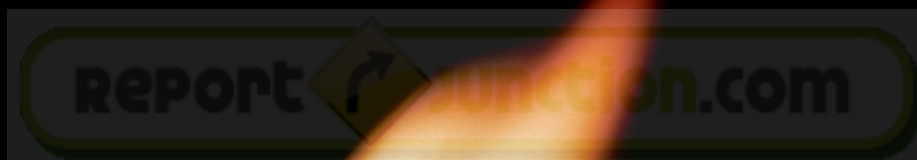


Discovering Sparks





ANNUAL REPORT

CHAIRMAN

S.J. Scarff, O.B.E

MANAGING DIRECTOR

Nicholas J. Massey

DIRECTORS

Ashok Dayal

A.S. Lakshmanan

David S. Allen

G. K. Chakraborty

Ian McPherson

Kunal Kashyap

P. Dwarakanath

P. Murari

P.S. Mukherjee

Subodh Bhargava

Colin Handcock (till 30.04.04)

S.S. Dugal (till 30.04.04)

COMPANY SECRETARY

Surinder Kumar

BANKERS

Bank of America

Citibank N.A.

Deutsche Bank

The Hongkong & Shanghai Banking
Corporation Limited

Standard Chartered Bank

State Bank of Patiala

ABN Amro Bank

BNP Paribas

Andhra Bank

AUDITORS

Price Waterhouse

REGISTERED OFFICE

Patiala Road

Nabha 147 201 (Punjab)

HEAD OFFICE

DLF Plaza Tower

DLF City, Phase-I

Gurgaon-122 002

CONTENTS

Board of Directors, etc.	1
Financial Statistics	2
Financial Highlights	4
Directors' Report	5
Corporate Governance Report	10
Management Discussion & Analysis Report	17
Auditors' Report	20
Balance Sheet	24
Profit & Loss Account	25
Cash Flow Statement	26
Schedules 1, 2	28
Schedules 3, 4, 5	29
Schedules 6, 7, 8, 9	30
Schedules 10, 11, 12, 13	31
Schedules 14, 15	32
Schedule 16	33
Balance Sheet Abstract & Company's General Business Profile	44

TEN YEAR FINANCIAL STATISTICS

Rs. Lakhs

1995 1996 1997 1998 1999 2000 2001 2002 2003 2004

SOURCES AND APPLICATIONS OF FUNDS

SOURCES OF FUNDS

Share Capital	28,36	28,36	45,38	45,38	45,38	45,38	45,38	45,38	45,38	45,38
Reserves & Surplus	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	4,83,97
TOTAL SHARE HOLDERS' FUNDS	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	5,29,35
BORROWINGS	7,29	8,00	-	-	20,00	55,00	75,66	-	-	-
FUNDS EMPLOYED	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	5,29,35
DEFERRED TAX LIABILITIES	-	-	-	-	-	-	28,16	35,63	28,16	31,98
TOTAL	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	5,61,33

APPLICATION OF FUNDS

Gross Fixed Assets	68,98	73,87	88,36	1,20,05	1,95,74	4,02,18	4,96,90	5,15,56	4,92,22	5,04,63
Depreciation	30,07	35,91	43,11	51,22	58,67	70,04	84,55	1,22,70	1,62,31	1,97,24
NET FIXED ASSETS	38,91	37,96	45,25	68,83	1,37,07	3,32,14	4,12,35	3,92,86	3,29,91	3,07,39
INVESTMENTS	36,41	29,00	29,00	29,00	29,00	-	-	-	-	-
Gross Current Assets, Loans and Advances	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	4,32,25
Current Liabilities & Provisions	49,44	65,79	76,99	83,37	1,12,69	1,78,12	1,80,04	1,77,28	1,77,57	1,78,31
NET CURRENT ASSETS	28,59	72,09	95,09	1,20,04	1,30,21	78,68	1,18,11	1,16,15	1,85,45	2,53,94
MISCELLANEOUS EXPENDITURE	-	-	2,77	10,63	21,11	18,72	14,78	9,85	4,91	-
TOTAL APPLICATION	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	5,61,33

