



GlaxoSmithKline

Growth without boundaries



REPORT ON PERFORMANCE



CHAIRMAN

S. J. Scarff, O.B.E

MANAGING DIRECTOR

Nicholas J. Massey

DIRECTORS

A. Chatterjee (till 23.10.2003)

G. K. Chakraborty (w.e.f. 23.10.2003)

Ashok Dayal

A. S. Lakshamanan

Kunal Kashyap

P. S. Mukherjee

P. Murari

S. S. Dugal

V. Thyagarajan (till 31.01.2003)

Colin Handcock

P. Dwarakanath

(Alternate Director to Colin Handcock)

Ian McPherson

R. Subbarayan (till 31.01.2003)

(Alternate Director to Ian McPherson)

COMPANY SECRETARY

Surinder Kumar

BANKERS

Bank of America

Citibank N.A.

The Hongkong & Shanghai Banking Corporation Limited

Standard Chartered Bank

State Bank of Patiala

ABN Amro Bank

BNP Paribas

Andhra Bank

Deutsche Bank

AUDITORS

Price Waterhouse

REGISTERED OFFICE

GlaxoSmithKline

Consumer Healthcare Limited

Patiala Road

Nabha 147 201 (Punjab)

HEAD OFFICE

DLF Plaza Tower

DLF City, Phase-I

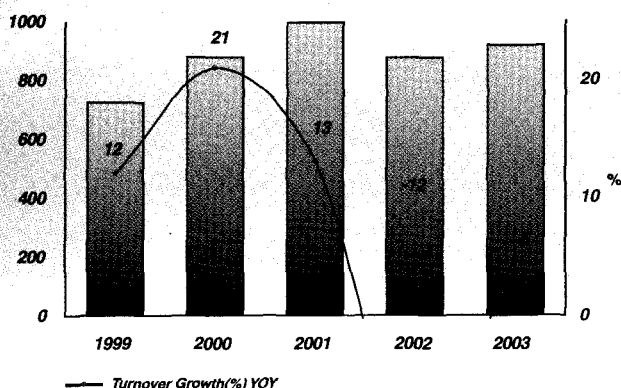
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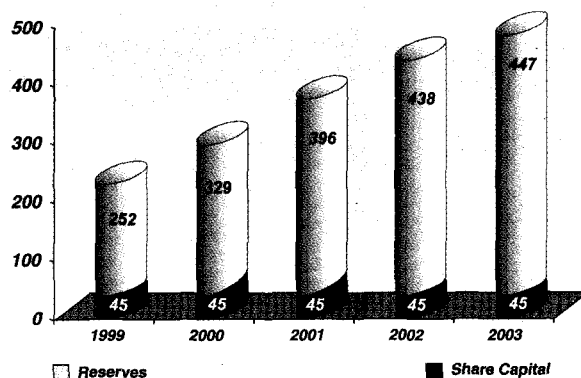
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FINANCIAL HIGHLIGHTS

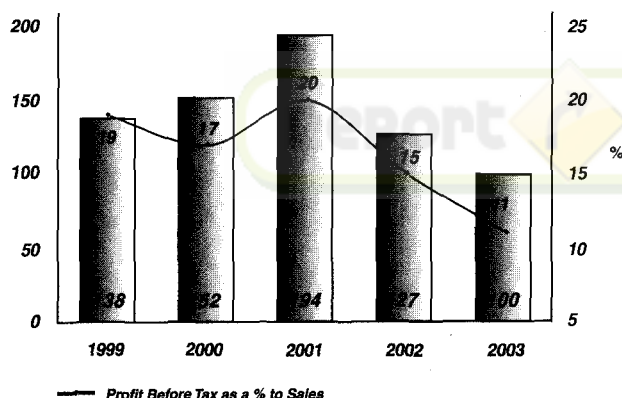
TURNOVER
(Rs. Crores)



