with the Balance Sheet of parent Company, these Accounts will be provided on request to any member requiring to have a copy, on receipt of such request by the Company Secretary at the Registered Office of the Company.

Statement pursuant to Section 212(1) (e) is attached.

### CONSOLIDATION

As required under the Listing Agreement, Consolidated Accounts conforming to applicable Accounting Standards are attached to the Annual Report.

### DEPOSITORY SYSTEM

Your Company has entered into agreements with National Securities Depository Limited and Central Depository Services (India) Limited in accordance with the provisions of the Depositories Act, 1996 and as per the directives issued by SEBI.

### DIRECTORS

Mr. A.K. Ravi Nedungadi and Mr. Atul Munim retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for reappointment.

### AUDITORS

M/s. Price Waterhouse, Statutory Auditors, hold office till the conclusion of the ensuing Annual General Meeting, and are eligible for re-appointment.

### AUDITOR'S REPORT

With respect to the observations made by the Auditors in the Audit Report, your Directors state as under:

*Having regard to the strategic nature of these investments, the Company proposes to invest further sums to enhance shareholding and capacities in both the Subsidiaries. These efforts are bearing results with the Subsidiaries making a positive earning before Interest, Depreciation and Amortisation during the year under review. Considering the past record of improvement in performance and given the critical markets and the leadership the Company enjoys in these markets, the financial health of these Subsidiaries is expected to significantly improve. Therefore no provision is considered necessary at this stage.*

The Company and its subsidiaries are engaged in manufacture, purchase and sale of Beer including licensing of brands which constitutes a single business segment.





## Report of the Directors (Contd.)

### **LISTING REQUIREMENTS**

Your Company's Equity Shares are listed at Bangalore, Mumbai, Ahmedabad, New Delhi, Calcutta, Hyderabad, Cochin, Ludhiana and Chennai Stock Exchanges. The Listing Fees have been paid to all the Stock Exchanges for the year 2004-2005 and the Company has complied with all requirements of the Listing Agreements.

### **CASH FLOW STATEMENT**

A Cash Flow Statement for the year ended March 31, 2004 is appended.

### **CORPORATE GOVERNANCE**

A Report on Corporate Governance forms part of this report alongwith the Certificate from the Auditors.

### **FIXED DEPOSITS**

The Company has not invited any Fixed Deposits.

### **PARTICULARS OF EMPLOYEES, CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION ETC.**

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Company's (Particulars of Employees) Rules 1975, forms part of this Directors' Report and is annexed. Particulars required under Section 217(1)(e) are also annexed.

### **DIRECTORS RESPONSIBILITY STATEMENT**

Pursuant to Section 217(2AA) of The Companies Act, 1956, the Board of Directors report that:

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

### **ACKNOWLEDGEMENT**

Your Directors wish to place on record their appreciation for the continued support received from Shareholders, Banks and Financial Institutions. Your Directors are also grateful to the Company's business partners and customers for their continued support and patronage. Finally, your Directors wish to acknowledge the support and contribution on the part of all employees who constitute our most valuable asset.

By Authority of the Board,

Mumbai  
July 27, 2004

**VIJAY MALLYA**  
Chairman

## Annexure to the Directors' Report

### A. CONSERVATION OF ENERGY

Energy conservation measures taken by the Company.

#### a) Electrical Energy

Conversion of room cooled tanks into self jacketed & insulated tanks - making energy efficient process at Hyderabad & Goa units.

#### b) Fuel Oil Consumption

Undertaking and implementation of Energy Audit has resulted in considerable savings of Fuel oil in certain units of the Company.

#### c) Water Conservation – Natural Resources

Rain water harvesting is being implemented at Palakkad & Goa units. This has helped in restoration of unit bore well water yield during summer.

### B. TECHNOLOGY ABSORPTION

The Company continues to absorb the latest technology and the state of the art of equipment in Brewing Technology.

- Effluent Treatment Plant upgradation with the advanced hybrid reactors at Palakkad, Hyderabad and Taloja units of the Company.
- Upgraded heat exchangers PHE installed at Palakkad unit.

The Company continued its research & development programmes in areas of developing improved quality malting grade barley varieties.

### C. FOREIGN EXCHANGE INFLOW AND OUTFLOW

Foreign Exchange earned : Rs. Nil  
Foreign Exchange used : Rs. 1461 million

### STATEMENT UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 FOR THE YEAR ENDED MARCH 31, 2004

Sl. No.	Name	Age	Date of Joining*	Total Remuneration Rs.	Designation	Educational Qualifications	Experience in Years	Previous Employment
1.	Kalyan Ganguly	53	9.08.2002	12586220	Managing Director	B.A. (Hons.), PGDBM (XLRI)	31	EVP - Marketing & Sales; McDowell & Co. Ltd.
2.	N. K. Mittal	55	1.08.2001	3376556	EVP - Manufacturing	B.Tech., Mech. Engg.	32	DVP - Mfg. North; McDowell & Co. Ltd.
3.	Shekar Ramamurthy	43	1.08.2001	3527861	EVP - Sales & Marketing	B.Tech., IIT, PGDBM (IIM)	17	General Manager-Marketing; Herbertsons Ltd.
4.	P.A.Murali	46	1.08.2001	3095466	EVP - Finance & Accounts	B.Com., A.C.A.	23	Sr. Vice President & CFO-Mendocino Brewing Co., Inc. - USA

#### \* NOTE :

Mr. Kalyan Ganguly was appointed as a Managing Director of the Company on August 9, 2002. Prior to the said date, Mr. Ganguly was holding the position of President – Breweries Division.

All the above employees were transferred to United Breweries Limited upon Demerger of Brewing Business of erstwhile United Breweries Limited into the Company. Remuneration shown above include Salary, Allowance, Medical, Leave Travel Expenses and monetary value of perquisites as per Income Tax Rules.

None of the employees mentioned above is a relative of any Director of the Company.

None of the above mentioned employees is holding more than 2% of the Paid-up Equity Capital of the Company.



## COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Manifested in the Company's vision United Breweries Limited has always strived for excellence in Corporate Governance. Beyond mere compliance we are committed towards taking all strategic initiatives to enhance Shareholders' wealth in the long term. In pursuit towards Corporate goals, the Company accords high importance to transparency, accountability and integrity in its dealings. Our philosophy on Corporate Governance is driven towards welfare of all the Stakeholders and the Board of Directors remains committed towards this end.

The Board of Directors supports the broad principles of Corporate Governance and lays strong emphasis on its role to align and direct the actions of the Company in achieving its objectives.

## BOARD OF DIRECTORS

Your Company is managed and controlled through a professional Board of Directors. The composition of the Board of Directors meets with the requirement of Corporate Governance Code prescribed in the Listing Agreement. More than 50% of the Board is comprised of independent Directors. Your Company's Board consists of eminent persons with considerable professional expertise and experience.

The matters of policy and other relevant and significant information are regularly made available to the Board. In order to ensure better Corporate Governance and transparency, the Company has constituted Audit Committee, Investors' Grievance Committee, Remuneration/Compensation Committee and Share Transfer Committee to look into the aspects of each Committee. The Company has an Internal Audit Department commensurate with the size of the organisation. There are comprehensive management reporting systems involving preparation of operating results and their review by senior management and by the Board.

During the financial year ended on March 31, 2004, 9 Board Meetings were held on April 25, 2003, May 15, 2003, June 30, 2003, July 29, 2003, September 22, 2003, October 17, 2003, October 28, 2003, January 27, 2004 and March 15, 2004 respectively.

## ATTENDANCE AT BOARD MEETINGS AND ANNUAL GENERAL MEETING (AGM)

Names of the Directors	Category	Number of Board Meetings held	Number of Board Meetings attended	Attendance at the last AGM held on 26.09.2003
Dr. Vijay Mallya	Chairman (NE)	9	3	YES
Mr. S R Gupte	Director (NE, Ind)	9	9	YES
Mr. V K Rekhi	Director (NE, Ind)	9	4	YES
Mr. A K Ravi Nedungadi	Director (NE, Ind)	9	9	YES
Mr. Atul Munim	Director (NE, Ind)	9	1	NO
Mr. C L Jain	Director (NE, Ind)	9	9	YES
Dr. Neville Bain	Nominee Director (NE, Ind)	9	3	NO
Mr. Kalyan Ganguly	Managing Director	9	7	YES

Note: NE – Non Executive  
Ind – Independent

## Report on Corporate Governance (Contd.)

### MEMBERSHIP IN BOARDS AND BOARD COMMITTEES – OTHER THAN UNITED BREWERIES LIMITED

Names of the Directors	Membership in other Boards	Membership in other Board Committees
Dr. Vijay Mallya	19	1 (Chairman of 1 Committee)
Mr. S R Gupte	15	7 (Chairman of 4 Committees)
Mr. Kalyan Ganguly	7	—
Mr. V K Rekhi	5	1
Mr. A K Ravi Nedungadi	8	6
Mr. Atul Munim	4	—
Mr. C L Jain	8	8 (Chairman of 4 Committees)
Dr. Neville Bain	3	2 (Chairman of 1 Committee)

The number of Committees mentioned above also includes Membership/Chairmanship in Committees not mandated by Clause 49 of the Listing Agreement for this purpose.

#### NOTE :

##### The above details are in respect of their Directorships only in Indian Companies

- a) Out of 19 other Companies in India in which Dr. Vijay Mallya is a Director, 7 are Private Limited Companies and 2 are Section 25 Companies. Dr. Vijay Mallya is also on the Board of 32 Overseas Companies.
- b) Out of 15 other Companies in which Mr. S R Gupte is a Director, 3 are Private Limited Companies. The above figure includes his Directorship as Alternate Director in 1 Company. Mr. S R Gupte is also on the Board of 2 Overseas Companies.
- c) Out of 7 other Companies in which Mr. Kalyan Ganguly is a Director, 1 is a Private Limited Company. Mr. Kalyan Ganguly is also on the Board of 3 Overseas Companies.
- d) Mr. V K Rekhi is also on the Board of 3 Overseas Companies.
- e) Out of 8 other Companies in which Mr. A K Ravi Nedungadi is a Director, 4 are Private Limited Companies. Mr. A K Ravi Nedungadi is also on the Board of 2 Overseas Companies.
- f) Out of 4 other Companies in which Mr. Atul Munim is a Director, 3 are Private Limited Companies.
- g) Out of 8 other Companies in which Mr. C L Jain is a Director, 2 are Private Limited Companies.
- h) Dr. Neville Bain is also on the Board of 3 Overseas Companies.

### PARTICULARS OF NEW DIRECTORS AND DIRECTORS RETIRING BY ROTATION AND BEING RE-APPOINTED

#### DIRECTORS RETIRING BY ROTATION

Mr. A K Ravi Nedungadi and Mr. Atul Munim, retire at the ensuing Annual General Meeting and being eligible, have offered themselves for re-appointment.

#### PARTICULARS OF DIRECTORS RETIRING BY ROTATION

Brief resume	Other Directorships & Committee Memberships
<p><b>Mr. A K Ravi Nedungadi:</b></p> <p>Mr. A K Ravi Nedungadi is a Chartered Accountant and a Cost Accountant. Mr. A K Ravi Nedungadi started his career with MACNEILL &amp; MAGOR LTD., as Regional Accounts Manager and was involved in overall redesigning of the Company's MIS and worked in the Company for 6 years. Then he joined Pentagon Fasteners Limited as Assistant Vice President - Finance, where he was instrumental in achieving a turn around for the Company. He was appointed by Financial Institutions to conceive and manage Financial rehabilitation. After a stint of 1 1/2 years in Computer Point Limited as Chief Financial Officer, Mr. A K Ravi Nedungadi joined the UB Group as a Corporate Treasurer. Mr. A K Ravi Nedungadi was promoted as a Group Finance Director of UB International Limited where he worked for 5 years.</p> <p>He is presently the President &amp; CFO of the UB Group overseeing the Finance function of the entire Group. He is also presently overseeing the restructuring process of Beer and Spirits businesses as well as negotiating strategic partnership.</p>	<p><b>Other Boards</b></p> <p>Aventis Pharma Limited            Bayer CropScience Limited            McDowell Alcobev Pvt. Limited            Inertia Industries Limited            Idea Streamz Consultants Pvt. Limited            Triumph Distillers &amp; Vintners Pvt. Limited            Pie Education Limited            Millenia Vision Advertising (P) Limited</p> <p><b>Audit Committee</b></p> <p>Aventis Pharma Limited            Inertia Industries Limited            McDowell Alcobev Pvt. Limited            United Breweries Limited</p> <p><b>Investors' Grievance Committee</b></p> <p>Aventis Pharma Limited            Inertia Industries Limited</p> <p><b>Share Transfer Committee</b></p> <p>United Breweries Limited</p> <p><b>Remuneration Committee</b></p> <p>McDowell Alcobev Pvt. Limited</p>
<p><b>Mr. Atul Munim:</b></p> <p>Mr. Atul Munim is a Graduate in Law and a Solicitor by profession. He is a Senior Partner of Messrs Bachubhai Munim &amp; Company, Advocates &amp; Solicitors, Mumbai, one of the leading Solicitor Firms in the country.</p>	<p><b>Other Boards</b></p> <p>Lord India Chemical Products Pvt. Ltd.            LMJ Equipments Trading Co. Pvt. Ltd.            Asian Star Limited            McLube Asia Pvt. Limited</p> <p><b>Audit Committee</b></p> <p>United Breweries Limited</p> <p><b>Share Transfer Committee</b></p> <p>United Breweries Limited</p>

## Report on Corporate Governance (Contd.)

### COMMITTEES OF DIRECTORS

The Board has constituted Committees of Directors to deal with matters which need quick decisions and timely monitoring of the activities falling within their terms of reference. The Board Committees are as follows :

#### AUDIT COMMITTEE

The Company has established an independent Audit Committee comprising of Mr. C L Jain, Mr. A K Ravi Nedungadi and Mr. Atul Munim as Members of the Committee. The Chairmanship of the Committee is vested with Mr. C L Jain.

The Committee oversees the financial reporting process, disclosure requirements and matters relating to Internal Control System. The Committee also reviews periodically the financial accounts, adequacy of internal audit function, compliance with accounting standards and other areas within its terms of reference as under :

- i) Oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement, sufficient and credible;
- ii) Recommending the appointment of Statutory Auditors, fixation of Audit Fee and approval for payment of any other services;
- iii) Reviewing with management the quarterly, half-yearly and annual financial statements before submission to the Board, focussing primarily on
  - Any changes in accounting policies and practices;
  - Major accounting entries based on exercise of judgement by the management;
  - Qualifications in draft Audit Report;
  - Significant adjustments arising out of Audit;
  - The going concern assumption;
  - Compliance with Accounting Standards;
  - Compliance with Stock Exchange and Legal requirements concerning Financial Statements;
  - Any related party transactions, i.e. transactions of the Company of the material nature with Promoters or the management, their Subsidiaries or relatives, etc., that may have potential conflict with the interests of the Company at large;
- iv) Reviewing with the management, external and internal auditors, the adequacy of internal control systems;
- v) Reviewing the adequacy of internal audit function including structure coverage and frequency of internal audit;
- vi) Discussing with internal auditors on any significant findings and follow up;
- vii) Reviewing the findings of any internal investigations by the internal auditors in the matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board;
- viii) Discussing with external auditors before the Audit commences, the nature and scope of Audit as well as conducting post audit discussion to ascertain any area of concern;
- ix) Reviewing the Company's financial and risk management policies;
- x) To look into the reasons for substantial defaults in the payment to Depositors, Shareholders (in case of non-payment of declared Dividends), Debenture-holders and Creditors.

