

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED



New Lines of thought



GlaxoSmithKline

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CHAIRMAN

Simon J. Scarff, O.B.E

MANAGING DIRECTOR

Zubair Ahmed

DIRECTORS

Ashok Dayal

Gautam K. Chakraborty (till 30.11.07)

Kunal Kashyap

P. Dwarakanath

P. Murari

Praveen K Gupta

Ramakrishnan Subramanian (w.e.f. 1.12.07)

Subodh Bhargava

COMPANY SECRETARY

Surinder Kumar

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BANKERS

Deutsche Bank

Citibank N.A.

Bank of America

The Hongkong & Shanghai Banking
Corporation Limited**AUDITORS**

Price Waterhouse

REGISTERED OFFICE

Patiala Road, Nabha 147 201

HEAD OFFICE

DLF Plaza Tower, DLF City Phase - I

Gurgaon 122 002 (Haryana)

REGISTRARS AND TRANSFER AGENTS

Karvy Computershare Pvt. Ltd.

Plot No. 17-24 Vittal Rao Nagar

Near Image Hospital, Madhapur

Hyderabad – 500 081

FINANCIAL STATISTICS

OF

GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

TEN YEAR FINANCIAL STATISTICS

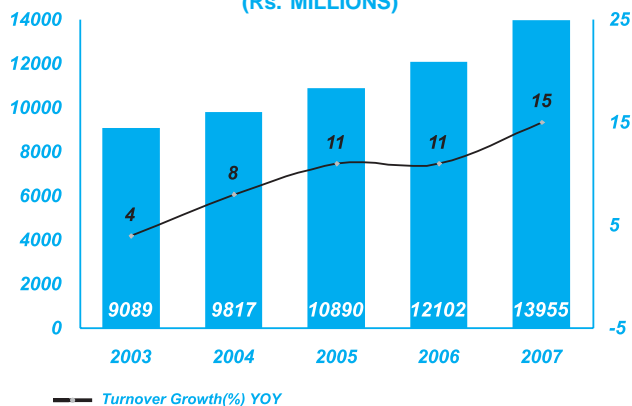
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Rs. Million									
SOURCES OF FUNDS										
Share Capital	454	454	454	454	454	454	454	420	420	420
Reserves & Surplus	1,831	2,520	3,291	3,960	4,378	4,467	4,839	4,331	5,007	6,043
TOTAL SHAREHOLDERS' FUNDS	2,285	2,974	3,745	4,414	4,832	4,921	5,293	4,751	5,427	6,463
BORROWINGS	-	200	550	757	-	-	-	-	-	-
FUNDS EMPLOYED	2,285	3,174	4,295	5,171	4,832	4,921	5,293	4,751	5,427	6,463
DEFERRED TAX LIABILITIES	-	-	-	281	356	282	320	276	241	173
TOTAL	2,285	3,174	4,295	5,452	5,188	5,203	5,613	5,027	5,668	6,636
APPLICATION OF FUNDS										
Gross Fixed Assets	1,201	1,957	4,021	4,969	5,156	4,922	5,046	5,177	5,282	5,410
Depreciation	512	586	700	846	1,227	1,623	1,972	2,339	2,703	2,977
NET FIXED ASSETS	689	1,371	3,321	4,123	3,929	3,299	3,074	2,838	2,579	2,433
INVESTMENTS	290	290	-	-	-	-	-	-	2,197	2,978
Gross Current Assets, Loans and Advances	2,034	2,429	2,568	2,981	2,934	3,630	4,322	4,018	2,978	3,719
Current Liabilities & Provisions	834	1,127	1,781	1,800	1,773	1,775	1,783	1,829	2,086	2,494
NET CURRENT ASSETS	1,200	1,302	787	1,181	1,161	1,855	2,539	2,189	892	1,225
MISCELLANEOUS										
EXPENDITURE	106	211	187	148	98	49	-	-	-	-
TOTAL APPLICATION	2,285	3,174	4,295	5,452	5,188	5,203	5,613	5,027	5,668	6,636