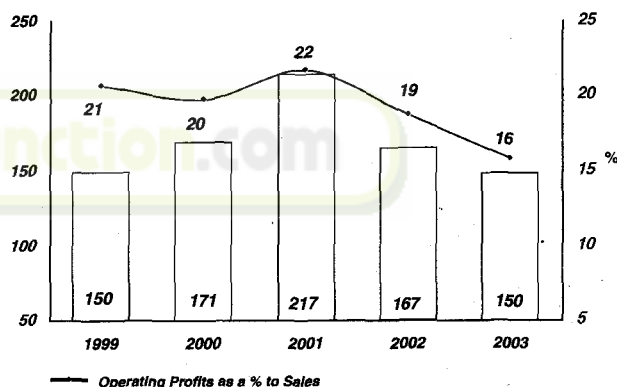
VALUE ADDITION TO BUSINESS THROUGH RESERVES
(Rs. Crores)



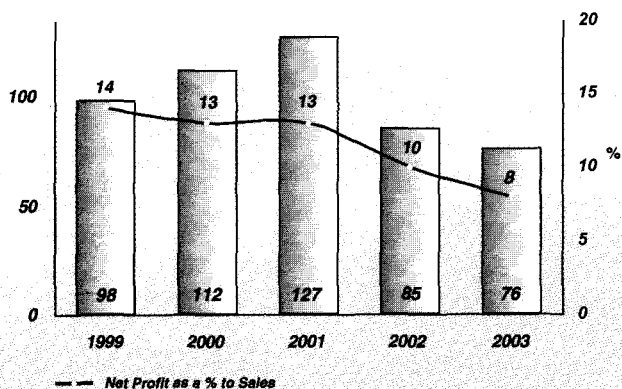
Profit Before Tax
(Rs. Crores)



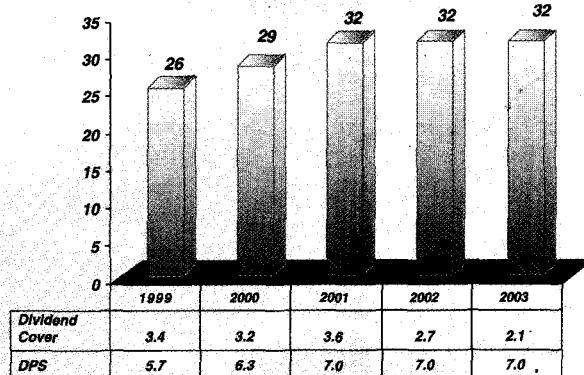
OPERATING PROFITS
(Rs. Crores)



NET PROFIT
(Rs. Crores)

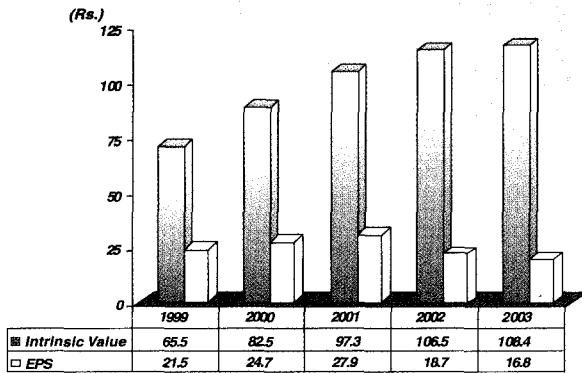
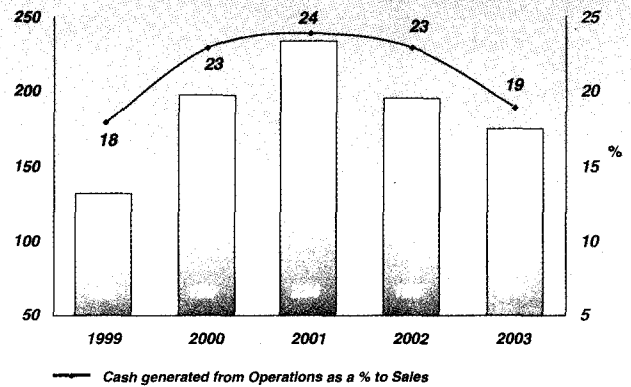