During the Year ended March 31, 2004, 6 Audit Committee Meetings were held on June 30, 2003, July 28, 2003, September 22, 2003, October 28, 2003, January 27, 2004 and March 15, 2004 respectively.

#### ATTENDANCE AT AUDIT COMMITTEE MEETINGS

Names of the Directors	Category	Number of Audit Committee Meetings held	Number of Audit Committee Meetings attended
Mr. C L Jain	CHAIRMAN	6	6
Mr. A K Ravi Nedungadi	MEMBER	6	6
Mr. Atul Munim	MEMBER	6	1





## Report on Corporate Governance (Contd.)

### SHARE TRANSFER COMMITTEE

The Share Transfer Committee comprises of Mr. S R Gupte, Mr. Kalyan Ganguly, Mr. V K Rekhi, Mr. A K Ravi Nedungadi and Mr. Atul Munim. The Chairmanship of the Committee is vested with Mr. S R Gupte. The Terms of Reference are as under:

- To monitor Transfer, Transmission and Transposition of the Equity Shares of the Company;
- Issue of Duplicate Share Certificates, in lieu of Certificates lost or misplaced;
- Issue of New Share Certificates in lieu of Certificates torn, mutilated, cages for transfer filled up, etc.;
- Consolidation and sub-division of Share Certificates;
- To oversee compliance of the norms laid down under the Depositories Act, 1996;
- To appoint/remove Registrars and Transfer Agents;
- To oversee compliance of the norms laid down under the Tripartite Agreement with National Securities Depository Limited/Central Depository Services (India) Limited, and
- Perform all such acts and deeds, matters and things as it may in its absolute discretion deem necessary, expedient, desirable, usual or proper and to settle any question, dispute, difficulty or doubt that may arise in regard to the matters arising out of the aforesaid acts.

In order to facilitate prompt and efficient service to the Shareholders all the transactions in connection with Transfer, Transmission, issue of Duplicate Certificates, etc., have been entrusted to Alpha Systems Private Limited, Registrars and Transfer Agents and the same are being processed and approved on fortnightly basis.

During the year ended March 31, 2004 the Committee met 23 times for approving the transactions mentioned above.

### INVESTORS' GRIEVANCE COMMITTEE

The Company has constituted Investors' / Shareholders' Grievance Committee comprising of Mr. Atul Munim, Mr. V K Rekhi and Mr. S R Gupte as Members. The Committee is chaired by Mr. Atul Munim.

The Terms of Reference for the Committee include **inter alia** to specifically look into the redressing of Shareholders and Investors' complaints like transfer of Shares, non-receipt of Balance Sheet, non-receipt of declared Dividends, etc. The Committee is empowered to operate in terms of the provisions of the Listing Agreement and/or the provisions as prescribed under the Companies Act, 1956 and other related Regulations.

The Compliance Officer is Mr. Govind Iyengar, Company Secretary.

Number of Shareholders' complaints received from 1-4-2003 to 31-3-2004 (These complaints pertained mainly to non-receipt of Share Certificates upon Demerger, non-receipt of Balance Sheets, etc.)	108
Number not solved to the satisfaction of the Shareholders	NIL
Number of pending Share transfers :	04 transfer requests for 270 Shares were pending for confirmation of sale from Transferor.

During the year ended March 31, 2004 Investors' Grievance Committee Meeting was held on January 27, 2004, in which all the Members of the Committee, except Mr. V K Rekhi were present.

### REMUNERATION COMMITTEE

The Company has constituted a Remuneration/Compensation Committee comprising of Mr. C L Jain, Mr. S R Gupte and Mr. V K Rekhi.

The Committee is authorised **inter alia** :

- to deal with matters related to compensation by way of salary, perquisites, benefits, etc., to the Wholetime Directors of the Company and set Guidelines for the salary, performance, pay and perquisites to other Senior Employees, and
- to formulate and implement Employee Stock Option Scheme to employees.

During the year ended March 31, 2004 a Meeting of the Remuneration Committee was held on October 17, 2003 in which all the Members of the Committee were present.

## Report on Corporate Governance (Contd.)

### REMUNERATION POLICY

The Company carries out periodic reviews of comparable Companies and through commissioned survey ascertains the remuneration levels prevailing in these Companies. The Company's Remuneration Policy is designed to ensure that the remuneration applicable to Managers in the Company is comparable with multinational Companies operating in the Brewing or similar industry in India.

For the financial year ended March 31, 2004, Mr. Kalyan Ganguly, Managing Director was paid remuneration as under:

Salary	Perquisites	Retiral Benefits
Rs.89,86,900/-	Rs.17,72,932/-	Rs.18,26,388/-

### SITTING FEES PAID TO DIRECTORS

Sl. No.	Name of Director	Sitting Fees paid
1.	Mr. S R Gupte	Rs.62,000/-
2.	Mr. V K Rekhi	Rs.93,000/-
3.	Mr. A K Ravi Nedungadi	Rs.1,46,000/-
4.	Mr. Atul Munim	Rs.14,000/-
5.	Mr. C L Jain	Rs.78,000/-
6.	Dr. Neville Bain	Rs.10,500/- *

\* (net of TDS @ 30%)

### GENERAL BODY MEETINGS

The previous three Annual General Meetings of the Company after its incorporation in 1999 were held on the dates, at the time and venue given below:

DATE	TIME	VENUE
September 26, 2003	2.30 PM	Dr. B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore – 560 052
September 30, 2002	11.00 AM	Dr. B.R. Ambedkar Bhavana, Miller's Road, Vasanthanagar, Bangalore – 560 052
September 30, 2001	11.00 AM	No.1/1 Vittal Mallya Road, Bangalore - 560 001

The Company has not transacted any business through Postal Ballot during the year. The Company shall comply with the provision of Postal Ballot Rules whenever applicable.

### DISCLOSURES

During the financial year ended March 31, 2004, there were no materially significant related party transactions with the Company's Directors or their relatives.

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

The Company did not suffer from any levies and there were no strictures on any Capital market related matters since incorporation.

### MEANS OF COMMUNICATION

The Company has its own Website and all vital information relating to the Company and its performance involving Quarterly Results, official Press release and presentation to analysts shall be posted on the Company's Website [www.kingfisherworld.com](http://www.kingfisherworld.com). Apart from furnishing copies of Results to all the Stock Exchanges, the Quarterly, Half-yearly and Annual Results of the Company's performance are being published in leading English Dailies and in a Kannada Newspaper. As prescribed by SEBI, requisite information is also regularly being posted on the EDIFAR Website maintained by National Informatics Centre (NIC).

**Management Discussion and Analysis form part of the Directors' Report.**

### GENERAL SHAREHOLDER INFORMATION

The Company's financial year begins on April 1 each year and ends on March 31 the following year.

Division of Financial Calendar		Declaration of Unaudited Results	
1st Quarter	April 1 to June 30	1st Quarter	By July, 30
2nd Quarter	July 1 to September 30	2nd Quarter	By October, 30
3rd Quarter	October 1 to December 31	3rd Quarter	By January, 30
4th Quarter	January 1 to March 31	4th Quarter	By April, 30





## Report on Corporate Governance (Contd.)

### ANNUAL GENERAL MEETING INFORMATION

Board Meeting for consideration of Accounts	June 25, 2004
Posting of Annual Report	By September 4, 2004
Book Closure dates	September 27, 2004 and September 28, 2004
Last date for receiving proxy	September 26, 2004
Date of AGM	September 28, 2004

### ANNUAL GENERAL MEETING ON

September 28, 2004

#### VENUE

Dr. B.R. Ambedkar Bhavana,  
Miller's Road,  
Vasanthanagar,  
Bangalore - 560 052

#### TIME

11 A.M.

**DATE OF BOOK CLOSURE :** Monday, September 27, 2004 and Tuesday, September 28, 2004

### LISTINGS AT

STOCK EXCHANGE	SCRIP CODE
BANGALORE STOCK EXCHANGE LIMITED (REGIONAL STOCK EXCHANGE)	UNITEDBRED
COCHIN STOCK EXCHANGE LIMITED	UBW
CALCUTTA STOCK EXCHANGE ASSN. LIMITED	31195
MADRAS STOCK EXCHANGE LIMITED	UNITEDBREW
THE LUDHIANA STOCK EXCHANGE ASSN. LIMITED	—
THE STOCK EXCHANGE – AHMEDABAD	62379
THE STOCK EXCHANGE – MUMBAI	532478
HYDERABAD STOCK EXCHANGE LIMITED	6498
THE DELHI STOCK EXCHANGE ASSN. LIMITED	121113

Market price data of the Company's Equity Shares traded on The Stock Exchange, Mumbai (BSE) during the period April 2003 to March 2004 :

Month	High	Low	Close	BSE SENSEX
April 2003	92.00	70.40	83.45	2959.79
May 2003	101.40	70.75	89.50	3180.75
June 2003	105.70	86.50	93.90	3607.13
July 2003	120.00	95.00	99.10	3792.61
August 2003	108.80	85.00	96.30	4244.73
September 2003	112.00	82.25	102.00	4453.24
October 2003	117.00	92.60	96.05	4906.87
November 2003	125.40	91.00	111.50	5044.82
December 2003	155.00	110.00	126.20	5838.96
January 2004	141.00	89.15	95.65	5695.67
February 2004	100.00	84.00	93.80	5667.51
March 2004	98.90	91.00	96.75	5590.60

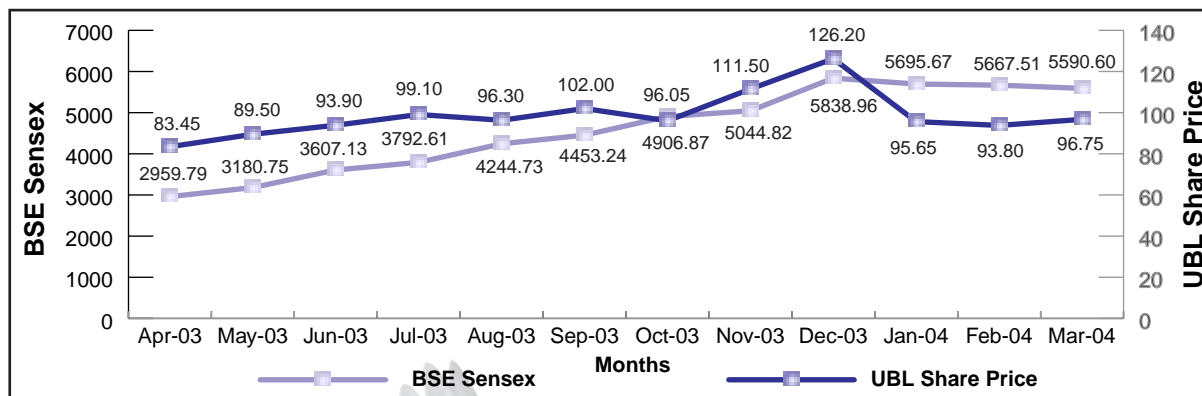
No trading of the Company's Shares had taken place on the Ahmedabad, Bangalore, Chennai, Cochin, Delhi, Hyderabad and Ludhiana Stock Exchanges during the aforesaid period.

The Company's Shares were thinly traded on the Calcutta Stock Exchange during the above period.

## Report on Corporate Governance (Contd.)

Graphical performance of the Company's Shares in comparison to broad-based indices i.e., BSE Sensex, is given below.

### MOVEMENT OF UBL SHARE PRICES ON BSE



### SHARE TRANSFER SYSTEM

All matters pertaining to Share Transfer are being handled by Alpha Systems Private Limited, the Registrars and Share Transfer Agents of the Company. The Share Transfer requests received are processed by them and a Memorandum of Transfer is sent to the Company for approval by the Committee. The average time taken for processing Share Transfer requests including despatch of Share Certificates is 15 days, while it takes a minimum of 10-12 days for processing dematerialization requests. The Company regularly monitors and supervises the functioning of the system so as to ensure that there are no delays or lapses in the system.

The Company was offering the facility of transfer-cum-demat as per SEBI Guidelines. However, SEBI has vide its Circular No. SEBI/MRD/Cir-10/2004 dated February 10, 2004, withdrawn transfer-cum-demat scheme. In line with the above, on receipt of transfer requests the Company has discontinued issuing of Option Letters to the Shareholders.

The distribution of shareholding as on March 31, 2004 is furnished below :

Category (Rupees)	No. of Shareholders	% (Percentage)	No. of Shares held	% (Percentage)
Up to 5000	39791	98.67	1708702	9.59
5001 – 10000	250	0.62	180987	1.02
10001 – 20000	114	0.28	163462	0.92
20001 – 30000	56	0.14	143501	0.81
30001 – 40000	28	0.07	98126	0.55
40001 – 50000	13	0.03	60061	0.34
50001 – 100000	23	0.06	174399	0.98
100001 and Above	51	0.13	15291365	85.81
<b>TOTAL</b>	<b>40326</b>	<b>100.00</b>	<b>17820603</b>	<b>100.00</b>

The Board of Directors have, by a Resolution by circulation passed on May 5, 2004, delegated the power to approve transfers/transmission, etc., upto 5000 Shares to the Managing Director, the Executive Vice President – Finance & Accounts and the Company Secretary, who can act severally in the above matter.

### DEMATERIALIZATION OF SHARES

The Company has set up requisite facilities for dematerialization of its Equity Shares in accordance with the provisions of the Depositories Act, 1996 with National Securities Depository Limited and Central Depository Services (India) Limited. The Company has entered into Agreements with both the Depositories for the benefit of Shareholders. The status of dematerialization of the Company's Shares is as under:

	Shares	% age	No. of Shareholders
Physical mode	8313612	46.65	26718
Electronic mode	9506991	53.35	13608
<b>TOTAL</b>	<b>17820603</b>	<b>100</b>	<b>40326</b>

## Report on Corporate Governance (Contd.)

For any assistance regarding Share Transfers, Transmissions, change of address, issue of duplicate / lost Share Certificates/ exchange of Share Certificates/Dematerialization and other relevant matters, please write to the Registrar and Share Transfer Agent of the Company, at the address given below :

ALPHA SYSTEMS PRIVATE LIMITED  
30, RAMANA RESIDENCY  
4TH CROSS, SAMPIGE ROAD, MALLESWARAM  
**BANGALORE – 560 003.**  
Tel. No. : (080) 2346 0815 to 2346 0818 Mobile No. : 98450 23537  
Fax No. : (080) 2346 0819  
e.mail : alfint@vsnl.com.  
Contact Persons: Mr. SRIDHAR, Mr. G. SUBRAMANI or Mr. PRABHAKAR

The Company has constituted a Compensation Committee. The Company's Half-yearly Results are published in English and Kannada Newspapers. Hence the same are not sent to Shareholders. The Company has not transacted any business through Postal Ballot. The Company shall comply with the provisions of Law, in this regard, whenever required.

