

Annual Report 2001 - 2002

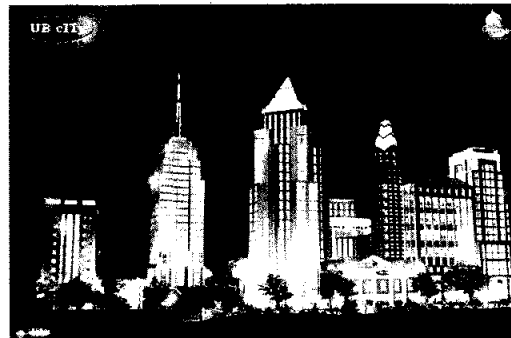


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KINGFISHER PROPERTIES & HOLDINGS LIMITED
(FORMERLY UNITED BREWERIES LIMITED)



Unlocking value - Kingfisher Properties & Holdings Limited (to be renamed United Breweries (Holdings) Limited) is the result of the demerger of the brewing business from the erstwhile United Breweries Ltd. It is today, at the apex of the UB Group. A Group that believes in leadership and creation of abiding value. In continuation of this endeavour to unlock hidden value, the Group has initiated several steps to realise the full potential of its various business investments and other assets for the benefit of all stakeholders.



Redefining Bangalore's Skyline

The UB Group will pioneer one of the largest mixed-use developments - UB cITy, in the heart of Bangalore. Yet another trend setting first, amongst the many that have been attributed to the UB Group.

UB cITy will stand tall at the corner of Vittal Mallya Road and Kasturba Road, just 600 metres away from Bangalore's commercial hub, M.G.Road. Its internet ready, intelligent buildings will demonstrate how chrome, glass and green leaves can seamlessly blend between modern edifices and serene flora.

The project will cover a massive ten acres area. Only three acres will be devoted to the development of the ideal workspace within five medium and high rise towers, the rest will be home to refreshing green scapes to complement the adjacent Cubbon Park.

UB cITy will be a mixed-use development in the truest sense. It will house commercial offices, banks, high-end retail stores, a five star hotel, serviced apartments, restaurants, food courts, pubs, health clubs and cafes. Multi-level parking areas will offer virtually unlimited parking spaces.

The first phase of UB cITy would be ready for occupation in thirty months. An assurance that comes from a pedigreed project team that includes the leading developer in Bangalore - Prestige Estates & Projects Private Ltd.; Bangalore's acclaimed architecture firm, Thomas Associates; leading project managers, JTC (India) a part of Singapore's largest property company, Jurong Town Corporation; and India's foremost structural consultants, Sterling Consultants, amongst others. The best people for the biggest mixed-use development ever in Bangalore.

Investments at a glance



McDowell & Company Limited together with Herbertsons Limited constitute the Spirits Division of the UB Group with a combined ranking of being the 7th largest Distiller in the world. The division has another unique distinction - its 7 millionaire brands make it one of only 4 companies in the world, and the largest outside US/Europe. The 7 millionaire brands include India's biggest & the world's 2nd biggest Non scotch spirit brand - Baggpiper, the world's fastest growing regional brands - No.1 McDowell's Brandy, No.1 McDowell's Celebration Rum and No.1 McDowell's Whisky.

The combined portfolio of 6 brands is the largest in the country and command a market share of 36% which is more than twice that of the nearest competitor. The UB Group's Spirits Division has market leading products in every flavour, in every geographical segment and across price categories in the industry. A national network of - 35 manufacturing facilities and near 100% presence across distribution outlets in the country ensure sustainable leadership position.



Aventis Pharma Limited

The late Vittal Mallya's business acumen was instrumental in the setting up of Hoechst Pharmaceuticals Ltd. in 1956. Since July, 2001 it has come to be known as Aventis Pharma Limited. It is dedicated to treating and preventing human disease through discovery, development, manufacture and sale of innovative pharmaceutical products. The company focuses on Cardiology, Oncology, Infectious diseases, Arthritis, Allergies and Respiratory disorders, Diabetes and Central Nervous System disorders.