DIVIDEND PAYOUT
(Rs. Crores)

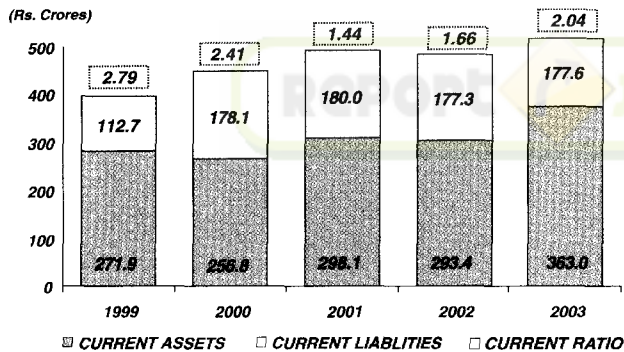


FINANCIAL HIGHLIGHTS

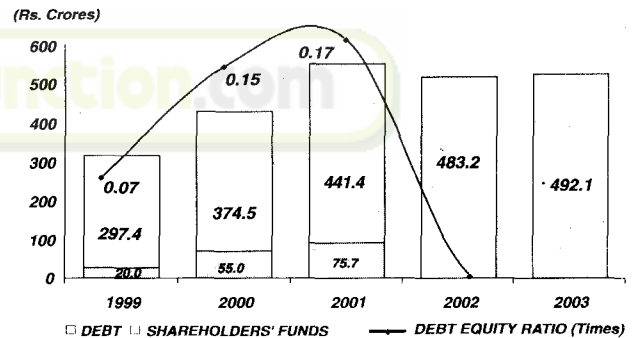
EPS AND BOOK VALUE PER SHARE

CASH GENERATED FROM OPERATIONS
(Rs. Crores)