### MANUFACTURING NETWORK

PUNJAB - LUDHIANA	
ANDHRA PRADESH - HYDERABAD	GOA - PONDA
KERALA - CHERTALA	KERALA - PALAKKAD
MAHARASHTRA - TALOJA	WEST BENGAL - KALYANI

*In addition, the Company also has Manufacturing facilities through Subsidiary/Associate Companies/Contract Breweries at Bangalore, Mangalore, Daman, Secunderabad, Srikakulam, Navi Mumbai, Faridabad, Lucknow, Aurangabad, Madhopur, Daruhera, Morena, Raisen, Kuthambakkam and Kanjikode.*

**REGISTERED OFFICE:**  
"UB-ANCHORAGE", NO.100/1, RICHMOND ROAD,  
**BANGALORE - 560 025**  
Phone : (91-80) 22272806 to 22272808  
Fax No. (91-80) 22127212 and 22229488  
Cable : UBEEGEE

## Auditors' Certificate on Corporate Governance

### To the Members of United Breweries Limited

We have examined the compliance of conditions of Corporate Governance by **United Breweries Limited**, for the year ended March 31, 2004, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges in India.

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

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

We state that in respect of investor grievances received during the year ended March 31, 2004, no investor grievances are pending for a period exceeding one month against the Company, as per records maintained by the Company which are presented to the Shareholders/Investors Grievance Committee.

We 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.

**J. Majumdar**  
Partner

Membership Number – F51912  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants

Place : Bangalore  
Date : June 25, 2004

# Auditors' Report

## AUDITORS' REPORT TO THE MEMBERS OF UNITED BREWERIES LIMITED

1. We have audited the attached Balance Sheet of United Breweries Limited, as at March 31, 2004 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. *Further to our comments in para 3 above*  
*Attention is drawn to Note 3(b) in Schedule 19 regarding non-provision for the loss, if any (being currently not ascertainable), arising on account of*
  - *Diminution in the value of Investments in subsidiary Companies [having aggregate carrying value of Rs. 635,387 thousands (2003 - Rs. 635,387 thousands)],*
  - *Advances to and Corporate guarantees on behalf of such subsidiaries [aggregating to Rs. 858,086 thousands (2003 - Rs. 678,430 thousands)] that may not ultimately be recoverable or may be enforced.*
5. Further to our comments in the Annexure referred to in paragraph 3 above, we report that :
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
  - (e) On the basis of the written representations received from the directors as on March 31, 2004, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
  - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements, together with the notes thereon and attached thereto, give in the prescribed manner the information required by the Act *and subject to our remarks in paragraph 4 above*, give a true and fair view in conformity with the accounting principles generally accepted in India:
    - i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004;
    - ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date;and
    - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place : Bangalore  
Date : June 25, 2004

**J. Majumdar,**  
Partner.  
Membership Number – F51912  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants



[Referred to in paragraph 3 of the Auditors' Report of even date to the members of United Breweries Limited on the financial statements for the year ended March 31, 2004]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
2. (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, and according to information and explanations given to us, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The Company has granted a secured loan to a Company covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loan amounts to Rs. 1,600,000 thousands. The Company has not taken loans, secured or unsecured, from companies covered in the register maintained under Section 301 of the Act.
- (b) In our opinion, the rate of interest and other terms and conditions of such loan granted are not prima facie prejudicial to the interest of the Company.
- (c) In respect of the aforesaid loan, the party is repaying the principal amounts as stipulated and is also regular in payment of interest, where applicable.
- (d) There is no overdue amount in respect of above loan.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control procedures.
5. (a) In our opinion and according to the information and explanations given to us, the transactions that need to be entered into the register in pursuance of Section 301 of the Act, have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered into the register in pursuance of Section 301 of the Act and exceeding the value of Rupees Five Lakhs in respect of any party during the year, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed thereunder.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the Company.
9. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is generally regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of sales-tax, income-tax, customs duty, wealth tax, excise duty and cess as at March 31, 2004 which have not been deposited on account of a dispute, are as follows :

## Annexure to Auditors' Report (Contd.)

Name of the Statute	Amount in Rs. '000s *	Forum where Dispute is Pending	Year to which the amount Relates
<b>Customs Act, 1962</b>	2,033	High Court	1991
	1,500	Supreme Court	1991
	991	High Court	2000
<b>Respective State Excise Acts</b>	1,229	High Court	1981
	2,955	High Court	1999
	159	Chief Secretary, Government of India	2003
<b>Respective State Sales Tax Acts</b>	2,512	High Court	Various Years
	11	Sales Tax Appellate Tribunal	1984
	1,221	Sales Tax Appellate Tribunal	1988
	38	Sales Tax Appellate Tribunal	1997
	290	Sales Tax Appellate Tribunal	1999
	1,156	Sales Tax Appellate Tribunal	2001
	448	Sales Tax Appellate Tribunal	2002
	66	Commercial Tax Officer	1985
	1,009	Commercial Tax Officer	1986
	1,211	Commissioner of Commercial Taxes	1999
	12	Commercial Tax Officer	
	130	Revisional Authority	2000
	69	Revisional Authority	2001
	13	Revisional Authority	2002
	628	High Court	1999
267	Appellate Deputy Commissioner	2003	

\* Net of amounts paid under protest or otherwise.

10. As the Company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company for the current year.
11. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.
12. In our opinion, the Company has maintained adequate documents and records in the cases where the Company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. Read with paragraph 4 of the Audit Report, in our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.
16. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
17. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis, which have been used for long-term investment. However, according to the information and explanations given to us, net current assets of Rs. 861,075 thousands has been financed out of long term funds.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
19. The Company has not issued debentures during the year.
20. The Company has not raised any money by public issue during the year.
21. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Place : Bangalore  
Date : June 25, 2004

**J. Majumdar**  
Partner  
Membership Number – F51912  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants

## Balance Sheet as at March 31, 2004

SOURCES OF FUNDS	Schedule	2004		2003	
		Rs.	Rs.	Rs.	Rs.
<b>SHAREHOLDERS' FUNDS</b>					
Share Capital	1	178,206		178,206	
Reserves and Surplus	2	239,704	417,910	239,704	417,910
<b>LOAN FUNDS</b>					
Secured Loans	3	3,191,325		1,616,640	
Unsecured Loans		776,534	3,967,859	212	1,616,852
Deferred Credit [Refer Schedule 19 - Note 1]			40,000		—
			4,425,769		2,034,762
<b>APPLICATION OF FUNDS</b>					
<b>FIXED ASSETS</b>					
Gross Block	4	1,083,631		912,731	
Less : Depreciation		156,041		89,855	
Net Block		927,590		822,876	
Capital Work in Progress		182,520	1,110,110	16,858	839,734
<b>INVESTMENTS</b>					
	5		1,091,868		860,374
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>					
Inventories	6	391,743		320,348	
Sundry Debtors	7	741,695		746,268	
Cash and Bank Balances	8	156,141		113,884	
Other Current Assets	9	312		363	
Loans and Advances	10	2,546,103		983,659	
		3,835,994		2,164,522	
Less : <b>CURRENT LIABILITIES &amp; PROVISIONS</b>					
Liabilities	11	1,628,761		1,874,388	
Provisions	12	47,138		58,368	
		1,675,899		1,932,756	
Net Current Assets			2,160,095		231,766
Deferred Tax Asset (Net) [Refer Schedule 19 - Note 12]			10,930		21,907
<b>MISCELLANEOUS EXPENDITURE</b> (To the extent not written off)					
Deferred Revenue Expenditure [Refer Schedule 19 - Note 7]			984		1,439
Profit & Loss Account			51,782		79,542
			4,425,769		2,034,762
<b>Notes on Accounts</b>	19				

The Schedules referred to above and the notes thereon form an integral part of the Accounts.  
This is the Balance Sheet referred to in our report of even date.

**J. Majumdar**  
Partner  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants  
Bangalore, June 25, 2004

**Kalyan Ganguly**  
Managing Director

**A.K. Ravi Nedungadi**  
Director

**Govind Iyengar**  
Company Secretary

## Profit and Loss Account for the year ended March 31, 2004

Schedule	2004		Rs. Thousands	
	Rs.	Rs.	Rs.	Rs.
<b>INCOME</b>				
Sales and Service	13	<b>5,584,059</b>		5,067,539
Less: Excise Duty		<b>1,047,262</b>		1,113,995
		<b>4,536,797</b>		3,953,544
Other Income	14	<b>129,135</b>	<b>4,665,932</b>	84,733
				4,038,277
<b>EXPENDITURE</b>				
Cost of Sales	15	<b>3,301,187</b>		2,664,102
Other Expenses	16	<b>898,782</b>		935,374
Interest	17	<b>324,509</b>		345,473
Deferred Revenue Expenses [Refer Schedule 19 - Note 7]		<b>455</b>		2,081
Depreciation		<b>66,856</b>	<b>4,591,789</b>	53,764
Profit before non-recurring item			<b>74,143</b>	37,483
Non recurring item [Refer Schedule 19 - Note 22]			<b>(32,180)</b>	—
Profit before Taxation			<b>41,963</b>	37,483
Provision for Taxation				
– Current		<b>(3,226)</b>		—
– Deferred Tax (Liability)/Asset [Refer Schedule 19 - Note 12]		<b>(10,977)</b>	<b>(14,203)</b>	(23,093)
Profit after Taxation			<b>27,760</b>	14,390
Loss brought forward from previous year			<b>(79,542)</b>	(93,932)
Balance carried to Balance Sheet			<b>(51,782)</b>	(79,542)
Earnings per share (Basic/Diluted)(not annualised)			<b>1.56</b>	0.81

**Notes on Accounts** 19

The Schedules referred to above and the notes thereon form an integral part of the Accounts.  
This is the Profit and Loss Account referred to in our report of even date.

**J. Majumdar**  
Partner  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants  
Bangalore, June 25, 2004

**Kalyan Ganguly**  
Managing Director

**Govind Iyengar**  
Company Secretary

**A.K. Ravi Nedungadi**  
Director

## Cash Flow Statement for the year ended March 31, 2004

[Refer Schedule 19 – Note 21]

Rs. Thousands

	2004		2003	
	Rs.	Rs.	Rs.	Rs.
<b>A. Cash Flow from Operating Activities</b>				
Profit/(Loss) before taxation and non-recurring items		74,143		37,483
Adjustments for :				
Depreciation	66,856		53,764	
Investments written off	—		100	
(Profit)/Loss on Sale of Assets	274		12	
(Profit)/Loss on Sale of Investments	(115)		—	
Interest Expenses (Net)	324,509		239,943	
Deferred Revenue Expenses	455		2,081	
Diminution in Value of Investment	—	391,979	20,067	315,967
<b>Operating profits before Working Capital Changes</b>		<b>466,122</b>		<b>353,450</b>
<b>Adjustment for working capital changes :</b>				
(Increase)/Decrease in Trade and Other Receivables	4,573		(195,085)	
(Increase)/Decrease in Inventories	(71,396)		(41,582)	
Increase/(Decrease) in Trade Payables	(163,337)		477,752	
(Increase)/Decrease in other Current Assets	130,212	(99,948)	—	241,085
<b>Cash generated from operations</b>		<b>366,174</b>		<b>594,535</b>
Direct taxes Paid		(16,175)		(940)
<b>Cash generated from operations before non-recurring items</b>		<b>349,999</b>		<b>593,595</b>
Non-recurring items		(32,180)		—
<b>Net cash generated from operating activities</b>		<b>317,819</b>		<b>593,595</b>
<b>B. Cash Flow from Investing Activities</b>				
Purchase of Fixed Assets		(339,496)		(229,140)
Sale of Fixed Assets		2,105		9,693
Sale of Investments		366,385		50
Purchase of Investments		(597,877)		(1,004)
<b>Net cash used in investing activities</b>		<b>(568,883)</b>		<b>(220,401)</b>
<b>C. Cash Flow from Financing Activities</b>				
Short Term Loan		(804,337)		29,691
Long Term Borrowing/Repayment		3,109,526		(57,864)
Loan to United Breweries (Holdings) Limited		(1,600,000)		—
Loans to Subsidiaries		(79,657)		(215,216)
Interest Paid		(332,211)		(141,602)
<b>Net cash from/(used in) Financing Activities</b>		<b>293,321</b>		<b>(384,991)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>42,257</b>		<b>(11,797)</b>
<b>Opening cash and cash equivalents</b>				
Cash and Cheques on hand including				
Remittances in Transit	2,704		36,293	
Bank Balances	111,180	113,884	89,388	125,681
<b>Closing cash and cash equivalents</b>				
Cash and Cheques on hand including				
Remittances in Transit	7,422		2,704	
Bank Balances	148,719	156,141	111,180	113,884

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

**J. Majumdar**  
Partner  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants  
Bangalore, June 25, 2004

**Kalyan Ganguly**  
Managing Director

**A.K. Ravi Nedungadi**  
Director

**Govind Iyengar**  
Company Secretary

## Schedules

	Rs. Thousands	
	2004 Rs.	2003 Rs.
<b>SCHEDULE 1</b>		
<b>Share Capital</b>		
<b>Authorised</b>		
30,000,000 (2003 : 30,000,000) Equity Shares of Rs.10 each	<b>300,000</b>	300,000
22,000,000 (2003 : 22,000,000) Redeemable Optionally Convertible Preference Shares of Rs. 100 each	<b>2,200,000</b>	2,200,000
	<b>2,500,000</b>	2,500,000
<b>Issued, Subscribed and Paid-up</b>		
17,820,603 (2003 : 17,820,603) Equity Shares of Rs.10 each fully paid	<b>178,206</b>	178,206
(Of the above 15,093,971 Equity Shares of Rs. 10 each were allotted to the shareholders of United Breweries (Holdings) Limited as per a Scheme of Arrangement)		
	<b>178,206</b>	178,206
<b>SCHEDULE 2</b>		
<b>Reserves and Surplus</b>		
Securities Premium Account	<b>239,704</b>	239,704
	<b>239,704</b>	239,704
<b>SCHEDULE 3</b>		
<b>Secured Loans</b>		
Foreign Currency Loans [Refer Schedule 19 - Note 1(a)] External Commercial Borrowing	<b>480,000</b>	—
Foreign Currency Loan	<b>139,656</b>	—
From Banks [Refer Schedule 19 - Note 1(b)]	<b>509,199</b>	1,454,531
Interest accrued and due	<b>1,924</b>	1,433
From Others (including HP creditors) [Refer Schedule 19 - Note 1(c)]	<b>2,060,546</b>	160,676
	<b>3,191,325</b>	1,616,640
<b>Unsecured Loans</b>		
From Banks [Refer Schedule 19 - Note 1]	<b>223,797</b>	212
From Others [Refer Schedule 19 - Note 1]	<b>552,737</b>	—
	<b>776,534</b>	212



**SCHEDULE 4**  
**Fixed Assets [Refer Schedule 19 - Note 2]**

Rs. Thousands

Net Value of Assets as at March 31, 2003	Particulars	Gross Value of Assets as at March 31, 2003			Cost			Depreciation			Net Value of Assets as at March 31, 2004				
		Rs.	Rs.	Rs.	Additions	Transfers/ Adjustments*	Sales	Gross Value of Assets as at March 31, 2004	As At March 31, 2003	Transfers/ Adjustments*	Deletions	For the year	As At March 31, 2004	Rs.	Rs.
907	Goodwill	907	—	—	—	—	—	907	—	—	—	—	—	—	907
10,683	Land - Freehold	10,683	—	—	—	—	10,683	—	—	—	—	—	—	—	10,683
66,239	Land - Leasehold	67,569	1,500	—	—	—	69,069	1,330	—	—	757	2,087	2,087	66,982	
215,811	Buildings	226,584	4,001	—	7	—	230,578	10,773	—	—	7,554	18,327	18,327	212,251	
429,943	Plant and Machinery	492,512	144,883	(138)	219	—	637,038	62,569	(294)	34	45,653	107,894	107,894	529,144	
33,638	Office Machinery	39,262	2,838	(2,522)	437	—	39,141	5,624	(10)	144	5,825	11,295	11,295	27,846	
24,515	Furniture & Fittings	27,511	7,664	2,307	215	—	37,267	2,996	—	26	2,105	5,075	5,075	32,192	
3,486	Lab Equipments	3,738	1,665	—	—	—	5,403	252	—	—	242	494	494	4,909	
37,654	Vehicles	43,965	11,284	(960)	744	—	53,545	6,311	—	162	4,720	10,869	10,869	42,676	
822,876		912,731	173,835	(1,313)	1,622	—	1,083,631	89,855	(304)	366	66,856	156,041	156,041	927,590	
16,858	Capital work in progress [including capital advances Rs. 77,881 (2003: Rs. 14,731)]													182,520	
839,734														1,110,110	

\* Represents written down value of assets discarded due to damage/fire Rs. 1,008.