In 1990, the Government of Karnataka selected the UB Group to take over Mangalore Chemicals & Fertilizers (MCF) - a "potentially sick" unit with accumulated losses in excess of Rs. 600 million. Under UB's management, there has been a remarkable turnaround in the operations. Since 1996, record levels of production have been achieved with all the plants performing well over installed capacities. MCF has been recording profits in each of last 6 years and the cash flow generated have been sufficient towards repayment of all its accumulated debts as well as to invest towards the revamp and refurbishment of its plant.

Mangala Urea has developed a strong brand equity among farmers in the Southern States.



UNITED BREWERIES LIMITED

India's leading brewer, with a sales volume of 26 million cases, commands a market share of 34%. The flagship brand, Kingfisher alone accounts for 25% of the market. Kingfisher Strong, in just the second year after launch, has become the second largest brand in the strong beer segment selling over 5.5 million cases. UBL has arrived at a multi-faceted strategic alliance with Scottish & Newcastle Plc., (S&N) an international brewery major, with \$ 6 Billion in revenue and \$5.4 Billion in terms of market capitalization. This alliance, apart from having a joint venture in India, will allow S&N to market its international brands like Kronenbourg in India while UBL will utilize S&N's global network for distribution of Kingfisher.



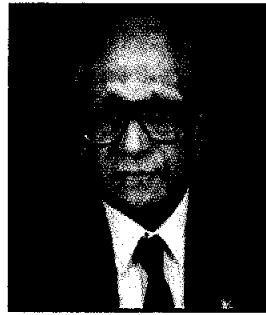
Aventis CropScience India Limited

In 1968, Hoechst AG took up the manufacturing and marketing of formulations like Thiodan. The Agrochemicals Division of Hoechst India Limited was hived off as a separate Company - Hoechst Schering AgrEvo Limited. In March 2000, the agrochemical businesses of Aventis SA, Hoechst AG and Rhone Poulenc SA were combined under Aventis CropScience India Limited. Aventis CropScience Private Limited (formerly Rhone Poulenc Agrochemicals (India) Ltd.) was amalgamated with the company in January 2001. At present the Company enjoys almost 11% of the marketshare in the country and occupies the No.1 position with a turnover of Rs. 466 crore.



UB Global Corporation Limited (UBGCL) is the international trading arm of the UB Group and a Government recognized Export House (Golden Status) engaged in exports of Beer, Spirits, Leather Footwear, Processed Foods, etc. UBGCL has received successive APEDA awards for outstanding Export Performance from 1995 onwards in addition to many other awards and medals. The Company also exports Pharmaceutical products. It has recently also moved up the value chain from trading to manufacturing and customised design in perfumery products.