	TEN YEAR TRACK RECORD									
TURNOVER	6,456	7,205	8,751	9,921	8,711	9,089	9,817	10,890	12,143	13,955
PROFIT BEFORE TAX	1,165	1,383	1,517	1,940	1,267	996	1,157	1,624	1,906	2,451
NET PROFIT	814	976	1,120	1,266	850	763	732	1,072	1,269	1,627
DIVIDEND PAYOUT	227	259	286	318	318	318	318	336	421	505
CORPORATE DIVIDEND TAX	23	28	63	32	-	41	42	47	59	86
RETAINED EARNINGS	564	689	771	916	532	405	372	688	790	1,036
DIVIDEND - %	50	57	63	70	70	70	70	80	100	120
EARNINGS PER SHARE (Rs.)	17.93	21.51	24.68	27.90	18.73	16.82	16.12	24.84	30.18	38.68
NUMBER OF SHARE HOLDERS	29,413	31,690	33,019	31,442	30,607	30,607	28,048	24,571	24,019	22,315

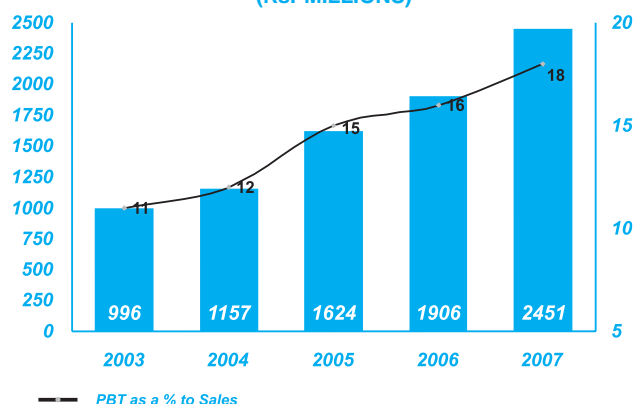
FINANCIAL HIGHLIGHTS

OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

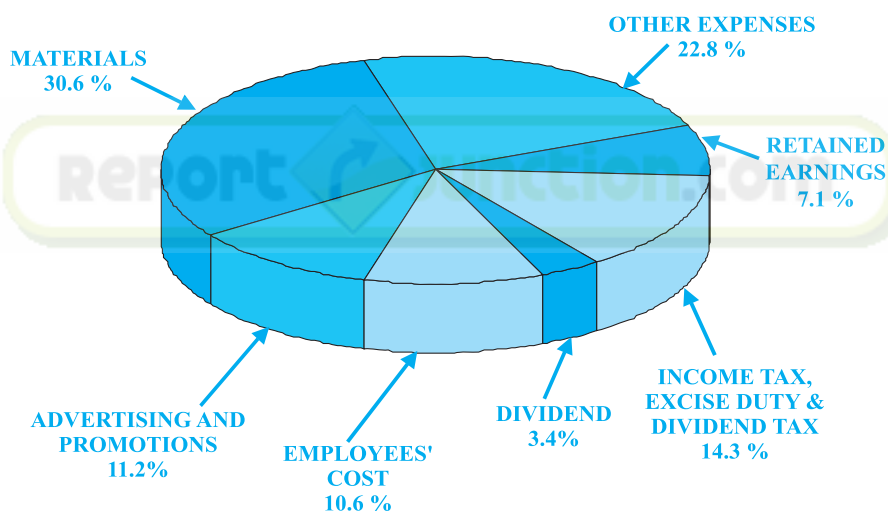
TURNOVER (Rs. MILLIONS)



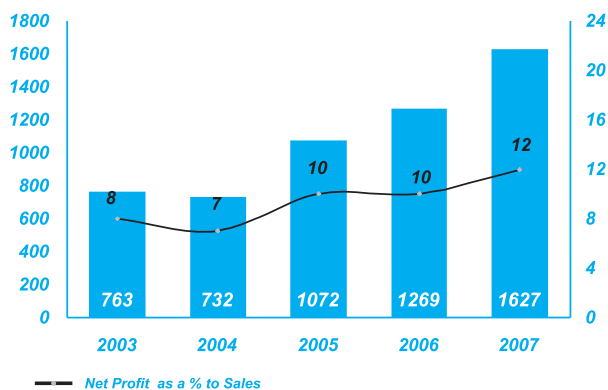
PROFIT BEFORE TAX (Rs. MILLIONS)