## Schedules (Contd.)

	Rs. Thousands	
	2004 Rs.	2003 Rs.
<b>SCHEDULE 6</b>		
<b>Inventories</b>		
Raw Materials	57,937	62,672
Stores and Spares	101,829	76,223
Finished Goods (including Traded Goods)	209,872	164,596
Goods in transit	22,105	16,857
	<u>391,743</u>	<u>320,348</u>
<b>SCHEDULE 7</b>		
<b>Sundry Debtors</b> (Unsecured, unless stated otherwise)		
Considered Good		
– Over Six Months	19,891	32,580
– Others [Refer Schedule 19 - Note 5]	721,804	713,688
Considered Doubtful		
– Over Six Months	82,409	78,526
– Others	—	—
	<u>824,104</u>	<u>824,794</u>
Less : Provision for Doubtful Debts	<u>(82,409)</u>	<u>(78,526)</u>
	<u>741,695</u>	<u>746,268</u>
<b>SCHEDULE 8</b>		
<b>Cash and Bank Balances</b>		
Cash and Cheques on hand including Remittances in Transit	7,422	2,704
Balances with Scheduled Banks:		
– on Current Account	96,291	46,225
– on Deposit Account	52,428	64,955
	<u>156,141</u>	<u>113,884</u>
<b>SCHEDULE 9</b>		
<b>Other Current Assets</b>		
Income accrued on Investments and Deposits	312	363
	<u>312</u>	<u>363</u>
<b>SCHEDULE 10</b>		
<b>Loans and Advances</b> (Unsecured, considered good unless otherwise stated)		
Advances to Subsidiaries [Refer Schedule 19 - Note 4 ( c)]	411,586	331,929
Advances recoverable in cash or in kind or for value to be received [including: Rs. 146 (2003 : Rs.161) due from Directors of the Company – maximum amount due during the year Rs. 161 (2003 : Rs. 178)]	141,703	224,727
Considered Doubtful	56,745	21,624
	<u>610,034</u>	<u>578,280</u>
Less : Provision for Doubtful Advances	<u>(56,745)</u>	<u>(21,624)</u>
<i>Balance carried forward</i>	<u>553,289</u>	<u>556,656</u>

## Schedules (Contd.)

### SCHEDULE 10

#### Loans and Advances (Contd.)

	Rs. Thousands	
	2004	2003
	Rs.	Rs.
<i>Balance brought forward</i>	<b>553,289</b>	556,656
Loan to United Breweries (Holdings) Limited (Secured by an exclusive first charge on an immovable property of the Company and a second charge on certain other immovable properties/ investments of the company)	<b>1,600,000</b>	—
Balances with Excise Authorities	<b>7,924</b>	2,732
Other Deposits [Refer Schedule 19 - Note 4(a)]	<b>371,001</b>	423,331
Advance Payment of Income Tax including Tax Deducted at Source (net of provision for taxation)	<b>13,889</b>	940
	<b>2,546,103</b>	983,659

### SCHEDULE 11

#### Liabilities

Acceptances	<b>76,291</b>	162,109
Sundry Creditors :		
– Due to Small Scale Industrial Undertakings [Refer Schedule 19 - Note 6 (a)]	<b>16,050</b>	22,515
– Trade payable	<b>401,452</b>	463,746
– Other payable	<b>996,959</b>	1,080,306
Interest accrued but not due	<b>138,009</b>	145,712
	<b>1,628,761</b>	1,874,388

### SCHEDULE 12

#### Provisions

Employee Benefits	<b>47,138</b>	58,368
	<b>47,138</b>	58,368

### SCHEDULE 13

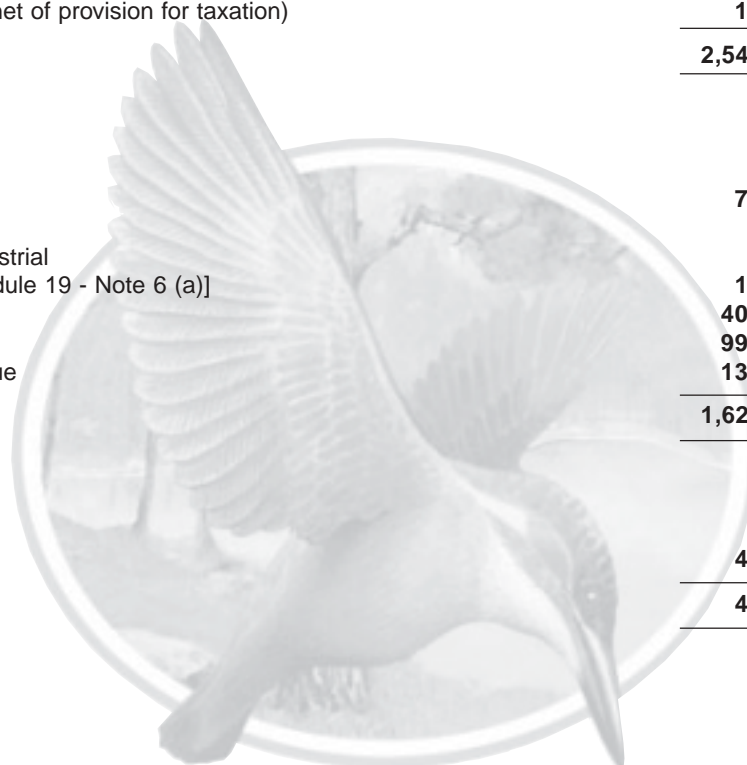
#### Sales & Service

Sales	<b>4,750,760</b>	4,224,535
Income from Services	<b>833,299</b>	843,004
	<b>5,584,059</b>	5,067,539

### SCHEDULE 14

#### Other Income

Guarantee Commission	<b>3,957</b>	5,238
Liabilities no longer required written back	<b>5,993</b>	7,287
Miscellaneous Income	<b>117,148</b>	64,498
Profit on sale of Investments	<b>115</b>	—
Provision for Doubtful Debts no longer required written back	<b>1,311</b>	—
Provision for Doubtful Advances no longer required written back	<b>611</b>	7,710
	<b>129,135</b>	84,733



## Schedules (Contd.)

	Rs. Thousands	
	2004	2003
	Rs.	Rs.
<b>SCHEDULE 15</b>		
<b>Cost of Sales</b>		
<b>Manufacturing Expenses</b>		
Consumption of Raw Materials	463,625	423,775
Consumption of Stores and Spares	1,221,099	925,497
Purchases	572,926	392,932
Power and Fuel	184,613	169,567
<b>Personnel Expenses</b>		
Salaries, Wages and Bonus	243,056	227,223
Contribution to Provident & Other Funds	20,382	18,837
Gratuity	12,327	10,713
Welfare Expenses	22,863	23,205
<b>Others</b>		
Rent	19,675	17,691
Insurance	6,223	5,965
Repairs Building *	9,686	10,838
Repairs to Machinery *	44,013	40,351
Travel and Conveyance	42,120	42,506
Communication Expenses	10,660	11,733
Rates and Taxes	207,007	123,018
Facility Fees	130,395	132,763
Miscellaneous Expenses	122,574	117,665
[ * Includes Materials consumed Rs. 24,857 (2003 : Rs. 21,956)]		
<b>Change in Inventory</b>		
Opening Stock	164,596	133,374
Closing Stock	(209,872)	(164,596)
Excise Duty on Opening Stock	(96,897)	(95,852)
Excise Duty on Closing Stock	110,116	96,897
	<u>3,301,187</u>	<u>2,664,102</u>
<b>SCHEDULE 16</b>		
<b>Other Expenses</b>		
Selling and Promotion Expenses	881,727	874,047
Directors' Sitting fees	424	237
Auditor's Remuneration [Refer Schedule 19 - Note 14]	4,148	2,127
Bad Debts Written Off	108	—
Provision for Doubtful Advances	3,552	745
Provision for Doubtful Debts	5,194	38,138
Provision for Idle Assets	3,355	—
Loss on sale of Assets (net)	274	12
Loss on sale of Investments	20,068	
Less : Provision no longer required written back	(20,068)	20,068
	<u>898,782</u>	<u>935,374</u>
<b>SCHEDULE 17</b>		
<b>Interest and Finance Charges</b>		
Interest on Loans for a fixed period	255,453	113,732
Interest Others	97,228	131,602
Other Finance Charges	89,457	105,530
	<u>442,138</u>	<u>350,864</u>
Less : Interest Received	(117,629)	(5,391)
	<u>324,509</u>	<u>345,473</u>

# Significant Accounting Policies for the year ended March 31, 2004

## SCHEDULE 18

### Significant Accounting Policies

#### 1. Basis of Presentation of Financial Statements :

The Financial Statements of the Company have been prepared under historical cost convention, to comply in all material aspects with the Generally Accepted Accounting Principles (GAAP) applicable in India, the Accounting Standards issued by The Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

#### 2. Use of Estimates :

The preparation of the Financial Statements in conformity with GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the Financial Statements, and the reported amounts of revenue and expenses during the reported period. Actual result could differ from those estimates.

#### 3. Revenue Recognition :

Revenue from sale of goods is recognised in accordance with the terms of sale, on despatch from the Breweries/ warehouses of the Company, and is net of trade discount but includes Excise Duty. Income from brand franchise is recognised at contract rates on sale/production of the branded products by the franchisees. Dividend Income is recognised when the Company's right to receive is established.

#### 4. Borrowing Costs :

Borrowing costs incurred for the acquisition of qualifying assets are recognised as part of cost of such assets when it is probable that they will result in future economic benefits to the Company while other borrowing costs are expensed.

#### 5. Fixed Assets :

The cost of Fixed assets taken over on demerger have been determined with reference to their book values (excluding revaluation) on July 31, 2001 as appearing in the books of United Breweries (Holdings) Limited.

Fixed assets acquired on or after August 1, 2001 are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses relating to acquisition and installation of such assets.

Fixed assets acquired under hire purchase/installment credit schemes are capitalised at cost. Fixed assets taken on finance lease prior to March 31, 2001 are not capitalised.

Assets identified and evaluated technically as obsolete and held for disposal are stated at their estimated net realisable value.

#### 6. Investments :

Investments being long term in nature, are stated at cost. Cost includes expenses such as professional/legal charges relating to acquisition/subscription. Diminution in value of investments, if considered permanent, is provided for.

#### 7. Inventories :

Raw Materials and Stores and spare parts are valued at cost on FIFO basis. Cost includes freight, taxes and duties.

Work-in-process and finished goods are valued at the lower of cost and realisable value including Excise Duty. Cost includes all direct costs and applicable production overheads.

#### 8. Foreign Currency Transactions :

Foreign Currency transactions are accounted at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Foreign currency liability contracted for acquiring fixed assets are restated at the rates ruling at the year end and all exchange differences arising as a result of such restatement are adjusted to the cost of the asset.

#### 9. Depreciation :

Depreciation on Fixed assets is determined using Straight Line Method based on the rates prescribed under schedule XIV of the Companies Act, 1956.

Leasehold Land is amortised over the period of lease.

#### 10. Deferred Revenue Expenditure :

The Voluntary Retirement Scheme is amortised over a period of 60 months.

#### 11. Employee Benefits :

a. Liability towards gratuity payable in future to employees is ascertained on actuarial basis as at the year-end and funded into gratuity fund maintained by Life Insurance Corporation of India except in respect of certain units, where such provisions, though made, are not funded.

b. Contributions to Pension and Superannuation Funds are made to separate trust funds.

c. Leave encashment benefit to employees is determined on actuarial basis and provided for.

#### 12. Taxes on Income :

Current tax is determined as the amount of tax payable in respect of taxable income for the year.

Deferred tax is recognised, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognised unless there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

#### 13. Contingent Liabilities :

All known liabilities, wherever material, are provided for and liabilities, which are material and whose future outcome cannot be ascertained with reasonable certainty, are treated as contingent and disclosed by way of Notes to the Accounts.



# Notes on Accounts for the year ended March 31, 2004

## SCHEDULE 19

	2004 Rs.	2003 Rs.
<b>1. Loans Funds :</b>		
<b>Secured Loans</b>		
(a) Foreign Currency Loan Loan repayable within one year - Rs. 139,656 (2003 : Rs. Nil) External Commercial Borrowing is secured by first charge on all the moveable and immovable properties of the Company and pledge of certain investments in favour of Scottish Courage Limited and the Foreign Currency loan is secured as detailed below under loan from Banks.	619,656	Nil
(b) From Banks Loans repayable within one year – Rs. 411,123 {2003 : Rs. 605,119} Secured by hypothecation of stock in trade, stores, raw materials, book debts and a second charge on all the immovable properties of the Company.	511,123	1,455,964
(c) From Others Rabo India Finance Private Limited [Includes bridge loan of Rs. 2,000,000 availed against the proposed Redeemable Optionally Convertible Preference Shares (ROCPS) issue]. Loans repayable within one year – Rs. 2,050,000 {2003: Rs. 100,000}	2,050,000	150,000
– Secured by pledge of certain Investments and a third party Guarantee		
Hire Purchase Creditors – Secured by Assets purchased under Hire Purchase Scheme	10,546	10,676
<b>Unsecured Loans</b> Loans repayable within one year – Rs. 223,797 {2003: Rs. 212}	776,534	212
<b>Deferred Credits</b> Secured by Assets purchased under the Scheme	40,000	Nil
<b>2. Fixed Assets :</b>		
a) Land includes Rs. 21,411 representing stamp duty and registration charges on leasehold land held prior to March 31, 2001.		
b) Buildings amounting to Rs. 14,115 and Plant & Machinery amounting to Rs. 23,884 are in premises not owned by the Company.		
<b>3. Investments :</b>		
a) Investments in Equity Shares of Subsidiaries and Joint Venture have been pledged/given on lien for availing External Commercial Borrowings and other loans	630,412	880,234
b) The Company, as a part of its on-going efforts to establish substantial market leadership in the brewing industry acquired majority shareholding in Mangalore Breweries and Distilleries Limited, Karnataka (MBDL) and Associated Breweries and Distilleries Limited, Maharashtra (ABDL) at a cost of Rs. 635,387. Having regard to the strategic nature of these investments, the Company proposes to invest further sums to enhance shareholding and capacities in both the subsidiaries.  The Company has also made advances of Rs. 411,586 (2003 : Rs. 331,929) [Refer Note 4(c) below] to and given guarantees of Rs. 446,500 (2003 : Rs. 348,351) [Refer Note 9(g) below] on behalf of ABDL and MBDL.  Both MBDL and ABDL had accumulated losses at the time of acquisition. As at March 31, 2004, the net worth of both subsidiaries have been fully eroded.		

