



## ANNUAL REPORT - 2004-2005



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<b>Board of Directors</b>	YONG TACK KIM, Chairman DONG BIN SHIN SOO KIL HAN SANG MAN SHIM J. SAHNI K.R.GANAPATHY
<b>Managing Director</b>	N.C. VENUGOPAL
<b>Joint Managing Director</b>	IN DO HWANG
<b>Secretary</b>	S. VENKATASUBRAMANIAN
<b>Registered Office</b>	DARE HOUSE, PARRY'S CORNER CHENNAI
<b>Factory</b>	NELLIKUPPAM, TAMIL NADU
<b>Auditors</b>	LOVELOCK & LEWES CHARTERED ACCOUNTANTS CHENNAI
<b>Bankers</b>	STATE BANK OF INDIA  HDFC BANK LTD.
<b>Insurers</b>	THE NEW INDIA ASSURANCE CO. LTD. CUDDALORE  UNITED INDIA INSURANCE CO. LTD. CHENNAI.  CHOLAMANDALAM M S GENERAL INSURANCE LTD.  IFFCO - TOKYO GENERAL INSURANCE CO. LTD.

## TEN YEARS AT A GLANCE

Rs. Lakh

	95-96	96-97	97-98	98-99 *	99-2000	00-01	01-02	02-03 .	03-04**	04-05
<b>OPERATING RESULTS:</b>										
GROSS INCOME	11093.96	13117.65	15590.98	14165.74	10663.45	10625.42	9963.15	9512.85	10138.13	12070.14
PROFIT/(LOSS) BEF DEPN., INTEREST & TAX	1116.89	1478.93	1901.11	1493.45	(507.00)	475.68	918.55	427.16	800.97	773.91
PROFIT/(LOSS) BEF INTEREST & TAX	793.87	1044.33	1383.00	815.70	(1236.34)	(180.51)	309.20	(109.17)	297.13	278.12
PROFIT/(LOSS) BEFORE TAX (PBT)	684.48	852.68	1027.95	370.81	(1657.66)	(522.82)	70.20	(286.90)	219.40	270.81
PROFIT/(LOSS) AFTER TAX (PAT)	634.48	742.68	922.95	335.81	(1657.66)	(522.82)	47.67	(118.03)	77.99	116.94
DIVIDENDS	80.75	108.17	162.25	103.49	-	-	-	-	-	-
DIVIDEND TAX	-	10.82	16.23	11.38	-	-	-	-	-	-
RETAINED PROFITS	553.73	623.69	744.47	220.94	(1657.66)	(522.82)	47.67	(118.03)	77.99	116.94
<b>SOURCES AND APPLICATION OF FUNDS:</b>										
<b>SOURCES OF FUNDS:</b>										
SHARE CAPITAL	216.34 (a)	216.34	216.34	377.13(b)	377.13	377.13	377.13	377.13	377.13	377.13
RESERVES AND SURPLUS	3104.68	3704.59	4444.51	6660.54	5002.88	4517.91	4503.07	3892.99	4048.30	4165.24
TOTAL SHAREHOLDERS' FUNDS	3321.02	3920.93	4660.85	7037.67	5380.01	4895.04	4880.20	4270.12	4425.43	4542.37
BORROWINGS	2079.77	2668.33	2953.90	3310.53	2572.65	2140.06	1155.86	1288.34	517.98	224.52
<b>FUNDS EMPLOYED</b>	<b>5400.79</b>	<b>6589.26</b>	<b>7614.75</b>	<b>10348.20</b>	<b>7952.66</b>	<b>7035.10</b>	<b>6083.25</b>	<b>5558.46</b>	<b>4943.41</b>	<b>4766.89</b>
<b>APPLICATION OF FUNDS:</b>										
GROSS FIXED ASSETS	4436.11	5987.11	7956.08	9268.81	9570.36	9411.79	8931.02	8242.32	8684.49	9000.63
DEPRECIATION	937.12	1362.25	1874.20	2472.84	3166.81	3669.62	3843.89	4326.84	4694.04	5156.84
NET FIXED ASSETS	3498.99	4624.86	6081.88	6795.97	6403.55	5742.17	5087.13	3915.48	3990.45	3843.79
CAPITAL WORK-IN-PROGRESS	17.96	27.12	49.31	214.79	57.29	42.79	4.27	4.27	4.27	4.27
INVESTMENTS	434.86	646.17	1050.21	1098.59	971.54	914.04	713.87	686.76	5.80	-
DEFERRED TAX ASSET	-	-	-	-	-	-	-	355.59	848.44	716.07
GROSS CURRENT ASSETS	2641.36	2393.65	2765.35	4357.44	2525.95	2274.36	1722.56	1952.07	1402.01	2013.22
CURRENT LIABILITIES & PROVISIONS	1192.38	1102.54	2485.16	2270.51	2005.67	1976.11	1526.03	1355.71	1307.56	1810.46
NET CURRENT ASSETS	1448.98	1291.11	280.19	2086.93	520.28	298.25	196.53	596.36	94.45	202.76
DEBIT BALANCE IN P & L	-	-	-	-	-	37.85	-	-	-	-
DEFERRED REVENUE EXPENDITURE	-	-	153.16	151.92	-	-	81.45	-	-	-
<b>NET ASSETS EMPLOYED</b>	<b>5400.79</b>	<b>6589.26</b>	<b>7614.75</b>	<b>10348.20</b>	<b>7952.66</b>	<b>7035.10</b>	<b>6083.25</b>	<b>5558.46</b>	<b>4943.41</b>	<b>4766.89</b>
<b>RATIOS:</b>										
ROCE (%)	17.49	17.42	19.47	9.08	-13.51	-2.41	4.71	-1.88	5.66	5.73
PBDIT TO GROSS INCOME(%)	10.07	11.27	12.19	10.54	-4.75	4.48	9.23	4.49	7.90	6.41
PAT ON SHAREHOLDERS' FUNDS(%)	19.10	18.94	19.80	4.77	-30.81	-10.68	0.98	-2.76	1.76	2.57
EARNINGS PER EQUITY SHARE(Rs)	29.33 (c)	34.33	42.66	8.9 (c)	-43.95	-13.86	1.26	-3.13	2.07	3.10
DIVIDEND PER EQUITY SHARE(Rs)	4.00	5.00	7.50	2.74	-	-	-	-	-	-
NET WORTH PER EQUITY SHARE(Rs)	153.51	181.24	215.45	186.61	142.66	129.80	129.40	113.23	117.35	120.45
DEBT: EQUITY RATIO	0.63	0.68	0.63	0.47	0.48	0.44	0.24	0.30	0.12	0.05

\* Includes merger of Cocoa Products &amp; Beverages Ltd. (100 % Subsidiary).

\*\* Includes merger of Confectionery Specialities Ltd. (100 % Subsidiary).

a. After considering 3:4 Rights Equity Issue in May'95.

b. After considering warrants conversion in May'98.

c. Earnings per share calculated on diluted capital.

## DIRECTORS' REPORT

Your Directors' are happy to present the 50th Annual Report together with audited accounts for the year ended 31st March 2005.

### Financial Results

	(Rs. in Lakh) 2004-2005	(Rs. in Lakh) 2003-2004
Sales and Services	12011.22	10051.93
Profit before Depreciation and Interest	773.91	800.98
Less : Depreciation and Interest	503.10	581.58
Profit before Tax	270.81	219.40
Less : Provision for Income tax :		
Current Income Tax	21.50	16.50
Deferred Income Tax	132.37	124.91
Profit after Tax	116.94	77.99
Add : Balance brought forward	77.99	—
Balance Profit transferred to Balance Sheet	194.93	77.99

The Board of Directors has decided not to recommend any dividend for the year ended 31st March, 2005.

### Review of operations

The gross sales for the year ended 31st March, 2005 was Rs.12011.22 Lakh as against Rs. 10051.93 Lakh in the previous year. Your Company has achieved a growth of 19.5% in gross sales despite intense competitive conditions. Your Company has made a profit before tax of Rs.270.81 lakh as against Rs.219.40 lakh in the previous year. This has been mainly due to the sustained efforts at all levels. Cash profit for the year is Rs. 766.60 lakh as against Rs.723.24 lakh in the previous year.

A detailed analysis of performance and outlook is given in the Management Discussion and Analysis Report attached herewith.

### Acquisition by Lotte Confectionery Co. Ltd., Korea

M/s. Lotte Confectionery Company Limited (Lotte), Korea has taken over the management control of the Company by acquiring the entire 60.39% holding of erstwhile promoters of the company. Another 20% holding from public was acquired by an open offer made under SEBI guidelines. Your Company is now part of Lotte group with a wide range of businesses including confectionery.

Consequent to this the Board was reconstituted as follows :

- (i) Mr. Dong Bin Shin and Mr. Yong Tack Kim were appointed as Directors in the casual vacancies caused by the resignation of Mr. M M Murugappan and Mr. M V Subbiah respectively on 24th May, 2004
- (ii) Mr. Sang Man Shim was appointed as an independent Director. Mr. J Sahni and Mr. K R Ganapathy continued as independent directors.
- (iii) Mr. In Do Hwang and Mr. Soo Kil Han were co-opted as additional Directors and appointed as directors at the 49th Annual General Meeting held on 30th July, 2004.
- (iv) Mr. N C Venugopal continues as Managing Director.

The name of the Company was changed to "Lotte India Corporation Limited" with the approval of Registrar of Companies, Chennai

**Fixed Deposits**

Two fixed deposits amounting to Rs. 17,000 /- were unclaimed and outstanding as on 31st March, 2005

**Investors' Protection Fund**

Your Company has transferred unclaimed interest on Non Convertible debentures amounting to Rs.3,288.98 to Investors' Protection fund as of date.

**Directors**

Mr. K R Ganapathy is retiring by rotation in the ensuing Annual General Meeting and being eligible offer himself for reappointment.

Mr. Dong Bin Shin and Mr. Yong Tack Kim, appointed as Directors in the casual vacancies, vacate Directorship (s) at the conclusion of ensuing Annual General Meeting. The Company has received notices proposing their names for Directorship(s)

Mr. N C Venugopal was appointed as Managing Director at the meeting held on 24th May, 2004 for a period of 2 years and Mr. In Do Hwang was appointed as Joint Managing Director at the meeting held on 30th July, 2004 for a period of two years.

The remuneration payable to Managing Director / Joint Managing Director were approved by the Shareholders and Government of India.

**Directors' Responsibility Statement**

As required under Section 217(2AA) of the Companies (Amendment) Act, 2000, director's responsibility statement, is annexed.

**Auditors**

M/s. Lovelock & Lewes, Chartered Accountants, Chennai, Company's Auditors, retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

**Corporate Governance**

Pursuant to Clause 49 of the Listing Agreement, a report of compliance of Corporate Governance as on 31st March, 2005 is annexed together with a Certificate from the auditors of the Company on compliance.

**Disclosures**

A statement concerning employees as required by Section 217(2A) is attached to this report .

**Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo**

As required under Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of the Board of Directors ) Rules, 1988, the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, wherever applicable, are annexed.

**General**

Your Board of Directors is grateful to the Bankers, Fixed Deposit Holders, Debenture holders, suppliers, converters and the Shareholders for the support extended from time to time. Your Board of Directors also wish to place on record the whole hearted co-operation given by employees, at all levels, during the year.

On behalf of the Board

Chennai  
29th April, 2005

YONG TACK KIM  
Chairman

## ANNEXURE TO DIRECTORS' REPORT

Information under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forming part of Directors' Report.

A (i) POWER AND FUEL CONSUMPTION	Current year (2004-05)	Previous year (2003-04)
1. Electricity		
(a) Purchases:		
Units	2843064	2504756
Total amount (Rs. lakh)	129.50	116.95
Rate/unit (Rs.)	4.56	4.67
(b) Own generation:		
Through Diesel generator		
Units	58815	88288
Total amount (Rs. lakh)	5.67	4.67
Units per litre of diesel oil	2.67	3.62
Cost/unit (Rs.)	9.64	5.29
2. Furnace Oil quantity (K. litre)	1071.65	1027.67
Total amount (Rs. lakh)	121.89	106.00
Average rate per K.Litre (Rs.)	11373.61	10314.38
(ii) CONSUMPTION OF ELECTRICITY PER QUINTAL OF PRODUCTION (UNITS)	35.55	30.98

### B TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- (i) The Company's R & D activity is directed towards development of new formulations & flavours, material substitution and indigenising machineries. These activities have resulted in improved quality, cost reduction, improved hygiene and new products.
- (ii) Recognition has been accorded for Company's R & D unit by Dept. of Scientific & Industrial Research, New Delhi.

### C FOREIGN EXCHANGE

Earnings	Rs. 1.12 lakh
Outgo	Rs. 125.13 lakh

On behalf of the Board

Chennai  
29th April, 2005

YONG TAÛK KIM  
Chairman

## ANNEXURE TO DIRECTORS' REPORT (Cont.)

Information as per section 217 (2A) read with the companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report - Details of remuneration paid for the twelve months period ended 31st March, 2005

NAME (AGE)	DESIGNATION OF THE EMPLOYEE/ NATURE OF DUTIES	REMUNERATION Rs.	QUALIFICATION/ EXPERIENCE (YEARS)	DATE OF COMMENCEMENT OF EMPLOYMENT	PREVIOUS EMPLOYMENT
[A] EMPLOYED THROUGHOUT THE PERIOD AND WERE IN RECEIPT OF REMUNERATION AGGREGATING NOT LESS THAN Rs.24,00,000 FOR THE YEAR ENDED 31ST MARCH, 2005. - NIL					
[B] EMPLOYED FOR PART OF THE YEAR AND WERE IN RECEIPT OF REMUNERATION AGGREGATING NOT LESS THAN Rs.2,00,000 p.m.					
N.C.VENUGOPAL ( 52 Yrs)	Managing Director	4479152	B.E. P.G..D.B.M. [28]	24.5.2004	PARRY ENGINEERING EXPORTS LTD CHENNAI. PRESIDENT

## Note:

1. The nature of employment of the employee mentioned above is contractual.
2. Remuneration as shown above includes salary, allowances, leave travel assistance, Company's contribution to Provident Fund, Superannuation Fund and Gratuity Fund, Medical facilities and perquisites valued in terms of actual expenditure incurred by the Company in providing the benefits to the employee excepting in cases of certain expenses where the actual amount of expenditure cannot be ascertained with reasonable accuracy and in such cases, notional amount as per the Income-Tax Rules has been adopted.
3. The employee is not related to any Director of the Company.
4. The above remuneration was approved by Govt. of India, Ministry of Company Affairs, New Delhi, Vide letter No. 1/437/2004-CL.VII dated 7th March 2005

On behalf of the Board

Chennai  
29th April, 2005

YONG TACK KIM  
Chairman



## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

### INDUSTRYTRENDS

The Company is engaged in the manufacturing and marketing of Sugar Boiled Confectionery (SBC), Chewing Gum and Bubble Gum. Its products are well established in the market. Its production facilities are in the state of Tamil Nadu and has an all India distribution network.

Indian economy is estimated to be growing at 6 to 7% per annum in terms of GDP. Increased urbanisation, literacy level and consumer awareness have led to demand for high quality branded products.

The size of the SBC market which forms a part of the fun food business, is estimated to be around Rs. 1300 crore out of which about Rs.800 crore is catered to by the organised sector. As indicated by the research reports the confectionery market remained stagnant in 2004-05. Major consumers are children and young adults. Being essentially an impulse buy category, consistent quality and taste, brand recall and product availability are key factors of success. Majority of the retail sales in the industry takes place in single units and not in packs or by weight.

The SBC segment is highly fragmented with over 20 companies, selling high quality branded products and a proliferation of unorganised players selling nearly 5000 brands. The unorganised sector has been traditionally operating through huge trade margins and relying on trade push. Over 70% of the products sold in this segment are in the 50 Paise category. While the overall market remained more or less stagnant during the year, there are clear trends in favour of the organised sector because of better products, improved merchandising and brand building activities. With customers also becoming increasingly quality conscious, the share of the unorganised sector in this category has been gradually shrinking.

### COMPANY PERFORMANCE

The Company's two-pronged strategy of brand building and strengthening of its distribution infrastructure has helped to achieve a 19.5% growth in turnover over last year. Most of its major brands have been promoted through the media and through innovative initiatives for consumer promotion.

The Company has entered into the Gum segment by the launch of Bubble Gum and Chewing Gum with Lotte brand. Products have been introduced in selective markets to understand the consumer reaction. There has been good initial response from the trade and consumers. The Company also rationalised its product portfolio. Packaging has been upgraded for some of its key brands. Distribution channels have been opened in new towns and its existing distribution infrastructure improved. By leveraging 'Lotte' brand and product portfolio, the Company is confident of facing the competitors.

The Company is also vigorously pursuing various cost management measures to further enhance its cost efficiency.

From the operational risk aspect, the Company has documented operating procedures in critical areas, the compliance and efficacy of which are checked by an internal audit function and reviewed by the Audit Committee of the Board of Directors.

During the year several Human Resources Development initiatives were taken up including training programmes. The Company has restructured its sales organisation by delayering it to make it more responsive and effective. The total number of employees in the organisation as on 31<sup>st</sup> March 2005 was 522.

### RISK FACTORS

The Company's primary risk is that it is present only in the SBC segment. The market is price point sensitive. Increasing raw material and packing material prices and competition from other organised players with deep pockets to invest in brands are also other risks faced by the Company. The company is addressing these risks by venturing into gum segment, enhanced packaging, cost management etc. This risk is partially addressed by the acquisition of the Company by Lotte Confectionery Co. Ltd., Korea whose strengths can be leveraged effectively.

## OUTLOOK

The per capita consumption of SBC in India is estimated at around 200g per annum as against 6 to 8 kgs in developed countries indicating growth opportunities for the future. Life style changes, growth in organised retailing, reduced excise duty and an encouraging growth in rural consumption are important developments. There is clear consumer preference for new and improved products. The organised sector players now have an opportunity to win customers currently serviced by the un-organised sector which has no distinct price advantage due to fixed price points. A contemporary feature of the market is emergence of young and middle aged adults as significant potential consumers who seek fun and freshness.

The SBC category is expected to continue to witness intense competition. There would be a greater emphasis on higher product forms like deposit and centre filled candies and toffees, in terms of consumer preferences. All companies are expected to invest substantially in marketing and promotions and for increasing their distribution reach.

Acquisition of the Company, by Korean confectionery major Lotte Confectionery Co. Ltd., has lead to new opportunities and challenges .

The Company would continue to invest significantly in brand building and distribution expansion to further its reach and increase the offtake of its products. This coupled with various cost management measures would enable the Company to meet the challenge of increased competition and to exploit emerging opportunities in the industry.

On behalf of the Board

Chennai  
29th April, 2005

YONG TACK KIM  
Chairman

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