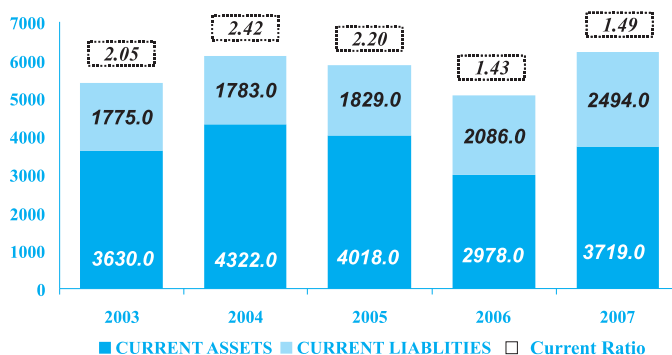
UTILISATION OF INCOME 2007



NET PROFIT (Rs. MILLIONS)



CURRENT RATIO (TIMES) (Rs. MILLIONS)



OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

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, 2007.

FINANCIAL RESULTS

	(Rs. Million)	
	2007	2006
Sales	13,955.05	12,101.88
Profit before Depreciation, Amortisation and Tax	2,886.14	2,332.74
Less: Depreciation	388.88	381.03
Less: Amortisation of :		
- Patents and Trade Marks	46.06	46.06
Profit before Tax	2,451.20	1,905.65
Less: Provision for Tax		
- Current Tax	845.00	621.50
- Deferred Tax	(67.86)	(35.33)
- Adjustment of Previous Years	(0.19)	(0.25)
- Fringe Benefit Tax	47.50	50.40
	824.45	636.32
Profit after Tax	1,626.75	1,269.33

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

Appropriations

Dividends	504.67	420.56
Corporate Dividend Tax	85.77	58.98
Transferred to General Reserves	1,036.31	789.79
	1,626.75	1,269.33
Earnings Per Share (Basic & Diluted)	38.68	30.18

PERFORMANCE OF THE COMPANY

The key objective for the year was to achieve an impressive top line growth while maintaining costs at lowest possible levels. Your Company is pleased to report 15.3% sales growth and 28.2% PAT growth for 2007 over the previous year. It is heartening to note that this growth has been driven across all regions and major brands.

2007 was a landmark year for Horlicks with sales of over Rs. 1000 Crores. Clinically tested to make children "Taller, Stronger & Sharper", Horlicks continues to grow stronger by the day.

Top line growth continues to be supported by aggressive advertisement and various sales and marketing initiatives. Your Company has taken several initiatives to reduce

operating costs in the business. Your Company continues to operate with minimum trade pipelines, selling as per the market demands, and maintaining a very efficient supply chain.

In order to maximize returns from idle cash, the Company during the year started to invest in the Debt Market. At the end of the year the total amount invested was Rs.2,978.35 Million. During the year the interest income has increased by Rs.119.5 Million.

Profit before Depreciation, Amortisation and Tax as a percentage to sales has improved to 20.7% this year as against 19.3% in the previous year. During the year input costs of Raw Material, Packing Material and Finished Goods, as a percentage to sales, increased to 32.1% as against 31.7% last year mainly due to higher input costs (particularly liquid milk and skimmed milk powder).

DIVIDENDS

The Directors consider the Interim dividend aggregating to Rs.12 per share declared, to be reasonable and commensurate with the results for the year ended 31st December, 2007 and do not recommend a final dividend for the year.

RESERVES

The total Reserves as on 31st December, 2007 stood at Rs.6,042.95 Million representing an increase of 20.7% from last year.

EXPORTS

During the year, the Company's export earnings amounting to Rs. 696.66 Million covering exports to Bangladesh, Myanmar, Sri Lanka, Middle East, Fiji, Mauritius, Nepal, Bhutan and other markets represented an increase of 14.4 % over the previous year.