## Notes on Accounts (Contd.)

### SCHEDULE 19 (Contd.)

However, the existing efforts by the Company are bearing results with the subsidiaries making a positive Earnings Before Interest and Depreciation/Amortisation during the year under review.

Considering the improvement in performance and given the critical markets and the leadership that the Company enjoys in these markets, the financial health of these subsidiaries is expected to significantly improve. Therefore, no provision is considered necessary at this stage in respect of the aforementioned amounts.

- c) A binding agreement has been reached between the Company, jointly with United Breweries (Holdings) Limited, and Scottish & Newcastle Plc., a leading European Brewing Company, for placement of a sum of Rs 2,000,000 by way of Redeemable Optionally Convertible Preference Shares (ROCPS) for which requisite applications have been filed with the various Governmental agencies for necessary approvals. In this regard the Members of the Company, in the Extra-ordinary General Meeting held on January 21, 2003, have given their consent to issue ROCPS to facilitate such infusion.

#### 4. Advances include :

- a) Deposit of Rs. 195,000 with three companies whose brewery facilities are being utilised by the company for production of Company's brands of Beer under contract brewery arrangements.
- b) Rs. 100,000 paid in earlier years to a company whose brewery facilities are being utilised by the company for the production of Company's brands of Beer under contract brewery arrangements. The said company has made a reference to the Board for Industrial Financial Restructuring (BIFR) being a sick company. The management proposes to recover/adjust the advances from the Company based on the brewery operations carried out by them.
- c) An aggregate sum of Rs. 411,586 (2003: Rs. 331,929) paid to ABDL and MBDL referred to in Note 3 (b), which are interest free and there is no stipulation with regard to repayment.
- d) Expenses of Rs. 57,442 representing issue expenses, namely registrar/lead manager/audit fees, relating to ROCPS which, according to a legal opinion obtained, is proposed to be adjusted against Securities Premium Account on completion of issue formalities.

#### 5. Debtors :

Debtors – Others include Rs. 29,675 which is due from a company whose brewery facilities are being utilised by the company for the production of Company's brands of Beer under contract brewery arrangements. As stated in Note 4 (b) above, the said company has made a reference to the BIFR, being a sick company. The management is confident of recovery of dues from the continued business operations of the company.

#### 6. Schedule of outstandings to SSI Units :

- a) The names of Small Scale industries to whom the company owes dues outstanding for more than 30 days at the Balance Sheet date, computed on unit wise basis are given in the list below. The information and that given in Schedule 11 regarding Small Scale Industrial undertakings has been determined to the extent such parties have been identified on the basis of information disclosed by the creditors available with the Company. This has been relied upon by the auditors.

- b) List of SSIs :

Jatasons Packaging Industries, Pawan Packaging Industries, Sri Bhavani Industries, The Sheryans Packing, Tirumala Corrugators, Dhanlakshmi Printers, Shree Shree Packaging, Progressive Press Private Limited, Kurian Colour Packs, Gayathri Packaging, Geeth Cartons, Unison Packaging Industries, Mayank Commercial Private Limited, Polestar Corrugator Private Limited, Das Hand Gloves, Supreme Pack & Co., Rising Packaging, Avasas Pack & Print Limited, Shaha Pack & Print, Emcee Crowns Private Limited, Arvind Industries, Kwaliti Offset Printers, Packages Industries, Nahar Packages, Arrow Head Packaging Private Limited, Pranath Packaging Industries, Manacea Industries, Mittal Punch & Pack Private Limited, Aditya Packwell, Cubic Cartons, Gild Packaging and Vividh Packaging Private Limited.

#### 7. Details of Deferred Revenue Expenditure :

Nature of Expenditure	2003	Additions/(charge) for the year	2004
	Rs.	Rs.	Rs.
Voluntary Retirement Scheme	1,439	(455)	984
<b>Total</b>	<b>1,439</b>	<b>(455)</b>	<b>984</b>

### SCHEDULE 19 (Contd.)

#### 8. Investor Education Protection Fund :

There are no overdue balances unremitted to the fund under Section 205C of the Companies Act, 1956.

#### 9. Contingent Liabilities :

Particulars	2004 Rs.	2003 Rs.
a) Estimated amount of Contracts remaining to be executed on capital account and not provided for	55,067	6,314
b) Sales Tax demands under appeal *	8,186	21,241
c) Excise Duty/Customs Duty demands under appeal *	10,286	3,533
d) Claims against the Company not acknowledged as debt *	97,099	105,370
e) Future commitments for Interest/lease rental payable on deferred credits/lease	10,638	33,449
f) Letter of Credit outstanding	20,892	25,899
g) Guarantees given by the company – on behalf of subsidiaries – to third parties	446,500 283,893	348,351 667,837
h) Liability for a put option for investment in a subsidiary, which has already been exercised	262,741	204,700
i) Commitment as per Joint Venture Agreement to place funds in the form of Preference Capital	200,000	Nil
j) Consideration payable to erstwhile promoters of ABDL withheld against possible tax benefits, if any, availed by ABDL towards its future profits	32,300	Nil

(\* In the opinion of the management, the above demands/claims are not sustainable in law and accordingly no provision has been made in the accounts)

#### 10. Segmental Reporting :

The company is engaged in manufacture, purchase and sale of beer including licensing of brands which constitutes a single business segment.

#### 11. Related party disclosures :

##### a. Name of the related parties:

##### Subsidiaries :

Associated Breweries & Distilleries Limited (ABDL)  
Mangalore Breweries & Distilleries Limited (MBDL)  
McDowell Alcobev Limited \*(MAL)

##### Associates :

Inertia Industries Limited \*(INERTIA)  
United East Bengal Football Team Private Limited (UEBFTPL)

##### Joint Venture :

McDowell Alcobev Limited \* (MAL)

##### Subsidiary/Associates of Joint Venture :

Empee Breweries Limited (EMPEE)  
GMR Beverages & Industries Limited (GMR)

##### Key Management Personnel (KMP):

Mr. Kalyan Ganguly

##### Relative of Key Management Personnel:

Mrs. Suparna Bakshi Ganguly  
(Wife of Mr. Kalyan Ganguly)

\* McDowell Alcobev Limited (MAL) has ceased to be a subsidiary of the Company with effect from May 8, 2003 consequent to the "Subscription Agreement" entered into with Scottish & Newcastle Plc and Accra Investments Private Limited. For the year ended March 31, 2004, MAL and its subsidiaries, EMPEE and GMR, are disclosed as Joint Ventures and Subsidiaries of Joint Venture respectively. Based on the above "Subscription Agreement", the Company has sold its investments in Inertia Industries Limited to McDowell Alcobev Limited and accordingly, for the year ended March 31, 2004, Inertia Industries Limited is disclosed as an Associate of the Joint Venture.

## Notes on Accounts (Contd.)

### SCHEDULE 19 (Contd.)

#### b. Transactions with related parties during the year :

Particulars	MBDL		ABDL		INERTIA		MAL		GMR		EMPEE		UEBTPL		KMP	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Purchase of goods			399,050	310,308	11,921	36,367	142,404									
Sale of Raw materials	1,780		2,039													
Receipts against rendering Services	115,598	34,894	857	857	2,069	23,187	6,926		36,991	44,512	10,008	21,485				
Payment against rendering Services					12,719	32,476	27,976						16,100	15,200		
Sale of Brands							30,000									
Purchase of Investments							455,777									
Sale of Investments					244,347											
Purchase of Assets																
Sale of Assets	248		843													
Finance (Including loans in cash or kind)*	(9,681)	113,911	89,339	11,342	(24,836)	3,535	(8,972)		6,305	28,802	(36,130)	4,808				
Remuneration to Managing Director															12,586 #	9,731 #
Guarantees & Collaterals	Refer Schedule 19 Note 9 (g)															
Amount due From/(To)	118,170	127,851	293,416	204,078	9,834	34,670	(8,972)		35,107	28,802	(31,322)	4,808			146	161

(\*) Figures in brackets indicate Amounts received.

(#) Includes payment to relative of KMP amounting to Rs. 1,409 (2003: Rs. 1,271).

### 12. Accounting for Taxes on Income :

In accordance with the 'Accounting Standard 22 – Accounting for Taxes on Income', issued by The Institute of Chartered Accountants of India, the Company has recognised deferred tax asset of Rs.10,930.

Particulars	2003 Rs.	Current year charge/(Credit)/effective tax rate adjustment Rs.	2004 Rs.
<b>Deferred Tax Liability</b>			
Difference between book and tax depreciation	42,459	32,636	75,095
<b>Deferred Tax Asset</b>			
Tax Loss	(43,415)	(20,662)	(64,077)
Gratuity	(866)	866	Nil
Doubtful Debtors	(20,085)	(1,863)	(21,948)
<b>Total</b>	(21,907)	10,977	(10,930)

### 13. Earnings Per Share :

For the purpose of computing earnings per share, the profit after tax for the year has been used as the numerator and 17,820,603 shares has been used as the denominator.

### 14. Remuneration to Auditors :

Particulars	2004 Rs.	2003 Rs.
Fees	3,355	1,200
Tax Audit	513	125
Other Certification Services	54	500
Out of Pocket Expenses (inclusive of Service Tax)	226	302
<b>Total</b>	4,148	2,127

### 15. Remuneration to Managing Director :

Particulars	2004 Rs.	2003 Rs.
Salary and Allowances	8,987	6,396
Contribution to Provident and Other Funds	1,826	1,678
Perquisites	1,773	1,657
<b>Total</b>	12,586	9,731

## Notes on Accounts (Contd.)

### SCHEDULE 19 (Contd.)

#### 16. Quantitative Details :

##### A. Quantitative Particulars

Particulars	2004		2003	
	Beer in Hecto Litres	Value in Rs.	Beer in Hecto Litres	Value in Rs.
Licensed Capacity *	2,173,180	—	1,643,180	—
Installed Capacity per annum *	1,905,000	—	1,650,000	—
Actual Production for the year	1,306,636	—	1,262,025	—
Sales during the year	1,293,476	4,071,655	1,252,127	3,788,059
Opening Stock – Finished Goods	89,641	164,596	79,743	133,374
Closing Stock – Finished Goods	102,801	209,537	89,641	164,596

\*Note : Licensing of products of the Company under the Industries (Development and Regulation) Act 1951, is discontinued and consequently the reported capacities are as per permissions obtained from the respective regulatory authorities on a yearly basis. As regards installed capacity, the same has been certified by the Management and relied upon by the Auditors, being a technical matter.

##### B. Particulars of Goods Traded by the Company

Particulars	2004		2003	
	Quantity in Hecto Litres	Value in Rs.	Quantity in Hecto Litres	Value in Rs.
Opening Stock	Nil	Nil	Nil	Nil
Purchases during the year	153,489	572,926	108,550	392,932
Sales during the year	153,125	679,105	108,550	436,476
Closing Stock	364	335	Nil	Nil

##### C. Consumption of Raw Materials

Particulars	2004		2003	
	Quantity in Tonnes	Value in Rs.	Quantity in Tonnes	Value in Rs.
Malt	17,438	273,067	17,055	227,265
Brewing Materials	7,759	122,864	6,779	113,384
Other Materials *		67,694		83,126

\* In view of the large number of items, individually comprising less than 10% of the total consumption, quantitative details are not given.

#### 17. Value of Imports during the year calculated on CIF basis :

Particulars	2004 Rs.	2003 Rs.
Raw Materials	24,461	44,828
Components & Spares	115,643	89,520
Capital Goods	258	Nil



### SCHEDULE 19 (Contd.)

#### 18. Expenditure in Foreign Currency :

Particulars	2004 Rs.	2003 Rs.
Foreign Travel expenses of employees and others (net of recoveries)	2,222	1,926
Other Expenses	3,500	281

#### 19. Consumption :

Particulars	2004		2003	
	Value in Rs.	Percentage to total consumption	Value in Rs.	Percentage to total consumption
Value of Imported Raw Materials consumed	24,461	5.28	44,828	10.58
Value of indigenous Raw Materials consumed	439,164	94.72	378,947	89.42
Value of Imported Spare Parts and components consumed	115,643	9.28	89,520	9.45
Value of indigenous Spare Parts and components consumed	1,130,313	90.72	857,933	90.55

#### 20. Earnings in Foreign Exchange :

Particulars	2004 Rs.	2003 Rs.
Services	Nil	2,255

#### 21. Cash Flow Statement :

- a. The Cash Flow Statement has been compiled from and is based on the Balance Sheet as at March 31, 2004 and the related Profit and Loss Account for the year ended on that date.
  - b. The Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard – 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
22. Non-recurring item represents provision made against an advance (vested with the Company upon demerger) to a brewing entity which has now been ordered for winding up by BIFR.
23. All amounts are in Rupees thousands, unless otherwise stated.
24. The previous year's figures have been regrouped to conform to the current year's classifications.

**STATEMENT PURSUANT TO SECTION 212(1)(e) OF THE COMPANIES ACT, 1956 AS AT MARCH 31, 2004**

Rupees Thousands

Sl. No.	Name of the Subsidiary	a) No. of Equity Shares at the end of the financial year of the Subsidiary		b) Extent of holding		Net Aggregate Profit/(Loss) of the Subsidiary so far as it concerns the Members of the Company				
		United Breweries Limited (Formerly UB Beer Ltd.)	Other Subsidiary Companies	United Breweries Limited (Formerly UB Beer Ltd.)	Other Subsidiary Companies	a) Not dealt with in the Accounts of the Company		b) Dealt with in the Accounts of the Company		
						(i) For the Financial year ended 31.3.2004	(ii) For previous years of the Subsidiary since it became a Subsidiary	(i) For the Financial year ended 31.3.2004	(ii) For previous years of the Subsidiary since it became a Subsidiary	
				%	%					
		1	2	3	4	5	6	7	8	9
1.	Associated Breweries & Distilleries Ltd.	260,000	—	65	—	(39,582)	(298,337)	—	—	—
2.	London Draft Pubs Pvt. Ltd.*	—	50,000	—	100	(88)	(983)	—	—	—
3.	London Pilsner Breweries Pvt. Ltd.*	—	50,000	—	100	**	—	—	—	—
4.	Mangalore Breweries & Distilleries Ltd.	9,795,180	—	98.15	—	(28,933)	(259,746)	—	—	—

\* Became Subsidiary of the Company by virtue of the provisions of Section 4(1)(c) of the Companies Act, 1956.

\*\* As the Company has not commenced its business activities, there is no Profit & Loss Account.

Figures in brackets represent losses.

