

# ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED



*New Lines of thought*



GlaxoSmithKline



## 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

## 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

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# FINANCIAL STATISTICS OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

## TEN YEAR FINANCIAL STATISTICS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	<b>Rs. Million</b>									
<b>SOURCES OF FUNDS</b>										
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
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>2,285</b>	<b>2,974</b>	<b>3,745</b>	<b>4,414</b>	<b>4,832</b>	<b>4,921</b>	<b>5,293</b>	<b>4,751</b>	<b>5,427</b>	<b>6,463</b>
BORROWINGS	-	200	550	757	-	-	-	-	-	-
<b>FUNDS EMPLOYED</b>	<b>2,285</b>	<b>3,174</b>	<b>4,295</b>	<b>5,171</b>	<b>4,832</b>	<b>4,921</b>	<b>5,293</b>	<b>4,751</b>	<b>5,427</b>	<b>6,463</b>
DEFERRED TAX LIABILITIES	-	-	-	281	356	282	320	276	241	173
<b>TOTAL</b>	<b>2,285</b>	<b>3,174</b>	<b>4,295</b>	<b>5,452</b>	<b>5,188</b>	<b>5,203</b>	<b>5,613</b>	<b>5,027</b>	<b>5,668</b>	<b>6,636</b>
<b>APPLICATION OF FUNDS</b>										
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
<b>NET FIXED ASSETS</b>	<b>689</b>	<b>1,371</b>	<b>3,321</b>	<b>4,123</b>	<b>3,929</b>	<b>3,299</b>	<b>3,074</b>	<b>2,838</b>	<b>2,579</b>	<b>2,433</b>
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
<b>NET CURRENT ASSETS</b>	<b>1,200</b>	<b>1,302</b>	<b>787</b>	<b>1,181</b>	<b>1,161</b>	<b>1,855</b>	<b>2,539</b>	<b>2,189</b>	<b>892</b>	<b>1,225</b>
MISCELLANEOUS										
EXPENDITURE	106	211	187	148	98	49	-	-	-	-
<b>TOTAL APPLICATION</b>	<b>2,285</b>	<b>3,174</b>	<b>4,295</b>	<b>5,452</b>	<b>5,188</b>	<b>5,203</b>	<b>5,613</b>	<b>5,027</b>	<b>5,668</b>	<b>6,636</b>