RESEARCH AND DEVELOPMENT

Research & Development function has been a key contributor to the excellent performance of your Company. Besides being pivotal in fuelling innovation through a number of new product developments across all brands, it continues to provide the all-important operational and business support underlying the great performance and growth of the major brands. Several new product developments have been completed in 2007 and some of those are lined up for launch in early 2008. A highly qualified and capable team of scientists as well as the state-of-the art R&D infrastructure have been major enablers for this performance.

ISO CERTIFICATION

Your Company's manufacturing facilities at Nabha, Rajahmundry and Sonepat continue to be certified to the latest version of OHSAS 18001, ISO 9001:2000 and ISO 14001:2004 by DNV, a leading International certification Company, whereas the Rajahmundry site has also been accredited with SA8000. Nabha and Sonepat production facilities have already been certified for HACCP (Hazard Analysis Critical Control Point for Food safety).

Manufacturing/packing sites i.e. Pratap Health Foods Ltd. at Hyderabad, Parsons Ltd. at Ghaziabad, Legacy Foods at Baddi, SDPL at Rajahmundry and SRDN at Guwahati have already been ISO 9001-2000 certified by DNV.

These certifications indicate our commitment in meeting, in a sustainable manner, Global Quality, Environment Health and Safety Standards

INFORMATION TECHNOLOGY

Your Company continues to be at the forefront of Information Technology having implemented two ERP packages. During the year, your Company has rolled out Global Helpdesk Programs. Further, your Company continued the web based Treasury operation integrating its Payments to vendors and Collections from customers centrally. Connected to all its business locations all over the country via satellite and terrestrial links, the Company is leveraging direct market information through its Wholesaler Automated 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

Mr. Zubair Ahmed was appointed as the Managing Director w.e.f. 1 January 2007 as the nominee of Horlicks Ltd. in place of Mr. Nicholas J Massey, whose nomination was withdrawn by Horlicks Ltd. with effect from that date.

At the Annual General Meeting held on 27 April 2007, six Directors viz. Mr. Ashok Dayal, Mr. Kunal Kashyap, Mr. P. Dwarakanath, Mr. Praveen K Gupta, Mr. P. Murari and Mr. Subodh Bhargava were re-elected by the shareholders of the Company under the system of Proportional representation. Mr. Ian McPherson, whose tenure as a Director ended at the Annual General Meeting held on 27 April 2007, chose not to be re-elected as a Director.

Mr. Gautam K Chakraborty resigned as the Wholetime Director effective 30 November 2007. In his place, Mr. Ramakrishnan Subramanian has been nominated by Horlicks Limited as Wholetime Director effective 1 December 2007.

The Board of Directors wish to place on record their sincere appreciation for the valuable advise and guidance rendered by Mr. Ian McPherson and Mr. Gautam K Chakraborty during their tenure as Directors.

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

As in the past years, the management continued to take a keen interest in Human Resource Development. Harmonious industrial relations continued to prevail at all the units throughout the Company. The management continued to focus on Human Resource Development through in-house and external management development programmes and foreign assignments.

ENVIRONMENT AND SOCIAL COMMITMENT

Your Company, in its endeavour to serve the community, continues to contribute in and around the areas where it operates.

Under program on "Health & Education for Women" at Sonepat, various activities included distribution of sewing machines, health camp and vocational training (stitching & embroidery) to the rural womenfolk for empowering them.

During the year, both Nabha and Rajahmundry continued environment education programme to impact younger generation in local schools. Computers were donated to improve infrastructure in needy schools. Bus shelter has been constructed at Nabha for local residents.

PARTICULARS OF EMPLOYEES

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the report and Accounts are being sent to all the members excluding the statement containing the particulars of employees to be provided under Section 217 (2A) of the Act. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis is reported in this Annual Report.