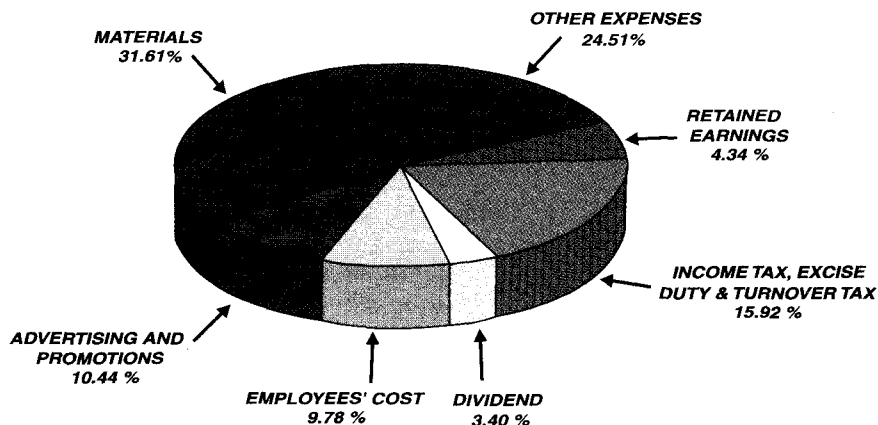
CURRENT RATIO



DEBT EQUITY RATIO



SPLIT UP OF INCOME 2003



FINANCIAL STATISTICS

TEN YEAR FINANCIAL STATISTICS

Rs. Lakhs

1994 1995 1996 1997 1998 1999 2000 2001 2002 2003

SOURCES AND APPLICATIONS OF FUNDS

SOURCES OF FUNDS

| | | | | | | | | | | |
|---------------------------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Share Capital | 14,18 | 28,36 | 28,36 | 45,38 | 45,38 | 45,38 | 45,38 | 45,38 | 45,38 | 45,38 |
| Reserves & Surplus | 62,66 | 68,26 | 1,02,69 | 1,26,73 | 1,83,12 | 2,52,01 | 3,29,16 | 3,96,04 | 4,37,84 | 4,46,73 |
| TOTAL SHAREHOLDERS' FUNDS | 76,84 | 96,62 | 1,31,05 | 1,72,11 | 2,28,50 | 2,97,39 | 3,74,54 | 4,41,42 | 4,83,22 | 4,92,11 |
| BORROWINGS | 16,09 | 7,29 | 8,00 | - | - | 20,00 | 55,00 | 75,66 | - | - |
| FUNDS EMPLOYED | 92,93 | 1,03,91 | 1,39,05 | 1,72,11 | 2,28,50 | 3,17,39 | 4,29,54 | 5,17,08 | 4,83,22 | 4,92,11 |
| DEFERRED TAX LIABILITIES | - | - | - | - | - | - | - | 28,16 | 35,63 | 28,16 |
| TOTAL | 92,93 | 1,03,91 | 1,39,05 | 1,72,11 | 2,28,50 | 3,17,39 | 4,29,54 | 5,45,24 | 5,18,85 | 5,20,27 |

APPLICATION OF FUNDS

| | | | | | | | | | | |
|---|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Gross Fixed Assets | 59,29 | 68,98 | 73,87 | 88,36 | 1,20,05 | 1,95,74 | 4,02,18 | 4,96,90 | 5,15,56 | 4,92,22 |
| Depreciation | 24,89 | 30,07 | 35,91 | 43,11 | 51,22 | 58,67 | 70,04 | 84,55 | 1,22,70 | 1,62,31 |
| NET FIXED ASSETS | 34,40 | 38,91 | 37,96 | 45,25 | 68,83 | 1,37,07 | 3,32,14 | 4,12,35 | 3,92,86 | 3,29,91 |
| INVESTMENTS | 45,40 | 36,41 | 29,00 | 29,00 | 29,00 | 29,00 | - | - | - | - |
| Gross Current Assets, Loans and Advances | 51,15 | 78,03 | 1,37,88 | 1,72,08 | 2,03,41 | 2,42,90 | 2,56,80 | 2,98,15 | 2,93,43 | 3,63,02 |
| Current Liabilities & Provisions | 38,02 | 49,44 | 65,79 | 76,99 | 83,37 | 1,12,69 | 1,78,12 | 1,80,04 | 1,77,28 | 1,77,57 |
| NET CURRENT ASSETS | 13,13 | 28,59 | 72,09 | 95,09 | 1,20,04 | 1,30,21 | 78,68 | 1,18,11 | 1,16,15 | 1,85,45 |
| MISCELLANEOUS EXPENDITURE | - | - | - | 2,77 | 10,63 | 21,11 | 18,72 | 14,78 | 9,84 | 4,91 |
| TOTAL | 92,93 | 1,03,91 | 1,39,05 | 1,72,11 | 2,28,50 | 3,17,39 | 4,29,54 | 5,45,24 | 5,18,85 | 5,20,27 |

FINANCIAL STATISTICS

TEN YEAR TRACK RECORD

| | Rs. Lakhs | | | | | | | | | |
|----------------------------|-----------|---------|---------|--------------------|---------|---------|---------|---------|---------|---------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| TURNOVER | 2,95,48 | 3,66,89 | 4,96,58 | 5,62,30 | 6,45,62 | 7,20,48 | 8,75,12 | 9,92,14 | 8,71,06 | 9,13,75 |
| PROFIT BEFORE TAX | 48,96 | 60,02 | 79,31 | 94,70 | 1,16,51 | 1,38,33 | 1,51,73 | 1,93,96 | 1,26,71 | 99,58 |
| NET PROFIT | 24,15 | 36,10 | 46,94 | 62,02 | 81,35 | 97,61 | 1,12,02 | 1,26,63 | 85,01 | 76,35 |
| DIVIDEND PAYOUT | 15,60 | 16,31 | 17,02 | 19,06 | 22,69 | 25,87 | 28,59 | 31,77 | 31,77 | 31,77 |
| CORPORATE DIVIDEND TAX | - | - | - | 1,90 | 2,27 | 2,84 | 6,29 | 3,24 | - | 4,07 |
| RETAINED EARNINGS | 8,55 | 19,79 | 29,92 | 41,06 | 56,39 | 68,90 | 77,14 | 91,62 | 53,24 | 40,51 |
| DIVIDEND - % | 110 | 57.50* | 60 | 42 [®] | 50 | 57 | 63 | 70 | 70 | 70 |
| EARNINGS PER SHARE (Rs.) | 17.03 | 12.73* | 16.55 | 13.66 [®] | 17.93 | 21.51 | 24.68 | 27.90 | 18.73 | 16.82 |
| BONUS ISSUE | | 1:1 | | 3:5 | | | | | | |
| NUMBER OF SHARE HOLDERS | 27,621 | 28,836 | 28,831 | 30,145 | 29,413 | 31,690 | 33,019 | 31,442 | 30,607 | 28,914 |