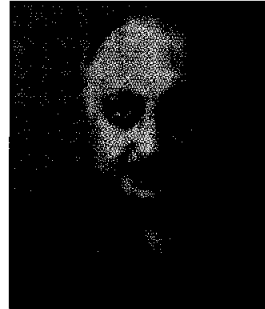
Board of directors



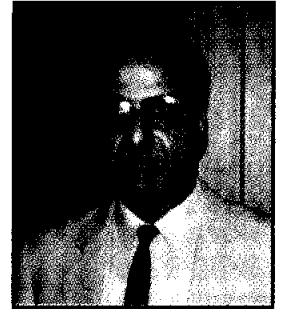
N. Srinivasan



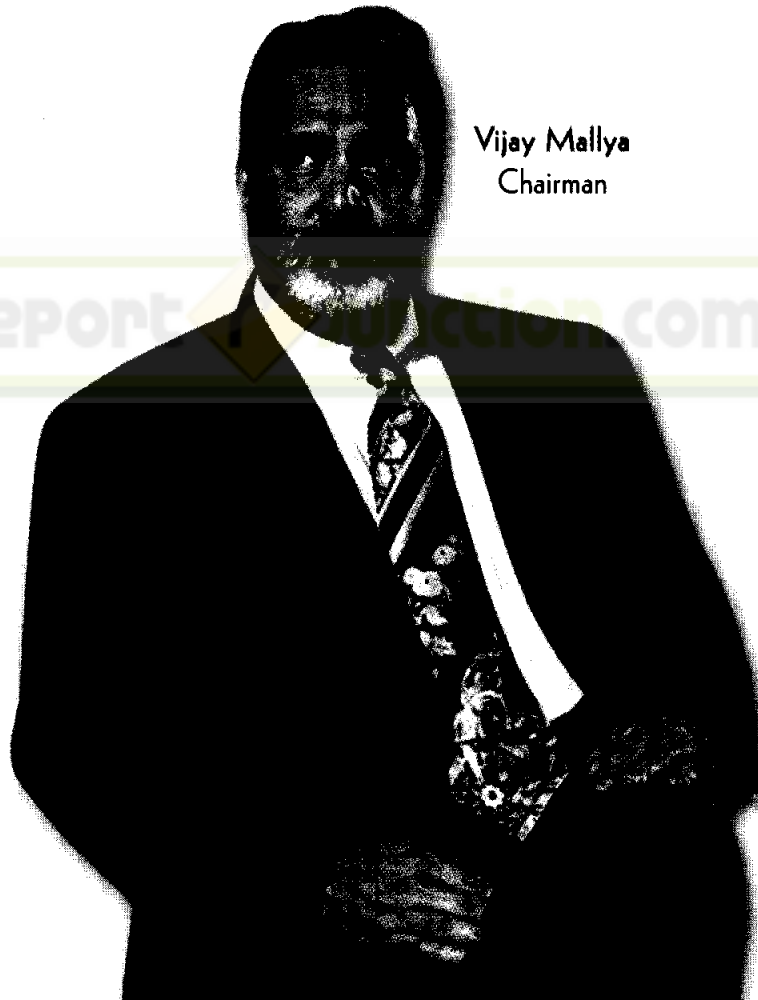
Mani Narayanaswami



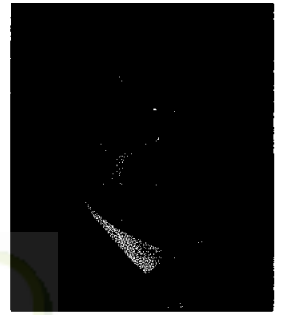
Shrikant G. Ruparel



P. Subramani
Wholtime Director &
Company Secretary



Vijay Mallya
Chairman



A.K. Ravi Nedungadi
Chief Financial Officer
UB Group

Chairman's Statement

Dear Shareholders,

It gives me great pleasure to welcome you all to the 86th annual general meeting of the members of Kingfisher Properties and Holdings Limited (formerly United Breweries Limited).

After the de-merger of the beer business from your company pursuant to a scheme of arrangement approved by the Hon'ble High Court of Karnataka, your company retains several jewels in the form of extremely valuable assets and investments and also a business plan that envisages consistent revenue generation.

Before embarking upon my customary review of operations and prospects, I would like to clarify to you that in keeping with the nature of your company's business, it is proposed to re-name your company as United Breweries (Holdings) Limited. This would reflect the fact that your company holds several prized assets in the form of investments and real estate, yet preserving the goodwill of the UB mark.

Foremost amongst your company's assets are its holdings in McDowell & Company Limited and Herbertsons Limited which together constitute 36% of India's large and growing spirits industry. These two companies collectively comprising UB's Spirits Division have the rare distinction of being ranked the 7th largest distiller in the world with 7 millionaire brands making it one of only four companies in the world and the only one in Asia. Both companies have been making sustained investments in upgradation of manufacturing facilities, quality of offerings and brand building so as to ensure continued market leadership. Growing urbanization, changing social mores and improved economic conditions are expected to ensure continuous growth in the demand for quality branded spirits products. UB's Spirits Division is well placed to take advantage of these opportunities as they arise.

Consequent to the demerger of the brewing business, your Company holds 15.3% of the equity of United Breweries Limited (UBL). UBL, India's leading brewer, commands a brand market share of 34% and approximately 50% of production capacity. Two out of the three top selling beer brands in the country come from UBL's stable. UBL's flagship brand Kingfisher alone accounts for one out of every four bottles consumed in the country. The multi faceted strategic understanding facilitated by your company between UBL and Scottish & Newcastle Plc will enable UBL to consolidate its position as a dominant player in the Indian brewery landscape.

In keeping with your company's consistent forays into the international arena exploring opportunities in its core investment areas, your company is contemplating a direct or indirect investment into Mendocino Brewing Company Inc., (MBC), a company incorporated in California, U.S.A. MBC is a significant player in the craft brewing segment in U.S.A. and has interests in brewing and distribution of beer in U.S.A. and U.K.

You are aware of our long and historic relationship with the Aventis Group (previously Hoechst). Your company continues to hold 10% of the paid-up capital of both Aventis Pharma Limited and Aventis CropScience India Limited. Aventis Pharma Limited is one of the leading multi national pharma companies in India and has consistently demonstrated its commitment to the country by the introduction of the latest technology and latest generation drugs through Aventis Pharma Limited. The effect of the penetration of these advanced health care products are visible in the consistent growth in profitability of this company. Aventis Pharma Limited is also in the process of being approved as a global source for products to be manufactured in India and exported to various countries around the world.

Similarly, the proposed merger of the Crop Science businesses of Aventis and Bayer, subject to approvals, is very positive from a Shareholder's stand point. Your company's 24.5% holding in Karnataka's only fertiliser company, Mangalore Chemicals & Fertilizers Limited, (MCF) is not only a sound business investment but also fulfills our obligations to a priority sector of the Indian economy. I am very proud of the turn round achieved in MCF particularly because at the time of our investment, MCF had been run to the ground with huge accumulated losses and

debts. Today, the company is considered one of the most efficient and debt free naptha based manufacturers of urea in the country. MCF has repaid all its loans and has made investments on plant and machinery to ensure reliability of the plant for many years to come.

Recent changes to government policy have affected all urea companies and particularly those who use naptha feed stock. The company is in discussion along with other industry players for a rationale government policy towards this vital sector. MCF made a PBT of Rs.1058 million in the previous year.

United National Breweries (South Africa) Limited (previously known as National Sorghum Breweries Limited), is another instance of a successful turn round effected under UB Management. The investment originally made by your company has provided a source of income in the form of management fees. During the previous year, United National Breweries (South Africa) Limited used local resources to effect a buy back scheme as a consequence of which, the effective shareholding of your company in United National Breweries (South Africa) Limited has risen to 74%.

Given the macro economic conditions prevailing in South Africa, the black empowerment objective and the steady weakening of the South African Rand, your Board has mandated divestment of part of its holdings in this company and certain proposals are under consideration which would enable your company to recoup its investments.

To ensure a regular and steady flow of income and cash into the company, we have embarked upon an ambitious plan for the development of the real estate made available by the closure of the Bangalore brewery. I am pleased to report that the VRS Scheme implemented in July 2002 has been universally accepted by all the employees at the brewery and that the unit has been shut down with effect from July 2002. The equipment, for an appropriate consideration, is in the process of re-location to other units of the brewery business to ensure consistent supply of beer.


Your company has entered into an understanding with Prestige Estates Projects Private Limited under which Prestige will construct an initial 860,000 sq. ft. of complete high quality commercial space. This development will be funded entirely by Prestige Estates Projects and your company will be entitled to 55% of the completed area while Prestige Estates Projects will retain the balance 45%. You will be pleased to know that we retain quality control over this project and I fully expect that, when completed, UB ciTy will re-define the sky line of Bangalore and will be a development that will make all citizens of the city proud. Approvals for the first phase are expected shortly from the municipal authorities and construction is expected to begin in the third quarter.

Several proposals have been received for use of the balance land including from International hotel chains as also for the creation of a multi purpose shopping and entertainment complex. These proposals are being evaluated by the Board and a decision would be taken to maximize value.

The annual report which is already with you carries a theme of "unlocking value". With the various steps which I have detailed above, I believe the shareholders can look forward to a genuinely valuable company whose value would be unlocked for your benefit.

I conclude by recording my deep appreciation to my colleagues on the Board, the Management Team, the shareholders, suppliers, customers, financial community and employees who have all contributed to your company's performance in the past year and who will steer the company to greater heights in the years to come.

Thank you,



Vijay Mallya
Chairman

DIRECTORS

Vijay Mallya, Chairman

Shrikant Gordhandas Ruparel

Mani Narayanaswami

N. Srinivasan

P. Subramani, Wholetime Director
& Company Secretary

CHIEF FINANCIAL OFFICER

UB GROUP

A. K. Ravi Nedungadi

AUDITORS

Fraser & Ross

Chartered Accountants

Bangalore

REGISTERED OFFICE

No. 1, Vittal Mallya Road,
Bangalore 560 001



report of the directors

The Directors of **Kingfisher Properties & Holdings Limited** present their Report with Audited Accounts of your Company for the year ended March 31, 2002.

FINANCIAL RESULTS

(Figures in '000s)

	2001-2002		2000-2001	
	Rupees	Rupees	Rupees	Rupees
The working of the Company for the year under review resulted in a Profit/(Loss) after providing for Depreciation and Taxation	—	(413,953)	—	31,034
Balance brought forward from the previous year	—	71,209	—	117,551
		<u>(342,744)</u>		<u>148,585</u>
which your Directors have appropriated as follows:				
To General Reserve	—	—	15,000	—
Proposed Dividend including Tax	—	—	62,376	77,376
Which your Directors propose be carried forward		<u>(342,744)</u>		<u>71,209</u>

DIVIDEND

Due to non-availability of Profit for the year under Review, consequent to restructuring, your Directors consider it prudent to skip payment of Dividend for the year.

DEMERGER

Your Directors are pleased that the Hon'ble High Court of Karnataka has granted the Scheme of Arrangement between the Company and UB Beer Limited (now United Breweries Limited). This has given the Company an opportunity to unlock the value of its valuable real estate at Bangalore and other Investments held by it.

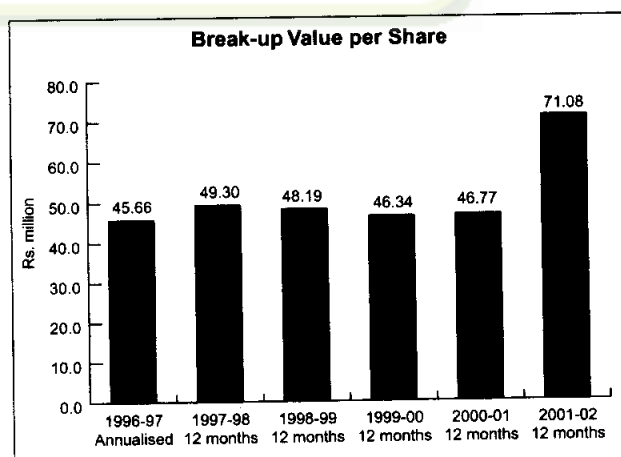
CAPITAL

The Authorised Capital and Issued and Subscribed Capital remained unchanged at Rs. 1,000,000,000 and Rs. 377,349,270 respectively. In view of the grant of the Scheme of Arrangement (Demerger) by the Hon'ble High Court of Karnataka, the Share Capital of the Company has been divided in terms of the Scheme by issue and allotment of 4 equity shares of Rs. 10 each in UB Beer Limited (now United Breweries Limited) for every 10 equity shares of Rs. 10 each held in the Company. As a consequence the Subscribed and Paid-up Capital of the Company has been reduced to Rs. 22.64 Crore. The validity of the balance Convertible Warrants with an option to allot 2,640,500 Shares has been extended to March 31, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS

To enable the Company to separate a focussed brewing business from the real estate and investment businesses, the Board drew up a Scheme of Arrangement whereby the business of the Company would be bifurcated as above. The Scheme of Arrangement stipulates that with effect from the appointed date all the Estate, Assets, Rights, Title and Interest including accretions and appurtenances pertaining to the beer business shall be transferred to and vested in UB Beer Limited (Resulting Company) except the Bangalore Unit which will continue to form part of your



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report of the directors (Contd.)

Company's assets. The remaining business and assets shall remain in and be managed by the Company.

The Hon'ble High Court of Karnataka sanctioned the Scheme of Arrangement and in terms thereof the Company is now focussing on development of its land at Bangalore which will not only unlock the value of this asset, but also provide a consistent source of cash flows in future.

Since the appointed date for the Scheme of Arrangement to take effect is August 1, 2001, for the four months period from April to July, 2001, the Company continued to carry on brewing business in the erstwhile United Breweries Limited.

The Bangalore Brewery, which was retained by the Company, continued operations till the end of the year.

During the period under review the Company has reported a Loss of Rs. 411 Million as against a Profit of Rs. 1.2 Million during the previous year. This is primarily due to the fact that post-demerger your Company's financials report the operations of the brewing business only for the 4 months ended July 31, 2001 and the operations of Bangalore Brewery Unit for the entire year.

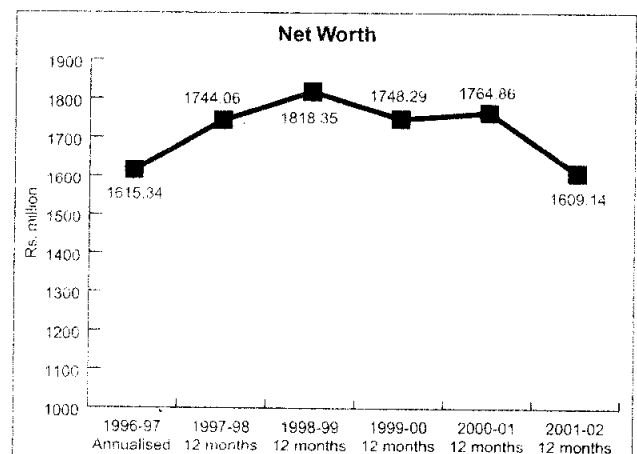
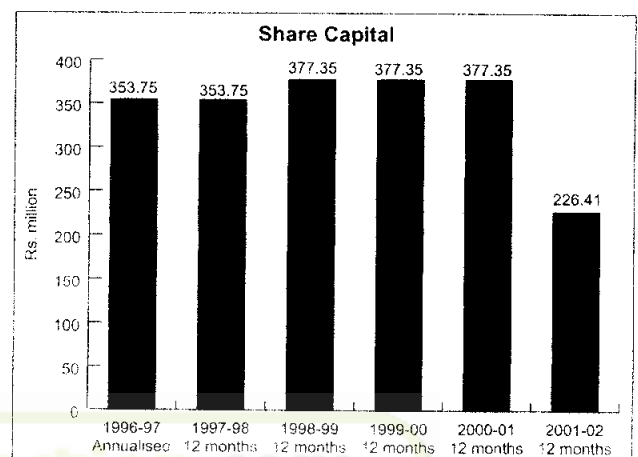
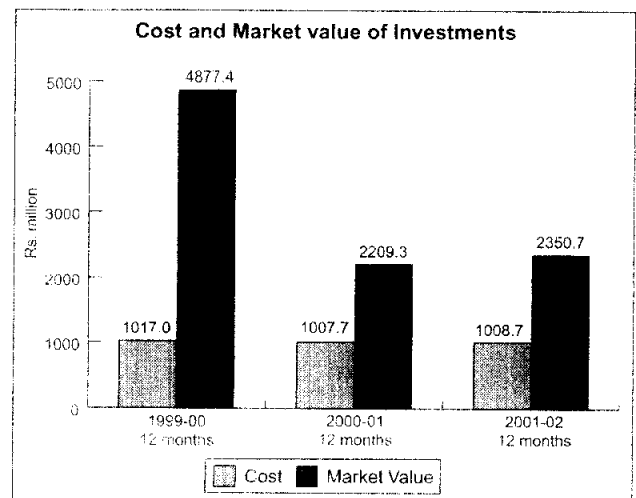
In addition, a combination of substantial drop of Rs. 300 Million in other income and increase of Rs. 175 Million in finance charges over the previous year, mainly contributed to the loss of Rs. 411 Million during the year under review.

In view of unfavourable market conditions, your Company did not dispose any of the non-core investments during the year. However, your Company remain committed to an early disinvestment to derive full value to the benefit of its shareholders at an appropriate time.

The impending infusion of funds by Scottish & Newcastle Plc. pursuant to a strategic partnership with them would consequently result in substantial reduction in finance charges in the future.

PROSPECTS

Having created a separate brewing entity the focus of the Company has now shifted towards development of real estate and business in investments to improve the cash flow. Towards achieving this objective, your Company implemented Voluntary Retirement Scheme at the Bangalore Unit which has been accepted by 100% of the



report of the directors (Contd.)

concerned employees. The property is now ready for development. The first phase would take off with the development of 8,60,000 sq. ft. of commercial property for which the Company has entered into understanding with Prestige Estates and Projects Private Limited. Your Company is also in the process of negotiating an Agreement with a company having international chain of hotels for participation in a hotel project.

INTERNAL CONTROL SYSTEMS

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 periodically by the Internal Audit Department. 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.

HUMAN RESOURCES

Your Company continues to enjoy a harmonious and cordial relations with employees at all levels. The Board is proud of its human capital which constitutes an invaluable asset for your Company. An understanding under the Voluntary Retirement Scheme was reached with the employees of the Bangalore Unit which was a win-win settlement for the employees and the Management. With the demerger of beer business 75 employees form part of the Company.

CHANGE OF NAME

In terms of the Scheme of Arrangement, the name of the Company is changed to KINGFISHER PROPERTIES & HOLDINGS LIMITED. Subject to requisite statutory approvals your Directors propose to change the name of the Company to **UNITED BREWERIES (HOLDINGS) LIMITED.**

SUBSIDIARY COMPANIES

Pursuant to Section 212 of the Companies Act, 1956, the Directors' Report and Accounts of your Company's subsidiaries and the Statements required by Clauses (e) and (f) of sub-section (1) of the said Section are appended.

During the year under review, MWP Limited, Cardboard Industries Limited, UB Breweries Limited (now UB Infrastructure Projects Limited) and McDowell Alcobev Limited became subsidiaries of your Company. GMR Beverages & Industries Limited and EMPEE Breweries Limited became subsidiaries by virtue of their being wholly owned subsidiary of McDowell Alcobev Limited. The entire equity stake held by United Breweries (Holdings) Limited in Associated Breweries & Distilleries Limited and Mangalore Breweries & Distilleries Limited were acquired by UB Beer Limited (now United Breweries Limited) thereby becoming subsidiaries of United Breweries Limited. In view of the demerger, McDowell Alcobev Limited and its subsidiaries GMR Beverages & Industries Limited and EMPEE Breweries Limited are now subsidiaries of United Breweries Limited. The Accounts of United Breweries Limited along with that of its subsidiaries are attached to your Company's Annual Report.



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