TEN YEAR TRACK RECORD

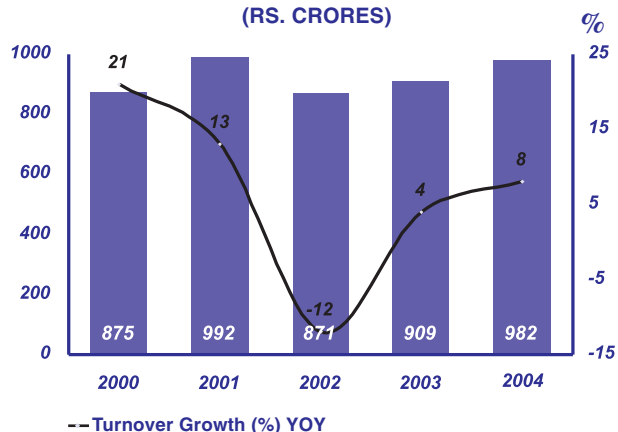
Rs. Lakhs

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
TURNOVER	3,66,89	4,96,58	5,62,30	6,45,62	7,20,48	8,75,12	9,92,14	8,71,06	9,08,95	9,81,72
PROFIT BEFORE TAX & EXCEPTIONAL ITEMS	60,02	79,31	94,70	1,16,51	1,38,33	1,51,73	1,93,96	1,26,71	99,58	1,15,68
NET PROFIT	36,10	46,94	62,02	81,35	97,61	1,12,02	1,26,63	85,01	76,35	73,15
DIVIDEND PAYOUT	16,31	17,02	19,06	22,69	25,87	28,59	31,77	31,77	31,77	31,77
CORPORATE DIVIDEND TAX	-	-	1,90	2,27	2,84	6,29	3,24	-	4,07	4,15
RETAINED EARNINGS	19,79	29,92	41,06	56,39	68,90	77,14	91,62	53,24	40,51	37,24
DIVIDEND - %	57.50*	60	42®	50	57	63	70	70	70	70
EARNINGS PER SHARE (Rs.)	12.73*	16.55	13.66®	17.93	21.51	24.68	27.90	18.73	16.82	16.12
BONUS ISSUE	1:1	-	3:5	-	-	-	-	-	-	-
NUMBER OF SHARE HOLDERS	28,836	28,831	30,145	29,413	31,690	33,019	31,442	30,607	28,914	28,048

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

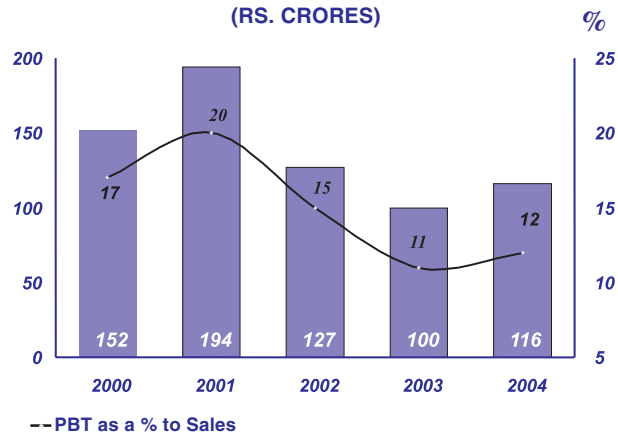
® POST ISSUE OF BONUS SHARES IN THE RATIO OF 3:5

TURNOVER (RS. CRORES)



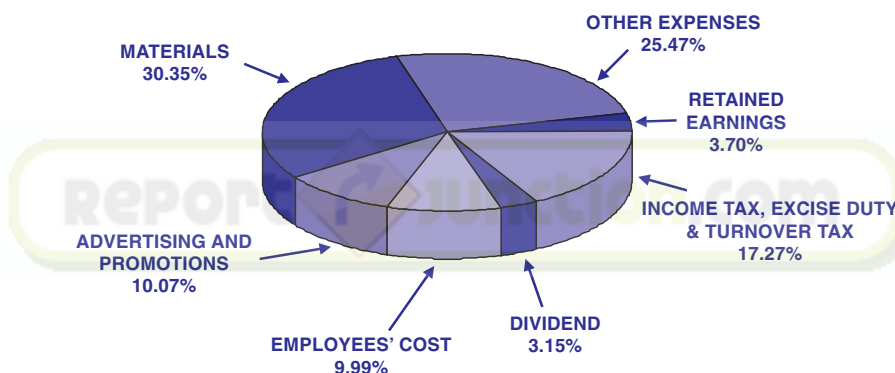
-- Turnover Growth (%) YOY

PROFIT BEFORE TAX (RS. CRORES)