* POST ISSUE OF BONUS SHARES IN THE RATIO OF 1:1

[®] POST ISSUE OF BONUS SHARES IN THE RATIO OF 3:5

DIRECTORS' REPORT

Your Directors are pleased to present the Annual Report on the business and operations of your Company and the audited accounts of the Company for the year ended 31st December, 2003

FINANCIAL RESULTS

| | (Rs. Lakhs) | |
|---|-------------|------------|
| | 2003 | 2002 |
| Sales | 9,13,75.14 | 8,71,05.75 |
| Gross Profit (before Depreciation, Amortisation, and Tax) | 1,50,09.49 | 1,67,16.41 |
| Less: Depreciation | 35,78.12 | 25,71.55 |
| Less: Amortisation of : | | |
| - Patents and Trade Marks | 9,80.33 | 9,80.33 |
| - Deferred Revenue Expenditure | 4,93.32 | 4,93.32 |
| Profit before Tax | 99,57.72 | 1,26,71.21 |
| Less: Provision for Tax | | |
| - Current Tax | 30,70.00 | 34,24.00 |
| - Deferred Tax | (7,46.85) | 7,46.70 |
| | 23,23.15 | 41,70.70 |
| Profit available for Appropriations | 76,34.57 | 85,00.51 |

Previous figures regrouped/reclassified wherever necessary to conform to this year's classification.

Appropriations

| | | |
|---------------------------------------|----------|----------|
| Dividends | | |
| - First Interim | 14,97.58 | 14,97.57 |
| - Second Interim | 16,79.09 | 16,79.08 |
| Corporate Dividend Tax | 4,07.01 | - |
| Transferred to General Reserves | 40,50.89 | 53,23.86 |
| | 76,34.57 | 85,00.51 |
| Earnings Per Share (Basic & Diluted) | 16.82 | 18.73 |

PERFORMANCE OF THE COMPANY

Against a difficult trading background for most FMCG companies, your Company is pleased to report a 4.9% sales growth for 2003 over the previous year.

Across the last year, your company made a commitment that it would significantly ramp up its pipeline of innovation, in order to capitalise on its strong nutritional portfolio. An upweighted programme of new product development was kick-started with the objective of getting increased share of consumer disposable income.

Following intensive market research and product development activity, the Horlicks brand was successfully re-positioned in July 2003 with a new improved product, flavours, packaging and advertising support.

The company's other major brand, Boost, also went from strength to strength, recording a very positive sales growth following its re-launch late in 2002.

Your company feels increasingly confident that future prospects for topline sales growth are healthy and that it is in good shape to capitalise on the positive 'post-monsoon' market conditions being forecast across 2004.

With many other FMCG companies facing sluggish market conditions, it is also very encouraging to note that your company closed the trading year with significantly lower distributor stock & debt than was the case in 2002. Our trading partners are in good shape to support the company's marketing plans and innovation roll-out.

After a year of decline in 2002, the need to re-build topline sales was the key imperative for 2003. This has now been accomplished and, significantly, without any price increase to the consumer. One of the consequences of your company's decision not to put up prices meant that we actually reduced our overall gross margin in the 2003 trading year. Gross Profit before Depreciation, Amortization and Tax at Rs.1,50,09 lakhs for the year ended 31st December, 2003 represents a decline of 10.2% over the previous year while Profit before Tax declined by 21.4%.