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	Zubair Ahmed	R. Subramanian
<i>Chairman</i>	<i>Managing Director</i>	Subodh Bhargava
		<i>Directors</i>

Place : Gurgaon
Dated : January 29, 2008

ANNEXURE TO THE DIRECTORS' REPORT 2007

FORM "A"

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

Sonepat factory has won the prestigious "National Energy Conservation Award – 2007" from the President of India in the Food Processing Sector. The site has achieved significant energy savings by implementing various initiatives and projects and the total energy usage per ton of product has come down from 19.2 Giga Joules in the previous year to 15.6 Giga Joules this year, which is an 18.7% improvement over 2006.

A. CONSERVATION OF ENERGY

(a) Energy Conservation Measures Taken

1. Steam

There is a reduction in Coal consumption per ton of production by 9 % in 2007 as compared to last year. This has been achieved by various energy conservation initiatives being driven at sites as part of Operational Excellence program. The initiatives include optimization of Boiler Efficiencies, Reduction of radiation losses by proper insulation of equipments etc.

2. Electricity

With improvement in Operational efficiencies and through Energy conservation initiatives, electricity Consumption per unit of production has reduced by 11% in the year 2007 as compared to last 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 above, the reduction of Utilities per TOP has helped the Company contain its Utility cost despite the increase in the rates.

(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:

	2007	2006
A. Power and Fuel Consumption		
1. Electricity		
a) Purchased Units (in Million)	26.81	24.50
Total amount (Rs. Million)	117.66	101.30
Rate/Unit (Rs.)	4.39	4.14
b) Own Generation-		
1) DG Sets		
Units (in Million)	2.31	5.12
Units per litre of Diesel oil	3.45	3.54
Cost/Unit (Rs.)	8.80	8.83
2) Turbine		
Units (in Million)*	1.76	1.72

2. Coal Used in Boilers

Quality (Calorific value ranging between 2500 to 3500 BTU)		
Quantity (Tonnes)*	28,627	28,303
Total Cost (Rs. Million)	103.36	93.10
Average Rate (Rs.)	3,610.49	3,289.51

*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. Malt				
Based food/				
Protein Rich				
Food/Powdered				
Milk (Per Ton)	0.48	433	0.52	488
2. Ghee (Per Ton)	0.39	138	0.40	141

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

	(Rs. Million)	
	2007	2006
a) Capital	4.33	11.23
b) Recurring	134.99	98.22
c) Total	139.32	109.45
d) Total R&D Exp. as a percentage of total turnover	1.00%	0.90%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The Company is continuously taking steps to improve the product and process technology in an effort to provide for 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:

	(Rs. Million)	
	2007	2006
Foreign exchange Earnings	440.77	387.93
Foreign exchange outgo	255.91	224.33

DIRECTORS' RESPONSIBILITY STATEMENT AS PER SECTION 217(2AA) OF THE COMPANIES ACT, 1956

The financial statements of the Company for the year ended 31st December, 2007 have been prepared in conformity with the accounting standards issued by the Institute of Chartered Accountants of India and the requirements of the Companies Act, 1956. All the financial statements have been prepared on a historical cost convention, as a going concern and on the accrual basis. There have been no material departures in the adoption and application of the accounting standards. The accounting policies used in the preparation of the financial statements have been consistently applied except where otherwise stated in the notes to accounts.

The Board of Directors of GlaxoSmithKline Consumer Healthcare Limited (GSKCH) accepts the responsibility for the integrity and the objectivity of these financial statements. The estimates and judgements relating to the financial statements have been made on a prudent and reasonable basis in order to ensure that the financial statements reflect in a true and fair manner the form and substance of the transactions and reasonably present the Company's state of affairs and profits for the year. To ensure this, the Directors have taken proper and adequate care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956. The internal control systems are reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company have been followed for safe-guarding the assets of the Company and for protecting any form of fraud and irregularities, subject to the inherent limitations in any system and procedure and coverage thereof that should be recognized in weighing the assurance provided by system of internal controls and accounts.