**K. Ganguly**  
Managing Director

**Govind Iyengar**  
Company Secretary

**A.K. Ravi Nedungadi**  
Director

Bangalore  
June 25, 2004

**DISCLOSURE UNDER CLAUSE 32 OF THE LISTING AGREEMENT**

Name of the listed Company : United Breweries Limited

Rupees Thousands

Name of the Company	Amount outstanding as at March 31, 2004 Rs.	Value of investments as at March 31, 2004 Rs.	Terms
<b>Subsidiaries :</b>			
Associated Breweries & Distilleries Ltd.	293,416	463,504	No stipulation towards repayment and interest - do -
Mangalore Breweries & Distilleries Ltd.	118,170	171,883	
<b>Joint Venture :</b>			
McDowell Alcobev Limited	—	456,277	
<b>Associates :</b>			
United East Bengal Football Team P. Ltd.	—	50	

## COMPANY'S GENERAL BUSINESS PROFILE

Rupees Thousands

### I. Registration Details

Registration	:	25195
State Code	:	08
Balance Sheet Date	:	31.03.2004

### II. Capital Raised during the year

Public Issue	:	Nil
Rights Issue	:	Nil
Bonus Issue	:	Nil
Private Placement	:	Nil

### III. Position of Mobilisation and Deployment of Funds :

<b>Total Liabilities</b>	<b>4,425,769</b>	<b>Total Assets</b>	<b>4,425,769</b>
<b>Sources of Funds</b>		<b>Application of Funds</b>	
Paid up Capital	178,206	Net Fixed Assets	1,110,110
Reserves & Surplus	239,704	Investments	1,091,868
Secured Loans	3,191,325	Net Current Assets	2,160,095
Unsecured Loans	776,534	Deferred Tax Asset	10,930
Deferred Credit	40,000	Miscellaneous Expenditure	52,766

### IV. Performance of Company

Turnover	4,665,932	Total Expenditure (Includes non-recurring items)	4,623,969
Profit Before Tax	41,963	Profit After Tax	27,760
Earnings per Share	1.56	Dividend Rate	Nil

### V. Generic Names of three Principal Products/Services of the Company

Item Code - ITC Code	22030000
Product Description	Beer made from Malt

# Auditors' Report on Consolidated Financial Statements

## REPORT OF THE AUDITOR'S TO THE BOARD OF DIRECTORS OF UNITED BREWERIES LIMITED

1. We have audited the attached Consolidated Balance Sheet of United Breweries Limited and its subsidiaries, Associates and Joint Venture (UB Consolidated) as at March 31, 2004, the Consolidated Profit and Loss Account for the year ended on that date annexed thereto, and the Consolidated Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These consolidated financial statements are the responsibility of United Breweries Limited's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standard require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and 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 used by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3.
  - a) We did not audit the financial statements of certain subsidiaries and associate Company, whose financial statements reflect total assets of Rs. 19,412 Thousands as at March 31, 2004 and total revenues of Rs. 0.08 Thousands for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors.
  - b) The financial statements and other information of the Joint Venture (JV), whose financial statements reflect total assets of Rs. 252,335 Thousands as at March 31, 2004 and total revenues of Rs. 365,324 Thousands for the year ended on that date, have been certified by the management, and our opinion, insofar as it relates to amounts included in respect of the JV, is solely based on the above financial statements.
4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 – Consolidated Financial Statements, Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 – Financial Reporting of Interest in Joint Ventures issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of UB Consolidated included in the consolidated financial statements.
5. Based on our audit and on consideration of the reports/certificates of other auditors/directors on separate financial statements and on the other financial information of the components, in our opinion and to the best of our information and according to explanations given to us, the attached consolidated financial statements, give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of UB Consolidated as at March 31, 2004;
  - (b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of UB Consolidated for the year ended on that date;and
  - (c) in case of the Consolidated Cash Flow Statement, of the Consolidated Cash Flows of UB Consolidated for the year ended on that date.

**J. Majumdar**  
Partner  
Membership Number – F51912  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants

Place : Bangalore  
Date : June 25, 2004



# Consolidated Balance Sheet as at March 31, 2004

		UB & Subsidiaries					Joint Venture		Total	
		2004		2003						
Schedule	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
<b>SOURCES OF FUNDS</b>										
<b>SHAREHOLDERS' FUNDS</b>										
Share Capital	1	178,206		385,574		563,780		178,206		
Reserves and Surplus	2	<u>239,794</u>	418,000	<u>98,990</u>	484,564	<u>338,784</u>	902,564	<u>239,794</u>	418,000	
<b>LOAN FUNDS</b>										
Secured Loans	3	3,545,107		612,232		4,157,339		1,895,125		
Unsecured Loans		<u>779,540</u>	4,324,647	<u>—</u>	612,232	<u>779,540</u>	4,936,879	<u>43,750</u>	1,938,875	
Deferred Credit			40,000		—		40,000		—	
[Refer Schedule 19 - Note 4]										
			<u>4,782,647</u>		<u>1,096,796</u>		<u>5,879,443</u>		<u>2,356,875</u>	
<b>APPLICATION OF FUNDS</b>										
<b>FIXED ASSETS</b>										
Gross Block	4	1,503,531		540,145		2,043,676		1,325,382		
Less : Depreciation		<u>318,974</u>		<u>93,170</u>		<u>412,144</u>		<u>218,290</u>		
Net Block		1,184,557		446,975		1,631,532		1,107,092		
Capital Work in Progress		<u>196,344</u>	1,380,901	<u>7,642</u>	454,617	<u>203,986</u>	1,835,518	<u>33,869</u>	1,140,961	
<b>INVESTMENTS</b>	5		456,551		(439,646)		16,905		225,057	
<b>GOODWILL</b>			620,422		230,948		851,370		620,422	
[Refer Schedule 19 - Note 3]										
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>										
Inventories	6	478,029		44,287		522,316		392,451		
Sundry Debtors	7	845,001		51,322		896,323		775,893		
Cash and Bank Balances	8	156,407		47,670		204,077		114,847		
Other Current Assets	9	22,874		146		23,020		22,925		
Loans and Advances	10	<u>2,153,108</u>		<u>604,265</u>		<u>2,757,373</u>		<u>667,703</u>		
		3,655,419		747,690		4,403,109		1,973,819		
Less : <b>CURRENT LIABILITIES &amp; PROVISIONS</b>										
Liabilities	11	1,814,054		78,024		1,892,078		2,043,974		
Provisions	12	<u>51,500</u>		<u>885</u>		<u>52,385</u>		<u>61,587</u>		
		1,865,554		78,909		1,944,463		2,105,561		
Net Current Assets			1,789,865		668,781		2,458,646		(131,742)	
Deferred Tax Asset (Net)			10,930		—		10,930		21,907	
[Refer Schedule 19 - Note 16]										
<b>MISCELLANEOUS EXPENDITURE</b>										
(To the extent not written off)										
Deferred Revenue Expenditure		37,214		2,598		39,812		56,121		
[Refer Schedule 19 - Note 13]										
Preliminary Expenses		<u>310</u>	<u>37,524</u>	<u>—</u>	<u>2,598</u>	<u>310</u>	<u>40,122</u>	<u>383</u>	<u>56,504</u>	
Profit & Loss Account			486,454		179,498		665,952		423,766	
			<u>4,782,647</u>		<u>1,096,796</u>		<u>5,879,443</u>		<u>2,356,875</u>	
Notes to Accounts	19									

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

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

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

**Kalyan Ganguly**  
Managing Director

**A.K. Ravi Nedungadi**  
Director

**Govind Iyengar**  
Company Secretary

Bangalore, June 25, 2004

# Consolidated Profit and Loss Account for the year ended March 31, 2004

		Rs. Thousands							
		UB & Subsidiaries		Joint Venture		2004		2003	
Schedule		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>INCOME</b>									
Sales and Service	13	6,184,388		319,038		6,503,426		5,363,857	
Less : Excise Duty		1,553,712		—		1,553,712		1,325,982	
		<u>4,630,676</u>		<u>319,038</u>		<u>4,949,714</u>		<u>4,037,875</u>	
Other Income	14	137,228	4,767,904	46,286	365,324	183,514	5,133,228	87,708	4,125,583
<b>EXPENDITURE</b>									
Cost of Sales	15	3,360,586		316,851		3,677,437		2,806,900	
Other Expenses	16	939,639		1,077		940,716		1,001,903	
Interest	17	362,376		66,394		428,770		285,483	
Deferred Revenue Expenses		18,980		799		19,779		20,606	
[Refer Schedule 19 - Note 13]									
Depreciation		102,628		39,815		142,443		78,132	
			<u>4,784,209</u>		<u>424,936</u>		<u>5,209,145</u>		<u>4,193,024</u>
Profit/(Loss) before non-recurring item			(16,305)		(59,612)		(75,917)		(67,441)
Non-recurring item			(32,180)		—		(32,180)		—
[Refer Schedule 19 - Note 20]									
Profit/(Loss) before taxation			(48,485)		(59,612)		(108,097)		(67,441)
Taxation relating to earlier years			—		—		—		(39)
Provision for Taxation :									
– Current			(3,226)		(577)		(3,803)		—
– Deferred Tax (Liability)/Asset									
[Refer Schedule 19 - Note 16]			(10,977)		(577)		(10,977)		(14,780)
Profit/(Loss) after Taxation			(62,688)		(60,189)		(122,877)		(90,573)
Less : Loss transferred to Minority Interest			—		—		—		28,129
			(62,688)		(60,189)		(122,877)		(62,444)
Loss brought forward from previous year		(423,766)		(119,309)		(543,075)		(333,885)	
Add : Movement during the year			—		—			(27,437)	
			(423,766)		(119,309)		(543,075)		(361,322)
Balance carried to Balance Sheet			(486,454)		(179,498)		(665,952)		(423,766)
Earnings per share (Basic/Diluted)									
[Refer Schedule 19 - Note 18]			(3.52)		—		—		(5.08)
Notes to Accounts	19								

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

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

**J. Majumdar**  
Partner  
For and on behalf of  
**Price Waterhouse**  
Chartered Accountants  
Bangalore, June 25, 2004

**Kalyan Ganguly**  
Managing Director

**Govind Iyengar**  
Company Secretary

**A.K. Ravi Nedungadi**  
Director

# Consolidated Cash Flow Statement for the year ended March 31, 2004

[Refer Schedule 19 - Note 19]

Rs. Thousands

	2004		2003	
	Rs.	Rs.	Rs.	Rs.
<b>A. Cash Flow from Operating Activities</b>				
Profit/(Loss) before taxation and non-recurring items		(75,917)		(67,441)
Adjustments for:				
Depreciation	142,443		78,132	
(Profit)/Loss on Sale of Assets	274		(91)	
Interest Expenses (Net)	428,770		285,534	
Deferred Revenue	19,779		20,606	
Diminution in value of asset/investments	—		27,636	
		<b>591,266</b>		<b>411,817</b>
<b>Operating profits before Working Capital changes</b>		<b>515,349</b>		<b>344,376</b>
Adjustment for Working Capital Changes :				
(Increase)/Decrease in Trade & Other Receivables	(100,430)		(215,406)	
(Increase)/Decrease in Inventories	(129,865)		(56,883)	
(Increase)/Decrease in Deferred Revenue	(3,397)		—	
Increase/(Decrease) in Trade Payables	(77,766)		413,535	
		<b>(311,458)</b>		<b>141,246</b>
<b>Cash generated from operations</b>		<b>203,891</b>		<b>485,622</b>
Direct taxes Paid		(19,494)		(918)
<b>Cash generated from operations before non-recurring items</b>		<b>184,397</b>		<b>484,704</b>
Non-recurring items		(32,180)		—
<b>Net Cash generated from Operating Activities</b>		<b>152,217</b>		<b>484,704</b>
<b>B. Cash Flow from Investing Activities</b>				
Purchase of Fixed Assets		(837,000)		(262,419)
Sale of Fixed Assets		(274)		32,349
Sale of Investments		208,151		(854)
<b>Net Cash generated in Investing Activities</b>		<b>(629,123)</b>		<b>(230,924)</b>
<b>C. Cash Flow from Financing Activities</b>				
Short Term Loan		(779,572)		9,513
Long Term Borrowing/Repayment		3,721,757		(57,864)
Loan to Associates		(2,074,074)		(32,342)
Share in Capital of Joint Venture [net of acquisition Goodwill]		134,309		—
Interest Paid		(436,284)		(187,192)
<b>Cash Outflow from/(used in) Financing Activities</b>		<b>566,136</b>		<b>(267,885)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>89,230</b>		<b>(14,105)</b>
<b>Opening cash and cash equivalents</b>				
Cash and Cheques on hand including Remittances in Transit	2,738		36,324	
Bank Balances	112,109	114,847	92,628	128,952
<b>Closing cash and cash equivalents</b>				
Cash and Cheques on hand including Remittances in Transit	7,592		2,738	
Bank Balances	196,485	204,077	112,109	114,847

The current year figures include transactions relating to Joint Venture and hence are not comparable to those of previous year.

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

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

**Kalyan Ganguly**  
Managing Director

**A.K. Ravi Nedungadi**  
Director

**Govind Iyengar**  
Company Secretary

Bangalore, June 25, 2004

## Schedules

	Rs. Thousands			
	UB & Subsidiaries	Joint Venture	Total	
	Rs.	Rs.	2004 Rs.	2003 Rs.
<b>SCHEDULE 1</b>				
<b>Share Capital</b>				
<b>Authorised</b>				
30,000,000 (2003 : 30,000,000) Equity Shares of Rs. 10 each	300,000	—	300,000	300,000
22,000,000 (2003 : 22,000,000) Redeemable Optionally Convertible Preference Shares of Rs.100 each	2,200,000	—	2,200,000	2,200,000
	<u>2,500,000</u>	<u>—</u>	<u>2,500,000</u>	<u>2,500,000</u>
<b>Issued, Subscribed and Paid-up</b>				
17,820,603 (2003: 17,820,603) Equity Shares of Rs.10 each fully paid	178,206	—	178,206	178,206
(Of the above 15,093,971 Equity Shares of Rs. 10 each were allotted to the shareholders of United Breweries (Holdings) Limited as per a Scheme of Arrangement).				
<b>Preference Capital</b>				
	—	385,574	385,574	—
	<u>178,206</u>	<u>385,574</u>	<u>563,780</u>	<u>178,206</u>
<b>SCHEDULE 2</b>				
<b>RESERVES AND SURPLUS</b>				
Capital Reserve on consolidation	90	98,990	99,080	90
Securities Premium Account	239,704	—	239,704	239,704
	<u>239,794</u>	<u>98,990</u>	<u>338,784</u>	<u>239,794</u>
<b>SCHEDULE 3</b>				
<b>SECURED LOANS</b>				
Foreign Currency Loans	619,656	—	619,656	—
[Refer Schedule 19 - Note 4(a)]				
From Banks	862,981	—	862,981	1,733,015
[Refer Schedule 19 - Note 4(b)]				
Interest accrued and due	1,924	—	1,924	1,433
From Others (including HP creditors)	2,060,546	612,232	2,672,778	160,677
[Refer Schedule 19 - Note 4(c)]				
	<u>3,545,107</u>	<u>612,232</u>	<u>4,157,339</u>	<u>1,895,125</u>
<b>UNSECURED LOANS</b>				
Short Term Loans and Advances:				
From Banks	223,797	—	223,797	212
[Refer Schedule 19 - Note 4]				
From Others	555,743	—	555,743	43,538
[Refer Schedule 19 - Note 4]				
	<u>779,540</u>	<u>—</u>	<u>779,540</u>	<u>43,750</u>



**SCHEDULE 4  
CONSOLIDATED FIXED ASSETS [Refer Schedule 19 - Note 6]**

Rs. Thousands

Net Value of Assets as at March 31, 2003	Particulars	Cost			Gross Value of Assets as at March 31, 2004	As At March 31, 2003	Depreciation			As At March 31, 2004	Net Value of Assets as at March 31, 2004
		Gross Value of Assets as at March 31, 2003	Additions	Transfers/ Adjustments*			Sales	Gross Value of Assets as at March 31, 2004	Rs.		
Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
907	Goodwill	907	—	—	907	—	—	—	—	—	907
25,788	Land - Freehold	25,788	1,151	—	26,939	—	—	—	—	—	26,939
92,445	Land - Leasehold	96,837	1,500	—	98,337	4,392	—	1,140	5,532	5,532	92,805
299,087	Buildings	343,460	5,032	—	347,786	44,373	—	13,898	57,996	57,996	289,790
583,759	Plant and Machinery	730,896	152,715	(138)	880,842	147,137	(294)	73,416	219,225	219,225	661,617
34,261	Office Machinery	40,550	2,904	(2,522)	40,495	6,289	(10)	6,029	12,164	12,164	28,331
28,210	Furniture & Fittings	35,841	7,809	2,307	45,742	7,631	—	2,863	10,469	10,469	35,273
4,176	Lab Equipments	4,937	1,800	—	6,737	761	—	338	1,099	1,099	5,638
38,459	Vehicles	46,166	11,284	(960)	55,746	7,707	—	4,944	12,489	12,489	43,257
1,107,092		1,325,382	184,195	(1,313)	1,503,531	218,290	(304)	1,640	318,974	318,974	1,184,557
—	Share of Joint Venture	498,489	41,878	—	540,145	53,386	—	31	93,170	93,170	446,975
1,107,092		1,823,871	226,073	(1,313)	2,043,676	271,676	(304)	1,671	412,144	412,144	1,631,532
33,869	Capital work in progress [including capital advances Rs. 77,881 (2003: Rs. 14,731)]										196,344
—	Share of Joint Venture										7,642
1,140,961											1,835,518

Schedules (Contd.)