Profit after Tax has declined by 10.2% over 2002. Gross Profit as a percentage to sales has declined from 19.2% last year to 16.4% in 2003. The decline in profit was mainly on account of the increase in cost of production due to higher input costs (particularly liquid milk and skimmed milk powder) and cost of operations on account of full year fixed costs for the Sonepat Plant. This decline in profit has been to some extent mitigated by the company's cost reduction programmes 'Operational Excellence' and 'Project Oxygen'.

RESERVES

The total Reserves as on 31st December, 2003 stood at Rs. 4,46,73.18 lakhs representing an increase of 2.03% from last year. Implementation of new Accounting Standard (AS-28) on Impairment of Assets has resulted in writing down the value of Viva and Maltova brands acquired in the year 2000. As a result of this impairment, Patents and Trademarks are being re-stated at their recoverable amount, ie Rs. 28,02.09 lakhs. The impairment charge amounting to Rs. 31,61.56 lakhs has been adjusted, from the opening General Reserves.

DIRECTORS' REPORT**DIVIDENDS**

The Directors consider that the two Interim dividends aggregating to Rs.7 per share declared, to be reasonable and commensurate with the results for the year ended 31st December, 2003 and do not recommend a final dividend for the year.

EXPORTS

During the year the Company's export earnings amounting to Rs. 39,85 lakhs covering exports to Bangladesh, Myanmar, Sri Lanka, Middle East, Nepal and other markets represented a decline of 2.8% over the previous year.

RESEARCH AND DEVELOPMENT

The Research and Development Centre of your Company continued to provide valuable support to improve the quality of existing products. As a result of this we were able to re-launch Horlicks with new variants. The packaging also has been substantially improved to give a new image to the Brand. Currently work is progressing on the development of a number of new and improved products, as well as updating of production processes as per international standards. The Company is currently putting up a state of the art new R & D facility close to the Corporate Office in Gurgaon.

MODERNISATION OF FACILITIES

The Company continued to modernise its existing Plant & Machinery and production facilities at its Plants at Nabha, Rajahmundry and the various Packing Stations across the country. There has been considerable improvements made in GMP standards, basic hygiene and safety parameters at all our manufacturing locations. The modernisation of the facilities has also resulted in enhancing the capital and labour productivity which are being reflected through improved margins.

ISO CERTIFICATION

Your company's manufacturing facilities at Nabha, Rajahmundry and Sonepat have been accredited to the latest version of ISO 9001-2000 as well as ISO 14001 by DNV, a leading International certification Company. Sonepat production facility has also been certified for HACCP (Hazard Analysis Critical Control Point).

Third party contract manufacturing/packing sites i.e. Durandel Foods at Chennai, Pratap Health Foods Ltd. at Hyderabad, Mann Feeds Ltd. at Ballabgarh, Parsons Ltd. at Ghaziabad, SRDN at Guwahati and SDPL at Rajahmundry have been ISO 9001-2000 certified by DNV during the year.

These certifications indicate our commitments in meeting *Global Quality and Environment Standards*.

INFORMATION TECHNOLOGY

Your Company has always been at the forefront of Information Technology having implemented two ERP packages and connecting up all its business locations all over the country via satellite links and terrestrial links.

During the year the Company initiated computerisation of its Key Franchised Wholesalers. Substantial progress has been made and currently more than 100 wholesalers have been connected under this initiative.

The Company, during the year, has been rated as the "Best IT User Organization" by NASSCOM and Economic Times.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required as per the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988, is given in the Annexure to this Report.

DIRECTORS

Mr. V. Thyagarajan ceased to be the nominee Director of the Company under Article 97A of the Articles of Association of the Company w.e.f. 31 January, 2003.

Mr. R. Subbarayan, Alternate Director to Mr. Ian McPherson, stepped down as an Alternate Director w.e.f. 31 January, 2003

Mr. A. Chatterjee, Wholetime Director tendered his resignation w.e.f. 23 October, 2003 to the Board of Directors and in his place Mr. G. K. Chakraborty was appointed in the casual vacancy effective 23 October, 2003.

The Board of Directors wish to place on record their appreciation of the valuable advice and guidance rendered by Mr. V. Thyagarajan, Mr. A. Chatterjee and Mr. R. Subbarayan.

AUDITORS

Messrs Price Waterhouse, Chartered Accountants, who retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

HUMAN RESOURCE DEVELOPMENT

Harmonious industrial relations continued to prevail at all the units throughout the Company. The Company continued its focus on training and developing people through internal and external management development programmes and overseas assignments.

The Company has been rated as 5th Best Employer in India in a survey conducted in 2003 by Hewitt Associates & Business Today.

DIRECTORS' REPORT**ENVIRONMENT AND SOCIAL COMMITMENT**

Your Company, in its endeavour to serve the community, extended its reach to the villages around the Company's new state-of-art Sonapat factory in Khewra village. A green belt is being developed around the Sonapat factory of your Company for balanced eco-environment and aesthetics. Your Company along with Business & Community Foundation (BCF) undertook an extensive Needs Analysis of the region and has contributed towards a Sewing Machine programme for women. The first batch of 35 women each have been given a machine and training. Your Company continues to support the Eye Care Centre at Khewra, Sonapat, treating hundreds of patients and conducting cataract operations.

As in previous years, your Company had organized regular health check-up and animal husbandry camps around its factories at Nabha and Rajahmundry. As a step towards scientific advancement, Embryo Transfer Technology has been introduced to improve genetic potential which will help in increasing the cattle yield in the villages around Rajahmundry Factory.

PARTICULARS OF EMPLOYEES

Particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 are enclosed.

ACKNOWLEDGEMENTS

The Directors wish to extend their thanks and appreciation to all the employees of the Company at all levels, agents and other business associates for their commitment, dedication and respective contributions to the Company's operations during the year under review.

The Directors would also like to acknowledge the valuable guidance, technical assistance and advice being received from the Associate Company in the U.K.

Your Directors look forward to the future with confidence.

For and on behalf of the Board

| | | |
|-----------------|--------------------------|-------------------|
| S. J. Scarff | Nicholas J. Massey | G. K. Chakraborty |
| <i>Chairman</i> | <i>Managing Director</i> | Ashok Dayal |
| | | P. S. Mukherjee |
| | | <i>Directors</i> |

Gurgaon

Dated : January 23, 2004

ANNEXURE TO THE DIRECTORS' REPORT 2003

Particulars regarding Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo.

A. CONSERVATION OF ENERGY**(a) Energy Conservation Measures Taken****1. Steam**

In continuation of the energy saving measures initiated by the Company the coal usage per ton of production has been reducing gradually over the years. Consumption of coal per ton of production has shown a reduction of 6.5 % compared to last year. This was achieved through various measures such as improving the Boiler efficiency by closely monitoring and controlling the Air-Fuel ratio based on fuel gas oxygen percentage, effective utilization of steam, avoiding steam wastage.

2. Electricity

Usage of Electricity per unit of production has increased by 9.3 % in the current year primarily due to comparatively higher consumption of electricity in our new fully automated Sonapat plant. The Co-Generation plant installed last year at Rajahmundry site resulted in generating more than 30% of the power requirement using the steam generated for the process utilities. Installation of energy efficient centralised compressed air system and energy efficient lighting system also resulted in savings in electricity consumed during the year.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy

Various steps and measures are being initiated to continuously improve on consumption of coal at Nabha and Rajahmundry plants and electricity at all the sites.

(c) In respect of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods

As already mentioned in (a) 1 above, the coal consumption per ton of production has been continuously improving over the last five years. However, in the current year electricity consumption per ton of production increased due to comparatively higher consumption of electricity in our new fully automated Sonapat plant resulting in a relatively increased cost of electricity per ton of production.