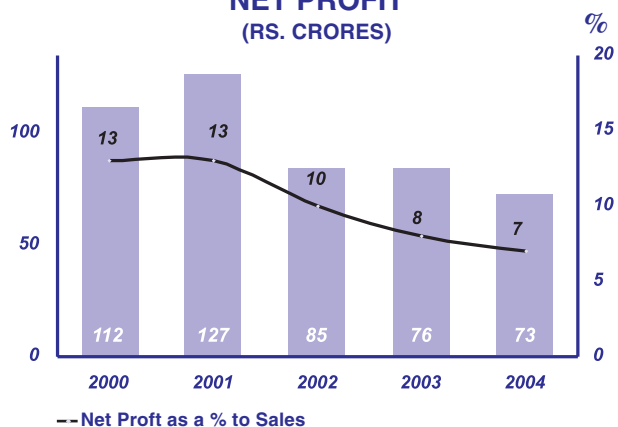


-- PBT as a % to Sales

SPLIT UP OF INCOME 2004

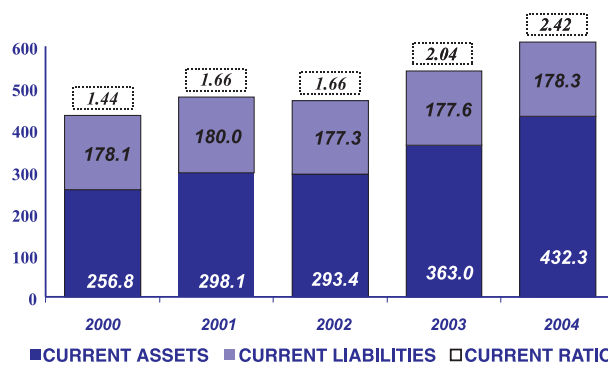


NET PROFIT (RS. CRORES)



-- Net Profit as a % to Sales

CURRENT RATIO (TIMES) (RS. CRORES)



■ CURRENT ASSETS ■ CURRENT LIABILITIES □ CURRENT RATIO

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, 2004.

FINANCIAL RESULTS

	(Rs. Lakhs)	
	<u>2004</u>	<u>2003</u>
Sales	9,81,71.67	9,08,94.76
Profit before Depreciation, Amortisation and Tax	1,62,05.15	1,50,09.49
Less: Depreciation	36,85.76	35,78.12
Less: Amortisation of :		
- Patents and Trade Marks	4,60.62	9,80.33
- Deferred Revenue Expenditure	4,91.25	4,93.32
Profit before Tax	1,15,67.52	99,57.72
Less: Provision for Tax		
- Current Tax	38,86.00	30,70.00
- Deferred Tax	3,81.89	(7,46.85)
- Adjustment of Previous Years	(16.10)	-
	42,51.79	23,23.15
Profit available for Appropriations	73,15.73	76,34.57

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

Appropriations

Dividends		
- First Interim	14,97.57	14,97.58
- Second Interim	16,79.09	16,79.09
Corporate Dividend Tax	4,15.14	4,07.01
Transferred to General Reserves	37,23.93	40,50.89
	73,15.73	76,34.57
Earnings Per Share (Basic & Diluted)	16.12	16.82

PERFORMANCE OF THE COMPANY

Against a difficult trading background for most FMCG companies, your Company is pleased to report a 8.0% sales growth for 2004 over the previous year.

Your Company maintained its commitment of operating with minimum trade pipelines with selling as per market demand and closed the year with almost negligible trade stock.

The flagship Horlicks brand (including Powders, Shakes & Biscuits) showed a growth of 8.4 % over previous year.

During the year your Company has focused on both topline increase supported by aggressive advertisement and marketing initiatives to reposition the brands and also on various initiatives / process reengineering to reduce operating costs in the business. Profit before Tax

amounted to Rs 1,15,67.52 Lakhs, representing a growth of 16.2% over the previous year. Profit after Tax amounts to Rs. 73,15.73 Lakhs, a decline of 4.2 % over the previous year, attributable mainly to a one-time write back of a deferred tax amount in the previous year.

Profit before Depreciation, Amortisation and Tax as a percentage to sales has been maintained at 16.51% same as last year. During the year Raw Material cost as a percentage to sales has increased to 22.84% as against 22.58 % last year mainly due to higher input costs (particularly liquid milk and skimmed milk powder). This incremental cost has been to some extent mitigated by various in-company cost reduction programmes.

RESERVES

The total Reserves as on 31st December, 2004 stood at Rs. 4,83,97.11 lakhs representing an increase of 8.3 % from last year.

DIVIDENDS

The Directors consider that the two Interim dividends aggregating to Rs.7.00 per share declared, to be reasonable and commensurate with the results for the year ended 31st December, 2004 and do not recommend a final dividend for the year.

BUY BACK OF SHARES

The Board of Directors in their meeting held on December 10, 2004, passed a resolution, subject to the approval of shareholders, to buy back equity shares of Rs. 10 each of the Company, at a price not exceeding Rs. 370 per equity share and for an amount not exceeding Rs. 1,23,02.81 Lakhs which constitutes 25% of the Paid Up Equity Share Capital and Free Reserves of the Company as on December 31, 2003. As per the requirements of Section 192 A of the Companies Act, 1956, the resolution was sent to the shareholders for their approval through Postal ballot on December 15, 2004 which was returnable by January 19, 2005. Subsequent to the Balance Sheet date the results of the Postal Ballot were declared and approved at the meeting held on January 20, 2005 at the Registered Office of the Company at Patiala Road, Nabha 147 201 (Punjab).

The Company shall adopt the "Tender Offer" methodology for the proposed buy back of shares.

The buy back of shares is expected to enhance the earnings per share of the company and improve its return on net worth and create long term shareholder value.

EXPORTS

During the year the Company's export earnings amounting to Rs. 54,30.41 lakhs covering exports to Bangladesh, Myanmar, Sri Lanka, Middle East, Nepal and other markets represented an increase of 36.3% over the previous year.

RESEARCH AND DEVELOPMENT

Research & Development has continued to play a vital role in supporting the excellent performance of your Company. Besides continuing to provide the all-important operational and business support underlying the great performance and growth of Horlicks and Boost, R&D has been instrumental in fuelling innovation through new product developments across all brands.

As a result, a number of new products have been launched this year. Ready-to-drink Horlicks & Boost as well as the Horlicks vending machines have helped the thrust on growing out-of-home business.

Development of Mother's Horlicks as well as Junior Horlicks with DHA have added to the scientific credentials of our brands, besides giving us a great competitive advantage.

The new state-of-the-art R&D centre in Gurgaon is now fully functional and is serving as a great enabler to spark off and support even higher levels of innovation into the future.

ISO CERTIFICATION

Your Company's manufacturing facilities at Nabha, Rajahmundry and Sonepat continue to be certified 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- For Food safety). Work is in progress at Nabha and Rajahmundry on HACCP implementation.

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 and SRDN at Guwahati have already been ISO 9001-2000 certified by DNV.

In our pursuit for excellence, Rajahmundry & Sonepat sites have been certified on ISO-18000 (OHSAS) during the year.

These certifications indicate our commitment in meeting Global Quality, Safety 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 and terrestrial links.

The Company has now automated 400 of its Key Franchised Wholesalers under the wholesaler automation project.

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

At the Annual General Meeting held on April 30, 2004, eight Directors were elected under the system of proportional representation. Mr. Ashok Dayal, Mr. A.S. Lakshmanan, Mr. P. Murari, Mr. Kunal Kashyap, Mr. P. Dwarakanath and Mr. P.S. Mukherjee were re-elected as Directors of the Company and Mr. Subodh Bhargava was the newly elected Director of the Company. Mr. Ian McPherson who was earlier nominated by Horlicks Ltd. was also elected as Director.

Mr. Colin Handcock and Mr. S. S. Dugal ceased to be the Directors of the Company w.e.f. April 30, 2004. The Board of Directors wish to place on record their sincere appreciation for the valuable advice and guidance rendered by them during their tenure as Directors.

Horlicks Limited nominated Mr. Gautam K. Chakraborty and Mr. David S. Allen on the board of the Company.

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 adjudged as the 5th Best Employer in India in a survey conducted in 2004 by Hewitt Associates.

ENVIRONMENT AND SOCIAL COMMITMENT

Your Company, in its endeavour to serve the community, extended its reach to the villages around the Company's Nabha factory in the form of medical camps and AIDS awareness camps. Moreover, vocational training programmes have been organised for the farmer community in Nabha and rural women in Rajahmundry. In Sonepat, the Company is trying to extend its help across age groups from organising deworming camps for children, to distributing clothes in old age homes. Road safety, has become an area of rising concern for the community. Towards this end, traffic sign boards have been put up in Nabha and speed breakers have been

installed in Sonepat. Addressing the needs of HIV affected persons, the Company is involved in helping women with AIDS in Bangalore and in organising therapeutic recreation for HIV positive children.