## Schedules (Contd.)

	Rs. Thousands			
	UB & Subsidiaries	Joint Venture	Total	
	Rs.	Rs.	2004 Rs.	2003 Rs.
<b>SCHEDULE 5</b>				
<b>INVESTMENTS</b>				
Government Securities :				
National Savings Certificates	174	—	174	77
Trade Investments				
– Fully paid Shares (Unquoted) :				
Inertia Industries Limited	—	—	—	244,348
Non-Trade (Unquoted) :				
United East Bengal Football Team Private Limited *	50	—	50	50
Zorastrian Co.op. Bank Limited	100	—	100	100
McDowell & UB Employees Co-operative Society	—	—	—	100
McDowell Alcobev Limited	456,277	(456,277)	—	500
	<u>456,601</u>	<u>(456,277)</u>	<u>324</u>	<u>245,175</u>
* Associate Company Goodwill arising on consolidation	(50)	—	(50)	(50)
Our share in JV's Investments	—	16,631	16,631	—
Provision for diminution in value of Investments	—	—	—	(20,068)
Net Investments	<u>456,551</u>	<u>(439,646)</u>	<u>16,905</u>	<u>225,057</u>
<b>SCHEDULE 6</b>				
<b>INVENTORIES</b>				
Raw Materials	81,489	20,626	102,115	77,402
Stores and Spares	119,478	9,036	128,514	85,651
Finished Goods (Including Traded Goods)	253,101	14,625	267,726	212,502
Goods in transit	23,961	—	23,961	16,896
	<u>478,029</u>	<u>44,287</u>	<u>522,316</u>	<u>392,451</u>
<b>SCHEDULE 7</b>				
<b>SUNDRY DEBTORS</b>				
(Unsecured, unless stated otherwise)				
Considered Good				
– Over Six Months	19,973	—	19,973	33,663
– Others [Refer Schedule 19 - Note 10]	825,028	51,322	876,350	742,230
Considered Doubtful				
– Over Six Months	99,928	—	99,928	95,934
– Others [Refer Schedule 19 - Note 10]	—	—	—	—
	<u>944,929</u>	<u>51,322</u>	<u>996,251</u>	<u>871,827</u>
Less : Provision for Doubtful Debts	(99,928)	—	(99,928)	(95,934)
	<u>845,001</u>	<u>51,322</u>	<u>896,323</u>	<u>775,893</u>
<b>SCHEDULE 8</b>				
<b>CASH AND BANK BALANCES</b>				
Cash and Cheques on hand including remittances in transit	7,478	114	7,592	2,738
Balances with Scheduled Banks:				
– on Current Account	96,461	33,860	130,321	46,604
– on Deposit Account	52,468	13,696	66,164	65,505
	<u>156,407</u>	<u>47,670</u>	<u>204,077</u>	<u>114,847</u>

	Rs. Thousands			
	UB & Subsidiaries	Joint Venture	Total	
	Rs.	Rs.	2004 Rs.	2003 Rs.
<b>SCHEDULE 9</b>				
<b>OTHER CURRENT ASSETS</b>				
Income accrued on Investments and Deposits	324	146	470	375
Fixed Assets held for disposal [Refer Schedule 19 - Note 8]	22,550	—	22,550	22,550
	<u>22,874</u>	<u>146</u>	<u>23,020</u>	<u>22,925</u>
<b>SCHEDULE 10</b>				
<b>LOANS AND ADVANCES</b>				
(Unsecured, considered good unless otherwise stated)				
Advances Recoverable in cash or in kind or for value to be received				
– Considered Good	153,225	587,990	741,215	234,833
– Considered Doubtful	58,760	—	58,760	21,624
	<u>211,985</u>	<u>587,990</u>	<u>799,975</u>	<u>256,457</u>
Less : Provision for Doubtful Advances	58,760	—	58,760	21,624
	<u>153,225</u>	<u>587,990</u>	<u>741,215</u>	<u>234,833</u>
Loan to United Breweries (Holdings) Limited (Secured by an exclusive first charge on an immovable property of the Company and a second charge on certain other immovable properties/Investments of the Company)	1,600,000	—	1,600,000	—
Balances with Excise authorities	10,009	2	10,011	3,856
Other Deposits [Refer Schedule 19 - Note 9 (a)]	375,928	13,532	389,460	428,017
Advance Payment of Income Tax including Tax Deducted at Source (Net of Provision for Taxation)	13,946	2,741	16,687	997
	<u>2,153,108</u>	<u>604,265</u>	<u>2,757,373</u>	<u>667,703</u>
<b>SCHEDULE 11</b>				
<b>LIABILITIES</b>				
Acceptances	76,291	—	76,291	172,109
Sundry Creditors				
– Trade Payable	560,865	—	560,865	605,227
– Other Payable	1,038,889	77,835	1,116,724	1,120,926
Interest accrued but not due	138,009	189	138,198	145,712
	<u>1,814,054</u>	<u>78,024</u>	<u>1,892,078</u>	<u>2,043,974</u>
<b>SCHEDULE 12</b>				
<b>PROVISIONS</b>				
Gratuity/Leave Encashment Payable	51,500	885	52,385	61,587
	<u>51,500</u>	<u>885</u>	<u>52,385</u>	<u>61,587</u>

## Schedules (Contd.)

	Rs. Thousands			
	UB & Subsidiaries	Joint Venture	Total	
	Rs.	Rs.	2004 Rs.	2003 Rs.
<b>SCHEDULE 13</b>				
<b>SALES &amp; SERVICE</b>				
Sales	5,463,829	319,038	5,782,867	4,553,139
Income from Services	720,559	—	720,559	810,718
	<u>6,184,388</u>	<u>319,038</u>	<u>6,503,426</u>	<u>5,363,857</u>
<b>SCHEDULE 14</b>				
<b>OTHER INCOME</b>				
Guarantee Commission	242	—	242	1,733
Excess credits written back	6,723	—	6,723	7,287
Income from Investments	15	46,286	46,301	18
Profit on Sale of Assets	—	—	—	91
Profit on Sale of Investments	115	—	115	—
Miscellaneous Income	128,062	—	128,062	69,840
Provision for Doubtful Debts no longer required written back	1,911	—	1,911	1,029
Provision for Doubtful Advances no longer required written back	160	—	160	7,710
	<u>137,228</u>	<u>46,286</u>	<u>183,514</u>	<u>87,708</u>
<b>SCHEDULE 15</b>				
<b>COST OF SALES</b>				
<b>Manufacturing Expenses :</b>				
Consumption of Raw Materials	655,935	179,874	835,809	576,090
Consumption of Stores and Spares	1,370,729	2,293	1,373,022	1,014,871
Purchase of Finished Goods	174,910	—	174,910	82,624
Power and Fuel	230,055	26,262	256,317	207,815
<b>Personnel Expenses :</b>				
Salaries, Wages and Bonus	277,674	15,592	293,266	256,779
Contribution to Provident & Other Funds	22,313	1,126	23,439	20,345
Gratuity	13,523	—	13,523	12,050
Welfare Expenses	27,385	683	28,068	26,480
<b>Others :</b>				
Rent	19,921	1,889	21,810	103,551
Insurance	7,536	1,086	8,622	6,850
Repairs Building	10,893	528	11,421	12,653
Repairs to Machinery	50,117	2,331	52,448	45,677
Travel and Conveyance	43,133	—	43,133	43,429
Communication Expenses	10,886	—	10,886	11,976
Rates and Taxes	214,469	2,752	217,221	130,065
Prior period Revenue	1,720	—	1,720	1,609
Facility Fees	130,395	—	130,395	132,763
Other Miscellaneous Expenses	127,451	84,100	211,551	145,348
<b>Changes in Inventory :</b>				
Opening Stock	212,501	12,960	225,461	186,239
Provision for Obsolete Stock no longer required written back	—	—	—	(993)
Closing Stock	(253,101)	(14,625)	(267,726)	(212,501)
Excise Duty on Opening stock	(124,216)	—	(124,216)	(121,036)
Excise Duty on Closing stock	136,357	—	136,357	124,216
	<u>3,360,586</u>	<u>316,851</u>	<u>3,677,437</u>	<u>2,806,900</u>



## Schedules (Contd.)

	Rs. Thousands			
	UB & Subsidiaries	Joint Venture	Total	
	Rs.	Rs.	2004 Rs.	2003 Rs.
<b>SCHEDULE 16</b>				
<b>OTHER EXPENSES</b>				
Selling and Promotion Expenses	920,505	—	920,505	932,352
Directors' Fees	469	—	469	237
Auditors' Remuneration	5,047	1,040	6,087	2,795
Bad debts/advances written off	—	—	—	745
Provision for Doubtful Debts	5,429	—	5,429	38,138
Provision for Doubtful Advances	7,807	—	7,807	—
Advances written off	108	—	108	—
Provision for diminution in value of assets	—	—	—	7,568
Loss on Sale of Assets ( Net)	274	—	274	—
Loss on Sale of Investments	20,068	37	37	—
Less : Provision no longer required written back	(20,068)	—	—	20,068
	<u>939,639</u>	<u>1,077</u>	<u>940,716</u>	<u>1,001,903</u>
<b>SCHEDULE 17</b>				
<b>INTEREST</b>				
On Fixed Loans	75,417	—	75,417	146,927
On Others	404,624	66,394	471,018	144,037
	<u>480,041</u>	<u>66,394</u>	<u>546,435</u>	290,964
Less : Interest Received	117,665	—	117,665	5,481
	<u>362,376</u>	<u>66,394</u>	<u>428,770</u>	<u>285,483</u>

# Consolidated Significant Accounting Policies for the year ended March 31, 2004

## SCHEDULE 18

### Consolidated Significant Accounting Policy

#### 1. Basis of Consolidation :

The Financial Statements of the Subsidiaries and the Joint Venture (JV) used in the consolidation are drawn up to the same reporting date as that of the parent company, i.e., year ended March 31, 2004.

#### Basis of Presentation of Financial Statements :

The Financial Statements of the Company have been prepared under historical cost convention, to comply in all material aspects with the Generally Accepted Accounting Principles (GAAP) applicable in India, the Accounting Standards issued by The Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

The preparation of the financial statements in conformity with GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual result could differ from those estimates.

#### 2. Principles of Consolidation :

- i) The financial statement of the parent company and its subsidiaries have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenditure after eliminating intra group balances and intra group transactions.
- ii) The financial statements of the parent company and its subsidiaries have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances, except that depreciation in Mangalore Breweries & Distilleries Limited (MBDL), London Draft Pubs Private Limited and London Pilsner Breweries Private Limited have been determined using Written Down Value Method, instead of straight line basis followed by others.
- iii) The financial statement of the JV has been consolidated on a line by line basis for the proportionate share in the JV, by adding together the book values of like items of assets, liabilities, income and expenditure after eliminating our share of intra group balances as per the books of the Company and intra group transactions.
- iv) Goodwill represents the difference between the group's share in the net worth and the cost of acquisition of a subsidiary and JV at each point of time of making the investment in the subsidiary and JV. Goodwill arising on consolidation is not amortised. Negative goodwill is recognised as capital reserve on consolidation.
- v) Investments in Associate Companies have been accounted under the Equity Method as per Accounting Standard 23. Under the Equity Method of accounting, the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of investment is adjusted thereafter for the post acquisition change in the investor's share of net asset of the Investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

#### 3. Revenue Recognition :

Revenue from sale of goods is recognised in accordance with the terms of sale, on despatch from the Breweries/warehouses of the Company, and is net of trade discount but includes Excise Duty. Income from brand licensing is recognised at contract rates on sale/production of the branded products by the Contract Breweries. Dividend income is recognised when the Company's right to receive is established.

#### 4. Borrowing Costs :

Borrowing costs incurred for the acquisition of qualifying assets are recognised as part of cost of such assets when it is probable that they will result in future economic benefits to the Company while other borrowing costs are expensed.

#### 5. Fixed Assets :

The cost of Fixed assets taken over on demerger have been determined with reference to their book values (excluding revaluation) on July 31, 2001, as appearing in the books of United Breweries (Holdings) Ltd.

Fixed assets acquired on or after August 1, 2001 are stated at their original cost of acquisition and subsequent improvement thereto including taxes, duties, freight and other incidental expenses relating to acquisition and installation of such assets.

Fixed assets acquired under hire purchase/installment credit schemes are capitalised at cost. Fixed assets taken on finance lease prior to March 31, 2001 are not capitalised.

Assets identified and evaluated technically as obsolete and held for disposal are stated at their estimated net realisable value.



## Consolidated Significant Accounting Policies (Contd.)

### SCHEDULE 18 (Contd.)

#### 6. Investments :

Investments being long term in nature, are stated at cost. Cost includes expenses such as professional/legal charges relating to acquisition/subscription. Diminution in value of investments, if considered permanent, is provided for.

#### 7. Inventories :

Raw Materials and Stores and spare parts are valued at cost on FIFO basis. Cost includes freight, taxes and duties.

Work-in-process and finished goods are valued at the lower of cost and realisable value including Excise Duty. Cost includes all direct costs and applicable production overheads.

#### 8. Foreign Currency Transactions :

Foreign currency transactions are accounted at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Foreign currency liability contracted for acquiring fixed assets are restated at the rates ruling at the year end and all exchange differences arising as a result of such restatement are adjusted to the cost of the asset.

#### 9. Depreciation :

Depreciation on Fixed assets is determined using Straight Line Method based on the rates prescribed under schedule XIV of the Companies Act, 1956 except in Mangalore Breweries & Distilleries Ltd. (MBDL), London Draft Pubs Private Ltd. and London Pilsner Breweries Private Ltd. where it is determined using Written Down Value Method.

Leasehold Land is amortised over the period of lease.

#### 10. Deferred Revenue Expenditure :

Expenses incurred on product launch is amortised over a period of 60 months in Associated Breweries & Distilleries Ltd. (ABDL) and the payments under the Voluntary Retirement Scheme are amortised over a period of 60 months. Preliminary expenses are amortised over a period of 120 months.

#### 11. Employee Benefits :

- a. Liability towards gratuity payable in future to employees is ascertained on actuarial basis as at the year end and funded into gratuity fund maintained by Life Insurance Corporation of India except in respect of certain units of the parent Company and ABDL, where such provisions, though made, are not funded.
- b. Contributions to Pension and Superannuation Funds are made to separate trust funds.
- c. Leave encashment benefit to employees is determined on actuarial basis and provided for.

#### 12. Taxes on Income :

Current tax is determined as the amount of tax payable in respect of taxable income for the year.

Deferred tax is recognised, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are not recognised unless there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

#### 13. Contingent Liabilities :

All known liabilities, wherever material, are provided for and liabilities, which are material and whose future outcome cannot be ascertained with reasonable certainty, are treated as contingent and disclosed by way of Notes to the Accounts.

# Consolidated Notes on Accounts for the year ended March 31, 2004

## SCHEDULE 19

### NOTES ON CONSOLIDATED ACCOUNTS

1. The Consolidated Financial Statement (CFS) present the consolidated accounts of United Breweries Limited with its following subsidiaries, Associates and Joint Venture :

	Ownership Percentage		Country of Incorporation
	2004	2003	
<b>Name of the Subsidiary</b>			
Associated Breweries & Distilleries Limited (ABDL)	<b>65.00</b>	65.00	India
London Draft Pubs Private Limited (Subsidiary of ABDL)	<b>100.00</b>	100.00	India
London Pilsner Breweries Private Limited (Subsidiary of ABDL)	<b>100.00</b>	100.00	India
Mangalore Breweries & Distilleries Limited (MBDL)	<b>98.15</b>	98.15	India
<b>Name of the Associate</b>			
United East Bengal Football Team Private Limited (UEBF)	<b>50.00</b>	50.00	India
<b>Name of the Joint Venture</b>			
McDowell Alcobev Limited (MAL)	<b>40.00</b>	Nil	India

2. McDowell Alcobev Limited (MAL), along with its subsidiaries, namely GMR Beverages & Industries Limited and Empee Breweries Ltd. ceased to be subsidiaries effective May 8, 2003 and became a joint venture (JV). Accordingly, the unaudited Financial Statements of the JV have been consolidated as per Accounting Standard (AS) - 27.
3. The group evaluates the carrying value of its Goodwill whenever events or changes in circumstances indicate that its carrying value may be impaired for diminution, other than temporary. The group has currently reassessed the circumstances that could indicate the carrying amount of Goodwill may be impaired. As a consequence of such reassessment, the management believes that the expected revenues and earnings of the acquired entities are sustainable in the foreseeable future, and there is no need for writing down the goodwill.

#### 4. Loans Funds :

	<b>2004</b>	2003
	<b>Rs.</b>	Rs.
<b>Secured Loans</b>		
(a) Foreign Currency Loan	<b>619,656</b>	Nil
Loan repayable within one year - Rs. 139,656 (2003 : Rs. Nil) External Commercial Borrowing is secured by first charge on all the moveable and immovable properties of the Company and pledge of certain investments in favour of Scottish Courage Limited and the Foreign Currency loan is secured as detailed below under loan from Banks.		
(b) From Banks	<b>864,905</b>	1,734,448
Loans repayable within one year – Rs. 531,378 (2003 : Rs. 673,250) Secured by hypothecation of stock in trade, stores, raw materials, book debts and a second charge on all the immovable properties of the Company.		

## Consolidated Notes on Accounts (Contd.)

SCHEDULE 19 (Contd.)	2004 Rs.	2003 Rs.
(c) From Others		
Rabo India Finance Private Limited [Includes bridge loan of Rs. 2,000,000 availed against the proposed Redeemable Optionally Convertible Preference Shares (ROCPS) issue] Loans repayable within one year – Rs. 2,050,000 (2003 : Rs. 100,000) Secured by pledge of certain Investments and a third party Guarantee	2,050,000	150,000
Hire Purchase Creditors Secured by Assets purchased under Hire Purchase Scheme	10,546	10,677
<b>Unsecured Loans</b>	<b>779,540</b>	43,750
Loans repayable within one year – Rs. 223,797 (2003 : Rs. 212)		
<b>Deferred Credits</b>	<b>40,000</b>	Nil
Secured by Assets purchased under the Scheme		

5. A binding agreement has been reached between the Company, jointly with United Breweries (Holdings) Limited and Scottish & Newcastle Plc., a leading European Brewing Company, for placement of a sum of Rs. 2,000,000 by way of Redeemable Optionally Convertible Preference Shares (ROCPS) for which requisite applications have been filed with the various Governmental agencies for necessary approvals. In this regard the Members of the Company, in the Extra-ordinary General Meeting held on January 21, 2003, have given their consent to issue ROCPS to facilitate such infusion.

### 6. Fixed Assets :

- a) Land includes Rs. 21,411 representing stamp duty and registration charges on leasehold land held prior to March 31, 2001.
- b) Buildings amounting to Rs. 14,115 and Plant & Machinery amounting to Rs. 23,884 are in premises not owned by the Company.
- c) Cost relating to fixed assets of ABDL as on April 1, 2001 represents assets of partnership firm Associated Breweries & Distilleries Limited transferred to the Company at Written Down Value as at April 1, 1995.
- d) Leasehold land relating to ABDL is held in the name of the promoters and the Company is in the process of obtaining the transfer in its name.

### 7. Investments :

On the basis of the decision taken at the Board meeting of MAL, the JV, on May 15, 2003 and approval of members of MAL under Section 372A of the Companies Act, 1956, obtained at its Extra-ordinary General Meeting held on that date, MAL entered in to a Share Purchase Agreement (SPA) with United Breweries Limited (UBL), Feedback Computers Private Limited (Feedback) and Accra Investments P. Limited (Accra) to acquire an aggregate of 28,360,853 equity shares of Inertia Industries Limited (Inertia) representing 51.753% of issued capital of Inertia at a price Rs.10 per share, aggregating to Rs. 283,609.

The SPA triggered the provisions of Regulations 10 and 12 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 (SAST), and on May 19, 2003, MAL issued a Public Announcement to acquire a further 13,699,985 Equity Shares representing 25% of the issued Equity Capital and 25.04% of the Voting Capital of Inertia, for Cash at a price of Rs.10 per fully paid equity share and Rs.5 per partly paid equity share (Rs.5/- paid up).

In terms of Regulation 28(2) of the SEBI Regulations, MAL has deposited an amount of Rs.34,250 being 25% of the total purchase consideration payable under the Open Offer, in an Escrow Account opened with Citibank N.A.

The Open Offer announced by MAL was conditionally cleared by SEBI on March 31, 2004. As required, an Undertaking was given to SEBI stating that the SPA will be kept on hold till the unlisted shares of Inertia are listed on the Stock Exchanges.

## Consolidated Notes on Accounts (Contd.)

### SCHEDULE 19 (Contd.)

The Open Offer, which opened on April 22, 2004, was subsequently revised by MAL to acquire 35% of the paid up capital of Inertia in terms of Regulation 26 of the SAST, the Offer closed on May 21, 2004. MAL acquired 14,266,860 shares representing 26% of the paid-up Equity Share Capital of Inertia in the Open Offer. The shares acquired in the Open Offer are still in the process of transfer and the investment shall be recognised in the books of the MAL on the completion of the transfer. The results of Inertia have not been considered for consolidation by MAL and, consequently, by the Company.

#### 8. Assets held for sale :

ABDL has discontinued the production of Canned beer. Accordingly canning equipment, hitherto classified as Plant and Machinery, has been valued, by an independent valuer, at the net realisable value and disclosed as asset held for disposal. The difference between the book value and the realisable value of assets has been charged to income as diminution in the value of assets held for disposal.

#### 9. Advances include :

- Deposit of Rs. 195,000 with three companies whose brewery facilities are being utilised by the company for production of Company's brands of Beer under contract brewery arrangements.
- Rs. 100,000 paid in earlier years to a company whose brewery facilities are being utilised by the company for the production of Company's brands of Beer under contract brewery arrangements. The said company has made a reference to the Board for Industrial and Financial Reconstruction (BIFR), being a sick company. The management proposes to recover/adjust the advances from the Company based on the brewery operations carried out by them.
- Expenses of Rs. 57,442 representing issue expenses namely registrar/lead manager/audit fees, relating to ROCPS which, according to a legal opinion obtained, is proposed to be adjusted against Securities Premium Account on completion of issue formalities.

#### 10. Debtors :

Debtors - Others include Rs. 29,675 which is due from a company whose brewery facilities are being utilised by the company for the production of Company's brands of Beer under contract brewery arrangements. As stated in note 10 (b) above, the said company has made a reference to the BIFR, being a sick company. The management is confident of recovery of dues from the continued business operations of the company.

11. The Board of MBDL has intimated the BIFR, under Section 15 of Sick Industrial Companies (Special Provisions) Act, 1985. MBDL does not propose to opt for any rehabilitation package from its lenders/creditors and therefore sought a clarification from BIFR as to whether appointment of Operating Agency is mandatory, and pending clarification, no action has been taken in this regard.

12. The Board of ABDL has intimated the BIFR under Section 15 of Sick Industrial Companies (Special Provisions) Act, 1985. ABDL does not propose to opt for any rehabilitation package from its lenders/creditors and therefore sought a clarification from BIFR as to whether appointment of Operating Agency is mandatory, and pending clarification, no action has been taken in this regard.

#### 13. Details of Deferred Revenue Expenditure :

Nature of Expenditure	2003 Rs.	Additions/(charge) for the period Rs.	2004 Rs.
Brand Launch Expenses	24,885	(8,294)	16,591
Voluntary Retirement Scheme	31,236	(10,612)	20,624
Preliminary Expenses	383	(74)	309
<b>Total</b>	56,504	<b>(18,980)</b>	<b>37,524</b>
<b>Share of Joint Venture</b>			<b>2,598</b>
<b>Total</b>			<b>40,122</b>

### SCHEDULE 19 (Contd.)

#### 14. Contingent Liabilities :

Particulars	2004 Rs.	2003 Rs.
Estimated amount of Contracts to be executed on Capital account	55,067	6,344
Sales Tax demands under appeal *	8,276	21,330
Excise Duty/Customs Duty demands under appeal *	10,286	3,533
Claims against the Company not acknowledged as debt *	116,199	120,284
Future commitments for Interest/lease rental payable on deferred credits/ lease	10,638	33,450
Letter of Credit outstanding	20,892	25,899
Bank Guarantees	730,893	1,016,189
Liability for a put option for investment in a Subsidiary. The option is already exercised.	262,741	204,700
Dividend on Cumulative preference shares placed with Associated Breweries & Distilleries Ltd., not provided for (relates to years ended 2002, 2003 and 2004 due to inadequacy of profits)	121,920	81,280
Income Tax demands under appeal *	547	684
Consideration payable to the erstwhile promoters of ABDL withheld against possible tax benefits if any availed by ABDL towards its future profits.	32,300	—
Commitment as per the joint venture agreement to place funds in the form of Preference Capital.	200,000	—
Guarantee given by MBDL to excise department	—	200

(\* In the opinion of the management, the above demands/claims are not sustainable in law and accordingly no provision has been made in the accounts)

#### 15. Segmental Reporting :

The Company is engaged in manufacture, purchase and sale of beer including licensing of brands which constitutes a single business segment.

#### 16. Accounting for Taxes on Income :

In accordance with the 'Accounting Standard 22 – Accounting for Taxes on Income', issued by The Institute of Chartered Accountants of India, the Company has recognised deferred tax asset of Rs. 10,930.

Particulars	2003 Rs.	Current year charge/(Credit)/ effective tax rate adjustment Rs.	2004 Rs.
<b>Deferred Tax Liability</b>			
Difference between book and tax depreciation	42,459	32,636	75,095
<b>Deferred Tax Asset</b>			
Tax Loss	(43,415)	(20,662)	(64,077)
Gratuity	(866)	866	Nil
Doubtful Debtors	(20,085)	(1,863)	(21,948)
<b>Total</b>	(21,907)	10,977	(10,930)

With regard to the subsidiaries ABDL and MBDL, the timing difference relating mainly to depreciation and business losses for the period up to March 31, 2004, result in net deferred tax asset, as per Accounting Standard 22 – Accounting for Taxes on Income. As a prudent measure, the net deferred tax asset relating to the above periods have not been recognised in the accounts.

## Consolidated Notes on Accounts (Contd.)

### SCHEDULE 19 (Contd.)

#### 17. Related Party Disclosures :

##### i. Names of the related parties :

###### Associates :

- United East Bengal Football Team Private Ltd.
- Inertia Industries Limited (Upto May 8, 2003)

###### Key Management Personnel : (KMP)

- Mr. Kalyan Ganguly
- Mr. M.R. Srinivasan (KMP of MBDL)
- Mr. Sharad Dalmia (KMP of ABDL)

###### Relative of Key Management Personnel :

- Mrs. Suparna Bakshi Ganguly  
(Wife of Mr. Kalyan Ganguly)

##### ii. Transactions with Related Parties during the year :

Particulars	Inertia *		UEBF		KMP	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Purchase of goods	11,921	36,367				
Receipts against rendering Services	2,069	23,187				
Payment against rendering Services	12,719	32,476	16,100	15,200		
Sale of Investments	244,347					
Finance (Including Loans in Cash or Kind)**	(24,836)	3,535				
Remuneration to Managing Director					13,975 #	11,714#
Amount due From/(To)	9,834	34,670			146	161

\* Includes transaction relating to Inertia Industries Ltd., till May 8, 2003 being the date of disposal of investment into McDowell Alcobev Ltd., being the JV partner.

\*\* Figures in brackets represents amount received.

# Includes payment to relative of KMP amounting to Rs.1,409 (2003 : Rs.1,271).

#### 18. Earnings Per Share :

For the purpose of computing earnings per share, the profit after tax for the year has been used as the numerator and 17,820,603 shares has been used as the denominator.

#### 19. Cash Flow Statement :

- (a) The Cash Flow Statement has been compiled from and is based on the Consolidated Balance Sheet as at March 31, 2004 and the related Profit and Loss Account for the year ended on that date.
- (b) The Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard – 3 on Cash Flow Statement issued by The Institute of Chartered Accountants of India.

20. Non-recurring item represents provision made against an advance (vested with the Company upon demerger) to a brewing entity which has now been ordered for winding up by the BIFR.

21. All amounts are in Rupees thousands, unless otherwise stated.

22. The current year's figures include transactions relating to MAL and, hence, are not comparable to those of previous year.

23. The previous year's figures have been regrouped to conform to the current year's classifications.