The financial statements have been audited by Price Waterhouse, Chartered Accountants. The Audit Committee of GSKCH meets on a quarterly basis to review the manner in which the internal auditors are performing their responsibilities and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

For and on behalf of the Board

S.J.Scarff Chairman	Zubair Ahmed Managing Director	R. Subramanian Subodh Bhargava Directors
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Place : Gurgaon
Dated : January 29, 2008

OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

INDUSTRY STRUCTURE AND DEVELOPMENT

India is making an important mark in the global food arena, both as a large producer and exporter of agricultural products and as a very large and growing market for processed foods. Moreover, India is well placed to take advantage of growing global food trade due to its strong agricultural base and is expected to become a sourcing hub for food products.

The Ministry of Food Processing Industries aims to increase India's share in the global processed food trade to 3% in the next eight years from 1.6% at present. The Government of India aims to propel the industry growth through various initiatives like government subsidised food parks, tax breaks, increased FDI, proposals for public-private investment partnerships, increased spending on supply chain infrastructure, a burgeoning middle class, modern retail formats and international road shows.

The new Food Safety and Standards Act, 2006 has received the assent of the President of India. This Act has been aligned with international legislation, instrumentalities and the Codex standards besides retaining salient features of current laws governing food. Currently, there is ongoing work towards drafting the Rules under this Act.

OPPORTUNITIES, THREATS AND OUTLOOK

With the opening of the Indian economy plus favorable regulations, the Indian food processing sector in coming years is expected to attract huge investment. The rapid transformation in the lifestyle of Indians, particularly those living in urban India, has resulted in dramatic increase in the demand for processed food. Growth in working women's population and prevalence of nuclear families with double income are other trends causing this change in the lifestyle of Indians which is boosting the growth of food processing & packaging sector. Further, the growth of modern organized retailing in contrast to the traditional trade has opened tremendous opportunities for the FMCG companies. The entry of domestic players along with Joint Ventures with international players only confirm the latent potential. Though this change in the retail environment shall go a long way in increasing consumer demand, it could warrant changes in business norms and structure.

While the industry is large in size, it is still at a nascent stage in terms of development. Of the country's total agriculture and food produce, only 2% is processed due to the lack of storage facilities and infrastructure. According to many industry experts, the Indian food processing industry is a sleeping giant ready to get up from its slumbering stage. Increases in input prices of goods and services continue and it has been your Company's continuous endeavour to explore possibilities to effectively manage the adverse impact of these increases.

PRODUCT WISE PERFORMANCE

2007 was a year of landmarks with the Horlicks sales crossing the Rs.1,000 Crore. Your company continues to perform well with a robust sales growth of 15.3% over 2006. Horlicks, which was restaged in the past with an improved formulation which is clinically tested to make children "Taller, Stronger & Sharper", continues to grow strong. Boost along with Boost Chocoblast maintained the momentum and continued to deliver double digit sales growths. During the year, the business however faced severe challenges on the cost front with both Milk and other agro commodities prices showing an increasing trend. Judicious price increases and aggressive cost effectiveness measures taken by your Company helped to neutralize the inflation costs.

RISKS & CONCERNS

Your company annually reviews "risk maps" to help identify potential business threats. The capability of these risk mitigation plans, developed to redress identified threats, is honed to protect the interests of all stakeholders including shareholders. Crisis management plans are well documented and simulation tests across critical business sites have been conducted successfully. Learnings from these tests have helped enhance the effectiveness of the plans.

As with any agro based industry, input costs are influenced not only by the vagaries of nature but also government policies and the movements in the international market. Your Company continues to recognize the importance of the price-value equation and the need to be sensitive to retail price changes to counter the volatility of input costs.

FINANCIAL RISK

The Company has no loan outstanding as on December 31, 2007.

The Company has minimal import requirements for its production process. The Company exports during the year stood as Rs. 696.7 Million (which includes Rs. 257.0 Million exported to Nepal & Bhutan). Hence, no risk is envisaged to the business on account of currency fluctuations.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Standard Operating Procedures, detailed role responsibilities and competency profiling for senior level managers in key functions has helped ensure effective management. Robust Management Information Systems along with a strong Internal Audit Function not only ensures adherence with best practices and procedures but also helps in early diagnosis of potential areas of concern. Additionally, the following measures ensure proper control: