

LOTTE

ANNUAL REPORT - 2012



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CORPORATE INFORMATION

Board of Directors

MANG KO NOH
Chairman

MILAN WAHI
Managing Director

KYO HEE KIM
Whole Time Director

MYUNG KI MIN
Director

D.G. RAJAN
Director

Company Secretary

T . G . KARTHIKEYAN

Registered Office

NO. 4/111, MOUNT POONAMALLEE ROAD,
MANAPAKKAM, CHENNAI 600 089

Head Office

4/169, RAJIV GANDHI SALAI (OMR),
KANDANCHAVADI BUS STOP,
OPP. LANSON TOYOTA SERVICE CENTRE,
PERUNGUDI TALUK, CHENNAI - 600096.

Factories

NELLIKUPPAM (CUDDALORE DIST.), TAMIL NADU.
POONAMALLEE-THIRUVALLUR ROAD, CHENNAI, TAMIL NADU.

Auditors

B S R & Company
CHARTERED ACCOUNTANTS
CHENNAI

Bankers

STANDARD CHARTERED BANK
STATE BANK OF INDIA
HDFC BANK LTD.
SHINHAN BANK

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Fifty Eighth Annual General Meeting of the Company will be held on Friday, the June 14, 2013 at 11.00 a.m. at M.A. Chidambaram Hall, Southern India Chamber of Commerce and Industry, Esplanade, Chennai 600 108, to transact the following business :

ORDINARY BUSINESS

- To receive, consider and adopt the Directors' Report and the Audited Profit and Loss Account for the year ended December 31, 2012 and the Balance Sheet as at that date and the Auditors' Report thereon.
- To appoint a Director in the place of Mr. Myung Ki Min, who retires by rotation and is eligible for reappointment.
- To consider the reappointment of M/s. B S R & Company, Chartered Accountants, Chennai, as auditors of the Company to hold office from the conclusion of the 58th Annual General Meeting till the conclusion of the 59th Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

- To consider and if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

RESOLVED THAT Mr. Kyo Hee Kim, who was appointed as an Additional Director of the Company with effect from July 12, 2012, whose term of office as an Additional Director expires at this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company, whose period of office shall not be liable to retire by rotation.

- To consider and if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

RESOLVED THAT pursuant to the provisions of Section 198, 269, 309 & 310 read with Schedule XIII and other applicable provisions of the Companies Act, 1956, Mr. Kyo Hee Kim, in respect of whom the Company has already received the approval of Government, be and is hereby appointed as Whole Time Director of the Company for a period of 3 years effective from July 12, 2012 based on the following terms and conditions.

	Description	Remuneration per year (Rs.)
Salary	Basic Salary	660,000
	Total (A)	660,000
Benefits	Housing (Rent free furnished accommodation)	1,000,000
	Car running expenses	120,000
	Club entrance fee & subscription	25,000
	Medical reimbursement at actuals (Maximum Rs.1,00,000/-)	100,000
	Medical Insurance upto sum insured Rs. 2 Lakhs & Co. Hospitalisation	18,000
	Telephone Land Line & Mobile	30,000
	Personal Allowance	174,000
	Special Personal Allowance	159,480
	Additional Personal Allowance	472,800
	Grade Allowance	96,300
	Total (B)	2,195,580
Retirement benefits	Provident Fund	79,200
	Gratuity	32,208
	Superannuation Fund	99,000
	Total (C)	210,408
	Total Salary (A+B+C)	3,065,988

NOTICE TO SHAREHOLDERS (contd.)

RESOLVED FURTHER THAT in the event of no profits or inadequacy of profits, the above remuneration shall be considered as the minimum remuneration.

RESOLVED FURTHER THAT subject to applicable provisions of the Companies Act and subject to the approval of the Central Government, if necessary, the consent of the Company be and is hereby accorded for the payment of the remuneration exceeding the limit of 5% of Net Profits p.a. in case of sufficient profits.

RESOLVED FURTHER THAT Mr. Kyo Hee Kim shall be governed by all service conditions of the Company as applicable to Senior Management Staff including age of retirement.

RESOLVED FURTHER THAT Mr. Kyo Hee Kim shall not be entitled to any sitting fee for attending the meeting of the Board or any Committee thereof.

RESOLVED FURTHER THAT the Board of Directors or the Remuneration and Nomination Committee be and is hereby authorized to alter or vary or increase the component and elements of remuneration payable to Mr. Kyo Hee Kim within the overall limits under the companies Act, 1956 and to do all such acts, deeds and things and execute all such documents and forms as may be required and to give effect to the resolutions.

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

RESOLVED THAT Mr. Mang Ko Noh, who was appointed as an Additional Director of the Company with effect from March 28, 2013, whose term of office as an Additional Director expires at this Annual General Meeting and in respect of whom the company has received a notice under section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director, be and is hereby appointed as Director and Chairman of the Company, whose period of office shall be liable to retire by rotation.

ANNEXURE TO THE NOTICE :

A. Profile of Directors seeking appointment / reappointment

Mr. Myung Ki Min is a Graduate in Commerce and holds Masters degree in Marketing from Korea University. He possess rich experience spanning more than two decades in Sales in Lotte Confectionery Co Ltd., Korea. He resigned from the post of Managing Director w.e.f. July 12, 2012 and is continuing as Director.

Mr. Kyo Hee Kim is a Graduate in Economics and has rich experience in the fields of finance, HR etc. He has been associated with Lotte group for about 18 years and served in our company as Vice President & C.F.O. Currently, he is the Whole Time Director of the Company.

Mr. Mang Ko Noh holds a Masters Degree in Business Administration and has wide experience in many fields such as purchase and product management. He has been associated with Lotte, Korea from the year 1983 and currently he is a Global Strategy Director of our parent Company viz. Lotte Confectionery Co. Ltd.

B. Explanatory statement under Section 173(2) of the Companies Act, 1956.

Item Nos. 4 & 5

Mr. Kyo Hee Kim was co-opted as an Additional Director of the Company at the Board Meeting held on July 12, 2012 as per Section 260 of the Companies Act, 1956 and vacate his office of additional director in the ensuing Annual General Meeting.

At the same Board Meeting he was appointed as Whole Time Director.

The Central Government, vide its letter dated January 29, 2013, had accorded its approval for the appointment of Mr. Kyo Hee Kim, a foreign national, as Whole Time Director for a period of three years from July 12, 2012 to July 11, 2015.

NOTICE TO SHAREHOLDERS (contd.)

The Company has received a notice under Section 257 of the Companies Act 1956 in writing from a Shareholder along with requisite deposit proposing the appointment of Mr. Kyo Hee Kim as Director.

In order to regularise his appointment, the above resolutions are placed before the members for their approval.

None of Directors other than Mr. Kyo Hee Kim is interested or concerned in the above resolution.

The Board of Directors recommends the passing of above Special resolutions.

Item No.6:

Mr Mang Ko Noh was co-opted as an Additional Director of the Company at the Board Meeting held on March 28, 2013 as per Section 260 of the Companies Act, 1956 with a term of office till this Annual General Meeting.

The Company has received a notice under section 257 of the Companies Act 1956 in writing from a Shareholder along with requisite deposit proposing the appointment of Mr. Mang Ko Noh as Director.

None of Directors other than Mr. Mang Ko Noh is interested or concerned in the above resolution.

The Board of Directors recommends the passing of resolution.

By Order of the Board
For Lotte India Corporation Limited

Chennai
May 7, 2013

T.G.Karthikeyan
Company Secretary

Notes

1. The relevant explanatory statement pursuant to Sec.173(2) of the Companies Act, 1956 ("The

Act") in respect of Item No. 4, 5 and 6 are annexed.

2. A member entitled to attend and vote at the above meeting may appoint one or more Proxies to attend and vote instead of himself / herself. The Proxy need not be a Member of the Company. Proxy to be valid, shall be deposited with the Company not later than forty eight hours before the time for holding the meeting.
3. Members, who are having shares in physical form are requested to intimate change in their addresses, if any, immediately to the Company at its Head Office quoting their folio number, certificate number.
4. Members, who are having shares in Demat form are requested to intimate change in their addresses, if any, immediately to their Depository Participants with whom they are maintaining their Demat Account.
5. Book closure: The Register of Members and Share Transfer books of the Company shall remain closed from June 10, 2013 to June 14, 2013 (both days inclusive).
6. The Company had changed its Head Office from Greams Road to 4/169, Rajiv Gandhi Salai (OMR), Kandanchavadi Bus Stop, Opp. Lanson Toyota Service Centre, Chennai – 600096 w.e.f. April 8, 2013.
7. **As per the green initiative taken by the Ministry of Corporate Affairs, the shareholders are advised to register their e-mail address with the Company by sending an email to "compsecy@lotteindia.com", in respect of shares held in physical form and with the concerned Depository Participant in respect of shares held in Demat form to enable the Company to serve documents in electronic form.**

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors have pleasure in presenting the 58th Annual Report of your Company together with the audited financial statements for the year ended December 31, 2012.

Financial Results

	(Rs. in lakhs)	
	For the year ended December 31, 2012	For the year ended December 31, 2011
Sales	31,931.62	28,873.79
Less : Excise duty	1,967.14	1,603.50
Less : Discount	1,749.75	1,567.98
Net Sales	28,214.73	25,702.31
Add: Other Income	329.40	320.96
Total Income	28,544.13	26,023.27
Profit before depreciation, interest & finance charges	2,389.08	2,331.92
Less : Depreciation, Interest & finance charges	1,551.86	1,716.89
Profit before tax	837.22	615.03
Less : Provision for Taxes :		
– Current	170.87	130.50
– Deferred	—	
Profit / (Loss) after tax	666.35	484.53
Add : Balance brought forward from previous year	(216.05)	(700.58)
Balance profit / Loss transferred to Balance Sheet	450.30	(216.05)

The Board of Directors has decided not to recommend any dividend for the year ended December 31, 2012.

Performance Highlights

For the year ended December 31, 2012, the Company achieved a gross sales of Rs.31,931.62 lakhs as against Rs. 28,873.79 lakhs for the year ended December 31, 2011.

During the year under review, the Company has achieved a Profit after tax of Rs.666.35 lakhs as against the profit of Rs. 484.53 lakhs for the year ended December 31, 2011.

Despite a steep increase in the price of critical raw/base materials like sugar, wheat, vegetable fat, etc., the Company has sustained its margins through various strategic measures and cost reduction initiatives, which has helped your Company to manage the working capital and regular investments with internal accruals.

Industry trends

The majority of the consumers of confectionery products are the younger generation. The majority of the retail sales in this industry takes place in single units and not in packs or in quantities and thus the majority of the consumption is at the "Point of Sale". Super markets, chain stores etc. are also becoming a place for promotions to consumers.

There is always an increasing awareness among the consumers and the public in general about the confectionery products as more and more international products are making its entry into Indian Market and the consumers today are demanding superior quality branded products with best price.

The confectionery sector witnessed good growth in its consumer base. One of the primary reasons associated with this trend is the growing gifting culture and the use of confectionery products as a replacement of sweets. Moreover, the rural market is also contributing towards the growth of this industry by showing increased consumption of confectionery products in terms of volumes. There is an uphill trend in the confectionery trade as more companies are showing interest in the segment, so this industry is expected to grow in the future.

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS (contd.)

Outlook

The Company expects good growth in candies and chocopie in the short term. The Company plans to invest in brand building in both short term and long term in order to spruce-up the growth.

Your Company is strengthening its distribution network both in urban and rural areas to drive growth. We are planning to test market the new products in the coming year which will be the future growth drivers for the Company.

The Company is also planning to have manufacturing set up near places of demand/market to reduce the time and cost of delivery.

Business Risk Management

Your Company has adequate Business Risk Management system to identify, evaluate the business risks, which is being monitored by top management. These risks are analyzed and appropriate action plan is drawn up and implemented.

The key business risks identified by the Company and its mitigation plans are given below:

The main risk for the Company has been its single sector dependence, price point sensitivity, volatile raw material prices and stiff competition from other organized players.

During the course of this year, the Company has taken a series of measures to broad base its product portfolio through varied price point offerings. The Company has also taken various steps to source the raw materials in bulk at predetermined rates. The Company is also planning to import new products from Korea.

These efforts will help us to move away from this risk to some extent.

Internal Control System

Your Company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes,

safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of internal policies. The Company has a well defined delegation of power with authority limits for approving revenue as well as capital expenditure. Processes for formulating and reviewing annual and long term business plans have been laid down to ensure adequacy of the control system, adherence to the management instructions and legal compliances.

Directors

During the year under review, Mr. Yong Su Kim, Director, resigned on July 12, 2012 and in his place Mr. Jung woo Lee was appointed on the same date. Mr. Jung Woo Lee also resigned on March 22, 2013. Your Directors wish to place on record their deep appreciation of their valuable contribution to the growth of the Company.

Mr. Myung Ki Min resigned from the post of Managing Director and is continuing as Director.

Mr. Milan Wahi was elevated to the post of Managing Director w.e.f. July 12, 2012.

Mr. Kyo Hee Kim was inducted into the Board as Whole Time Director w.e.f. July 12, 2012.

Mr. Mang Ko Noh was appointed as Director cum Chairman of the Company in the place of Mr. Jung Woo Lee w.e.f. March 28, 2013.

Directors' Responsibility Statement

Pursuant to sub-section (2AA) of Section 217 of the Companies Act, 1956, your Directors, based on representations from the Operating Management, confirm that:

- (a) In the preparation of annual accounts, the applicable accounting standards have been followed and there are no material departures;
- (b) They have, in selection of the accounting policies, consulted the statutory auditors and applied these policies consistently, making judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS (contd.)

of the Company as on December 31, 2012 and of the profit of the Company for the year ended December 31, 2012;

- (c) They have taken proper and sufficient care, to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) They have prepared the annual accounts on a going concern basis.

Auditors

M/s. B S R & Company, Chartered Accountants, Chennai, Statutory Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and being eligible have expressed their willingness to be reappointed.

Cost Auditor

The Company has come under the purview of Companies (Cost Accounting Records) Rules, 2011 as a result of which, your Company has appointed Mr.S.A.Murali Prasad, Cost Accountant, Chennai, as Cost Auditor to issue the Compliance Report for submission to Central Government for the year ended December 31, 2012.

Disclosures

A statement concerning particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 is given in Annexure "B" to this report.

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

During the year 2012, the Company had initiated a number of measures for Conservation of Energy and Water at its manufacturing facility at Nellikuppam and Nemam. Through these measures, the Company has achieved significant reduction in Consumption of power and usage of water, and is expected to reap the resultant benefits in the coming years.

As required 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, the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, wherever applicable, are given in Annexure "A" to this Report.

New Head Office

The Company had changed its Head Office from Greams Road to its own premises at 4/169, Rajiv Gandhi Salai (OMR), Kandanchavadi Bus Stop, Opp. Lanson Toyota Service Centre, Chennai – 600 096 w.e.f. April 8, 2013.

Acknowledgement

The Board wishes to place on record, its appreciation for the co-operation and support received from the Bankers, Suppliers, Converters and the Shareholders. The Board also wishes to place on record the whole hearted co-operation given by employees, at all levels, during the year.

Cautionary Statement

Statement in the Directors' report and Management Discussion & Analysis describing the objectives, expectations may be forward looking. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.

On behalf of the Board

Chennai
May 7, 2013

Milan Wahi
Managing Director

D.G.Rajan
Director