As in previous years your Company had organized regular animal welfare measures such as developing a fodder park, subsidising vet medicines, organising deworming camps etc. around its factories at Nabha and Rajahmundry.

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>	Kunal Kashyap
		P. S. Mukherjee
		<i>Directors</i>

Gurgaon

Dated : 28th January, 2005

ANNEXURE TO THE DIRECTORS' REPORT 2004

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

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures Taken

1. Steam

Consumption of coal per ton of production has increased by 15.9 % compared to last year. This is driven by a reduction in production volumes in the current year in our Nabha plant which has consequently resulted in under utilization of capacity and higher impact of fixed coal consumption.

The above adverse factors were partially offset by the various energy conservation measures undertaken at the site.

2. Electricity

Electricity per unit of production has decreased by 0.7 % in the current year despite an increase in Nabha Consumption. This is driven primarily by various Operation Excellence projects undertaken in our Sonepat Plant. Installation of energy efficient Vapour Absorption and Heating System at Rajahmundry plant has 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 increased in the current year primarily due to reduced capacity utilization at Nabha Plant, which resulted in higher cost of coal consumed per unit of production.

Further marginal decline in electricity consumed per unit of production had insignificant impact on cost of production.

ANNEXURE TO THE DIRECTORS' REPORT 2002

- (d) **Total energy consumption and energy consumption per unit of production as per Form "A" of the Annexure in respect of industries specified in the Schedule thereto:**

FORM "A"

	2004	2003
A. Power and Fuel Consumption		
1. Electricity		
a) Purchased Units (in Lakhs)	1,93.65	1,92.33
Total amount(Rs. Lakhs)	7,89.86	8,20.10
Rate/Unit (Rs.)	4.08	4.26
b) Own Generation-		
1) DG Sets		
Units (in Lakhs)	91.52	74.72
Units per litre of Diesel oil	3.93	3.88
Cost/Unit (Rs.)	5.50	5.12
2) Turbine		
Units(in lakhs) *	18.90	21.07
2. Coal Used in Boilers		
Quality (Calorific value ranging between 2500 to 3500 BTU)		
Quantity (Tonnes)*	23,668	22,295
Total Cost (Rs. Lakhs)	6,12.58	5,66.89
Average Rate (Rs.)	2,588.21	2,542.69

*Includes coal consumed to produce steam to generate electricity from Turbine.

B. Consumption per unit of Production:

	Current Year		Previous Year	
	Coal	Power	Coal	Power
	MT	Units	MT	Units
1. Malted Milkfood/ Malted Food/Energy and Protein Health Food/ Powdered Milk (Per Ton)	0.547	558	0.472	562
2. Ghee & Butter (Per Ton)	0.347	115	0.317	328

In case of Ghee, the allocation procedure has been revised and only the electricity consumption for ghee manufacturing section has been considered.

B. TECHNOLOGY ABSORPTION

RESEARCH & DEVELOPMENT (R&D)

- (1) **Specific Areas in which R&D was carried out by the Company**

The Research and Development Centre

continued to provide valuable support for improvement in quality of existing products, development of new products, and processes for better productivity, quality cost effectiveness, superior product claims and improved packaging.

- (2) **Benefits derived as a result of the above R&D**

Production processes have improved resulting in enhanced productivity, efficiency in throughput and introduction of new variants.

- (3) **Further Plan of Action**

Steps are continuously being initiated to upgrade the processing technologies, development of science based innovative products of higher nutritional value and to maximise production capacity at optimum cost.

- (4) **Expenditure on R&D**

	2004	2003
a) Capital	5,82.99	33.25
b) Recurring	6,70.39	4,68.00
c) Total	12,53.38	5,01.25
d) Total R&D Exp. as a percentage of total turnover	1.28%	0.55%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The Company is continuously taking steps to improve the product and process technology in an effort to provide better value for money to consumers.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- (a) **Activities relating to exports : Initiatives taken to increase exports: Development of new export methods for products and services and export plans**

The Foreign exchange earnings through exports have substantially increased in the current year covering exports to Bangladesh, Myanmar, Sri Lanka, Middle East and other markets. The efforts to broaden the export base to other countries in South East Asia and the Middle East are continuing.

- (b) **Total Foreign Exchange used and earned:**

	2004	2003
Foreign exchange earnings	34,04.79	21,11.48
Foreign exchange outgo	24,20.43	8,42.02