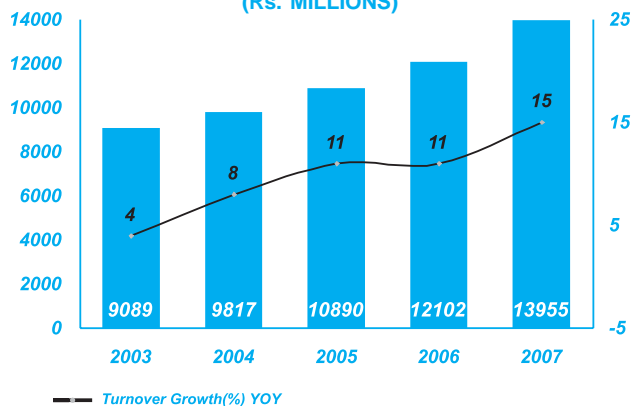
## TEN YEAR TRACK RECORD

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

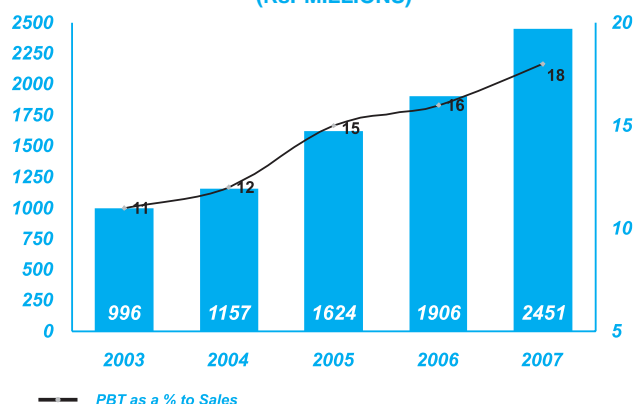
# FINANCIAL HIGHLIGHTS

## OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

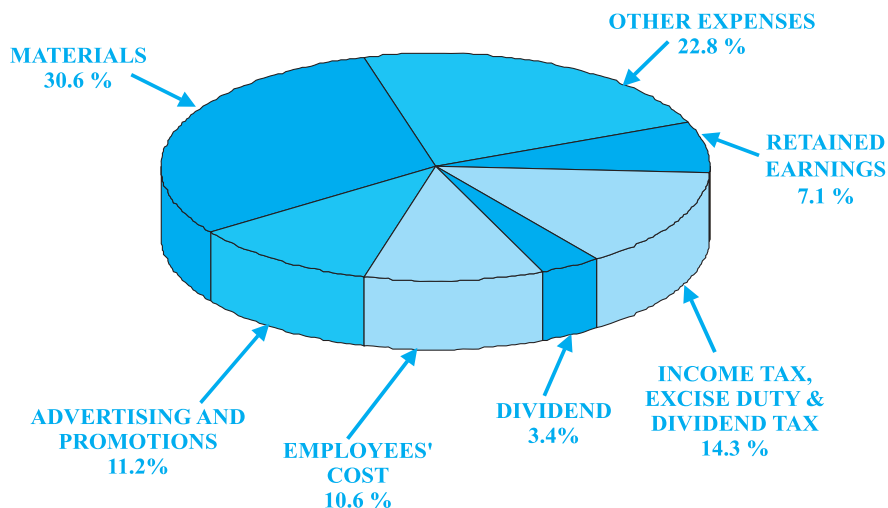
### TURNOVER (Rs. MILLIONS)



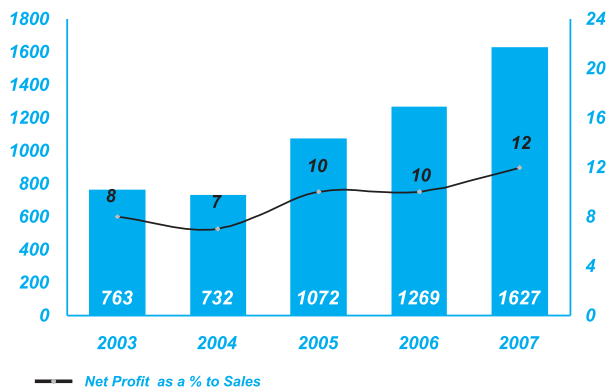
### PROFIT BEFORE TAX (Rs. MILLIONS)



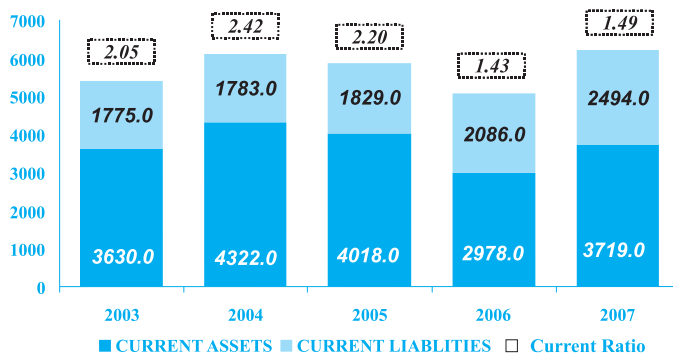
### UTILISATION OF INCOME 2007



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

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

### Appropriations

Dividends	<b>504.67</b>	420.56
Corporate Dividend Tax	<b>85.77</b>	58.98
Transferred to General Reserves	<b>1,036.31</b>	789.79
	<b>1,626.75</b>	1,269.33
Earnings Per Share (Basic & Diluted)	<b>38.68</b>	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 Sonapat 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 Sonapat 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.Scaff	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
<b>A. Power and Fuel Consumption</b>		
<b>1. Electricity</b>		
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
<b>2. Coal Used in Boilers</b>		
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 MT	Power Units	Coal MT	Power 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)	
	<u>2007</u>	<u>2006</u>
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)	
	<u>2007</u>	<u>2006</u>
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 31<sup>st</sup> 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 <i>Chairman</i>	Zubair Ahmed <i>Managing Director</i>	R. Subramanian Subodh Bhargava <i>Directors</i>
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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:

- Annual submission of structured self assessment questionnaires (SAQs) covers all functions in the Company. Apart from ensuring compliance with laid down internal control systems, it helps the business to align the control mechanism with global best practices.
- Any material variances from budgets require approval of the Management Team.
- All major policy changes are approved by the Managing Director.
- Business Continuity Plans are periodically reviewed and tested to enhance their relevance.

## FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS

### (A) Results of Operations

#### (1) Sales

Sales for 2007 increased by 15.3%, driven both by volume as well as by price/yield increases.

#### (2) Other Income

Other Income increased by Rs.166.8 Million primarily due to increase in dividend income on Non-Trade Current Investments and also due to revision in the commercial arrangement for services rendered to two other companies, basis an independent study. Effective April 2006, the amount is reflected as Business Auxiliary Service Commissions as against Recoveries made from Employment Costs and Expenses in the previous year.

#### (3) Expenditure

During the year, input cost of Raw Material, Packing Material and Finished Goods, as a percentage to sales has increased to 32.1% as against 31.7% last year mainly due to higher input costs (particularly liquid milk and skimmed milk powder).

The Company continued to invest behind the brands and Advertisement and Promotion expenses remained consistent as a percentage of Sales to 11.8%.

#### (4) Profit before Taxation

Profit before Taxation amounted to Rs.2,451.2 Million and has increased by 28.6% over previous year.

#### (5) Provision for Taxation

The Company has made provisions for taxation for the year amounting to Rs.824.5 Million (Including deferred tax and provision for fringe benefit tax) on Profits before Tax. The effective tax rate for the year is 33.6% as against 33.4% last year. Provision for Fringe Benefit Tax, introduced in 2005, amounted to Rs.47.5 Million.

### (B) Financial Condition

#### Overview

The Financial statements have been prepared in compliance with the requirements of the Companies Act and the Generally Accepted Accounting Principles (GAAP) and the Accounting Standards notified by the Companies (Accounting Standard) Rules, 2006.

#### (1) Reserves and Surplus

The Reserves and Surplus increased during the year by Rs.1,036.3 Million. The transfer was made after providing for a dividend payment of Rs.590.4 Million including Dividend Tax amounting to Rs.85.8 Million for the year 2007.

#### (2) Fixed Assets

Additions of Rs.189.6 Million during the year include primarily Plant and Machinery (Rs.105.1 Million), Motor Vehicles (Rs.27.2 Million), Office Equipment (Rs.20.7 Million) and Information Technology Equipment (Rs.24.7 Million).

#### (3) Inventories

Inventories amounted to Rs.1,948.2 Million as at December 31, 2007 as against Rs.1,455.7 Million as at previous year end. The increase is primarily on account of an increase in Raw Materials from Rs.226.0 Million in 2006 to Rs.452.5 Million in 2007 and Packing Materials, (primarily in the nature of Promotional Materials) from Rs.141.2 Million in 2006 to Rs.153.5 Million in 2007. The inventories do not include any obsolete and unserviceable items lying at the locations.

#### (4) Sundry Debtors

Sundry debtors amounted to Rs.273.6 Million as at end December, 2007 as against Rs.280.9 Million as at end December, 2006. The debtors are net of provision for Bad and doubtful debts amounting to Rs.9.5 Million.

The debtors as at end December, 2007 continue to represent 8 days sales value as was the position in 2006.

## (5) Cash and Bank Balances

Cash and Bank balances with scheduled banks amounting to Rs.936.7 Million and short term deposits of Rs.615.0 Millions with various scheduled banks.

## (6) Investments

During the year the company has started investments in Debt Funds. The total amount invested as at the end of the year was Rs.2,978.4 Million.

## (7) Loans and Advances

Loans and advances amounting to Rs.358.4 Million includes advances paid for raw and packing materials, stores and services, pre-paid insurance, loans and advances paid to employees and advances paid to Excise Authorities.

## (8) Current Liabilities

Sundry Creditors amounting to Rs.1,452.8 Million include creditors for advertising and promotion spends, raw materials, packing materials and creditors for capital purchases.

Other liabilities amounting to Rs.326.0 Million include statutory dues for miscellaneous taxes and duties payable to various Government Agencies.

## (9) Provisions

Provisions include an amount of Rs.236.4 Million on account of Employee Benefits in pursuant to the adoption of the Revised Accounting Standard 15 w.e.f. Accounting year January 1, 2006. Provision for Gratuity / Leave / Post Employment Medical Benefit and Interest on Provident Fund Shortfall has been made in accordance with the actuarial valuation as at December 31, 2007.

## (10) Net Working Capital

The Company had a Working Capital (excluding Cash and Bank Balances) of Rs.288 Million as at December 31, 2007 as against Rs.412.9 Millions as at December 31, 2006. The decrease in working capital is largely due to recovery of old tax refunds during the year, increase in Current Liabilities and Provisions offset by the increase in Inventory.

## (11) Return on Capital Employed

Consequent to the increase in Profits of the Company, the return on capital employed (average) during the year increased to 41.2% from 37.4% last year.

The percentage has been computed by dividing PBT by the average capital employed (shareholders' funds plus loan funds) during the year.

## (12) Debt Equity Ratio

Your Company being a cash surplus organization has no outstanding loan and consequently has zero debt equity ratio.

## MATERIAL DEVELOPMENTS ON HUMAN RESOURCE / INDUSTRIAL RELATIONS FRONT

At the Annual General Meeting held on April 27, 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 April 27, 2007, chose not to be re-elected as a Director.

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

Please refer to the Directors Report on Human Resource Development.

The Company had 2,632 permanent employees on its payroll as on December 31, 2007.

## CAUTIONARY STATEMENT

The Management Discussion and Analysis Report may contain certain statements that might be considered forward looking. These statements are subject to certain risks and uncertainties. Actual results may differ materially from those expressed in the statement as important factors could influence the Company's operations such as Government policies, local, political and economic development, risks inherent to the Company's growth and such other factors.

For and on behalf of the Board

Place : Gurgaon  
Dated : January 29, 2008

S.J. Scarff  
*Chairman*

Zubair Ahmed  
*Managing Director*

R. Subramanian  
Subodh Bhargava  
*Directors*

**OF  
GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED**

**COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

GlaxoSmithKline Consumer Healthcare Ltd. is committed to following best global corporate governance practices in all its pursuits. The guiding principle for the Company always has been to achieve shareholder's satisfaction and maximize shareholders' value by following best corporate governance norms in true letter and spirit. The Company aims at achieving this objective by ensuring transparency in its functioning by truthful and complete communication to all its stakeholders and by inculcating a culture of ethical business conduct in all its operations.

**BOARD OF DIRECTORS**

**Composition**

The composition of the Board of Directors of the Company is in complete conformity with the requirements of Clause 49 of the Listing Agreement. The details of the Board of Directors, their attendance records and other relevant details during the year ended 31st December, 2007 are as under:

Name of the Director	Category of Directorship	No. of Board meetings attended	Attendance at last AGM held on 27 <sup>th</sup> April, 2007	No. of Directorships in other Public Companies	No. of Committee Position held in Other Public Companies	
					Chairman	Member
Mr. S. J. Scarff	NEC	4	Yes	1	Nil	1
Mr. Zubair Ahmed	MD	3	Yes	Nil	Nil	Nil
Mr. Ashok Dayal	NED - I	3	Yes	3	1	Nil
Mr. G.K. Chakraborty (till November 30, 2007)	WTD	2	No	Nil	Nil	Nil
Mr. Kunal Kashyap	NED - I	4	Yes	3	2	1
Mr. P. Dwarakanath	NED	4	Yes	Nil	Nil	Nil
Mr. P. Murari	NED - I	2	Yes	10	1	5
Mr. Praveen K Gupta	WTD	4	Yes	Nil	Nil	Nil
Mr. R. Subramanian (w.e.f. December 1, 2007)	WTD	Nil	N.A.	Nil	Nil	Nil
Mr. Subodh Bhargava	NED - I	4	Yes	11	3	6

NEC - Non Executive Chairman

MD - Managing Director

WTD – Wholetime Director

NED - Non Executive Director

NED-I - Non Executive Director–Independent

**Details of Board Meetings during the year**

The Board of Directors of the Company met four times during the year on January 31, 2007, April 27, 2007, July 26, 2007 and October 23, 2007.

**Information to the Board**

The Company holds atleast four board meetings in a year with at least one meeting in each quarter to review the quarterly financial results. The maximum gap between two board meetings is not more than four months. Agenda papers are circulated to the Board members and other permanent invitees to the Board meeting well in advance. In addition to the specific matters which are taken at the Board meetings, the following information is also placed before the Board for its review:

- Annual Operating Plans and Capital budgets and any updates in connection therewith.
- Quarterly results of the Company
- Minutes of the meetings of the Audit Committee and all other committees of the Board.
- Terms of reference of the Committees of the Board.
- Statutory Compliance Certificate
- Information on appointment and resignation of senior officers of the Company.
- Significant labour problems, if any, at any of the plant locations of the Company.

- Significant development in Human Resources/ Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
- Information on strikes, lockouts, retrenchment, fatal accidents, dangerous occurrences, any material effluent or pollution problems or any other materially important incident, if any.
- Show cause, demand, prosecution notices and penalty notices of material importance.
- Any material default in financial obligations to and by the Company, or substantial non recovery for sale of goods by the Company.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.
- Details of any joint venture or collaboration agreement.
- Sale of a material nature, of investments and/ or assets, which are not in the normal course of business.
- Any issue involving possible public or product liability claims of a substantial nature, including any judgement or order which may have passed strictures on the conduct of the Company.

### COMMITTEES OF THE BOARD

The Board of Directors decides the composition and terms of reference of the Board Committees. The composition, terms of reference and the dates of these Committee meetings is given below :

#### a) Audit Committee

The Audit Committee comprises of three members, all of whom are Independent Directors and possess financial and / or accounting knowledge. Till 26 April 2007, the committee comprised of Mr. Kunal Kashyap as the Chairman with Mr. P Murari and Mr. Subodh Bhargava as the other two members of the Committee. The Committee was reconstituted with effect from 27 April 2007, with Mr. Subodh Bhargava as Chairman and Mr. Kunal Kashyap and Mr. Ashok Dayal, as the other two members. Mr. Surinder Kumar, Company Secretary acts as Secretary to the Committee. The Chairman, Managing Director, Finance Director and Operations Director are permanent invitees to the Audit Committee Meetings. The Head of Internal Audit, Vice President - Human Resources, the concerned partners of Price Waterhouse, the Statutory Auditors and the Cost Auditors are also invited to the Audit Committee meetings.

The Company has a multi disciplinary Internal Audit Team which submits its report directly to the Audit Committee on a quarterly basis. The Head of the Internal Audit Department reports to the Audit Committee. The Chairman of the Audit Committee attended the last Annual General Meeting held on April 27, 2007 to answer shareholders queries.

#### Terms of reference:

The functioning and terms of reference of the Audit Committee including the role, powers and duties, quorum for meetings and frequency of meetings, have been devised keeping in view the requirements of Section 292A of the Companies Act, 1956 and the Listing Agreement with the Stock Exchanges. The terms of reference of the Audit Committee include:-

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
  - a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
  - b) Changes, if any, in accounting policies and practices and reasons for the same.
  - c) Major accounting entries involving estimates based on the exercise of judgment by management.
  - d) Significant adjustments made in the financial statements arising out of audit findings.
  - e) Compliance with listing and other legal requirements relating to financial statements.
  - f) Disclosure of any related party transactions.
  - g) Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval.

6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
7. Reviewing the adequacy of the internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors on any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
14. The Audit Committee to mandatorily review the following information:
  - a) Management discussion and analysis of financial condition and results of operations;
  - b) Statement of significant related party transactions (as defined by the audit committee), submitted by management;
  - c) Management letters / letters of internal control weaknesses issued by the statutory auditors
  - d) Internal audit reports relating to internal control weaknesses; and
  - e) Reviewing the appointments, removal and terms of remuneration of the Chief internal auditor.

Five meetings of the Audit Committee were held during the year. Attendance at meetings during the year:

Director	No. of meetings attended
Mr. Kunal Kashyap	4
Mr. Subodh Bhargava	5
Mr. P Murari (till 26 April 2007)	1
Mr. Ashok Dayal (w.e.f. 27 April 2007)	2

#### b) Remuneration Committee

The Company has a Remuneration Committee which comprises of four members. Till 26 April 2007, the Committee comprised of Mr. P. Murari, Independent Director, as the Chairman of the Committee and Mr. Ashok Dayal, also an Independent Director, Mr. Simon J Scarff and Mr. P. Dwarakanath are the other members of the Committee. The Committee was reconstituted on 27 April 2007 with Mr. Ashok Dayal as the Chairman and Mr. Simon Scarff and Mr. P. Dwarakanath as the other two members. Mr. Surinder Kumar, Company Secretary acts as Secretary to the Committee.

#### Terms of reference:

The functioning and terms of reference of the Committee have been finalised in line with the recommendations as prescribed under the Listing Agreement with the Stock Exchanges. The Committee determines the Company's policy on all elements of remuneration packages of all the Directors including salary, benefits, bonus, stock options, pension rights and compensation payment etc., details of fixed component and performance linked incentives alongwith performance criteria, service contracts, notice period, severance fees, etc., stock option details, if any, and also to determine the remuneration of the Non Executive Directors. It also reviews all other aspects of benefits and compensation to employees throughout the Company including policies on the same.

Three meetings of the Remuneration Committee were held during the year. Attendance at meetings during the year:

Director	No. of meetings attended
Mr. P. Murari (till 26 April 2007)	-
Mr. Ashok Dayal	3
Mr. Simon J Scarff (w.e.f. 27 April 2007)	3
Mr. P. Dwarakanath	3

**Remuneration Policy**

Payment of Commission and Sitting Fees to the Non Executive Directors and payment of Salary, Commission and Perquisites to the Wholetime Directors are made in accordance with industry norms and subject to the overall ceilings imposed by the Companies Act, 1956 and other applicable statutes, if any. The basis is also determined by carrying out an annual analysis of the industry trends by an independent and reputed HR Management Consultant firm which is scrutinized and recommended by the Remuneration Committee. Performance linked incentives and bonus paid to the Wholetime Directors are determined on the basis of achievement of overall financial and other objectives set for the Company at the beginning of the year and the achievement of individual objectives.

The retirement age of the Wholetime directors of the Company is 60 years while for Non Executive Directors it is 75 years. The Notice period for the Wholetime Directors is three months' notice on either side. The Service contracts are in the range of 3 to 5 years.

**Remuneration of Directors**

Details of remuneration of the Directors for the financial year ended December 31, 2007:

(Rs.)

S. No.	Name	Designation/ Position	Salary	Benefits	Performance Incentive	Grand Total
1.	Mr. Zubair Ahmed	Managing Director	1,31,39,258	61,10,842	65,67,488	2,58,17,588
2.	Mr. G. K. Chakraborty (till November 30, 2007)	Director - Finance & Information Technology	58,21,800	28,67,715	15,90,237	1,02,79,752
3.	Mr. Praveen K Gupta	Director - Operations	59,84,055	24,75,724	16,72,560	1,01,32,339
4.	Mr. R Subramanian (w.e.f. December 1, 2007)	Director - Finance & Information Technology	5,31,690	1,98,920	1,16,997	8,47,607

(Rs.)

S.No.	Name	Particulars	Sitting Fees	Commission	Total
1.	Mr. Ashok Dayal	Non Executive Director - Independent	1,40,000	3,00,000	4,40,000
2.	Mr. Kunal Kashyap	Non Executive Director - Independent	80,000	3,00,000	3,80,000
3.	Mr. P. Dwarakanath	Non Executive Director	1,50,000	3,00,000	4,50,000
4.	Mr. P. Murari	Non Executive Director - Independent	40,000	3,00,000	3,40,000
5.	Mr. Simon J. Scarff	Non Executive Director	1,10,000	3,00,000	4,10,000
6.	Mr. Subodh Bhargava	Non Executive Director - Independent	90,000	3,00,000	3,90,000

**Shareholding of Non Executive Directors**

None of the Non Executive Directors of the Company is holding any shares in the Company.

**c) Investor Grievance Committee**

The Investor Grievance Committee of the Company has three members. Till April 26, 2007, the Committee comprised of Mr. Ashok Dayal, an Independent Director, as the Chairman of the Committee and Mr. P.Dwarakanath and Mr. Simon J Scarff as the other two members of the Committee. The Committee was reconstituted on 27 April 2007 with Mr. Simon J Scarff as the Chairman and Mr. P. Murari and Mr. P. Dwarakanath as the other two members. Mr. Surinder Kumar, Company Secretary acts as Secretary to the Committee and also as the Compliance Officer.

**Terms of reference:**

The functioning and terms of reference of the Committee are in conformity with the requirements of the Listing Agreement with the Stock Exchanges with particular reference to transfer, dematerialisation, complaints of shareholders etc.



Four meetings of the Investor Grievance Committee were held during the year. Attendance at meetings during the year:

Director	No. of meetings attended
Mr. Ashok Dayal (till 26 April, 2007)	2
Mr. Simon J Scarff	4
Mr. P. Dwarakanath	4
Mr. P. Murari (w.e.f. April 27, 2007)	1

The total number of complaints received and replied to the satisfaction of the shareholders during the year under review were 450. The Company ensures that the investor's correspondence is attended to expeditiously and endeavours is made to send a satisfactory reply within three days of receipt, except in cases that are constrained by disputes or legal impediments. There are no pending share transfer complaints as on 31st December, 2007. The shares after transfer are despatched within two days from their approval at the Share Transfer Committee.

With effect from September 1, 2007, the Share Transfer and Registrar work, so far being handled in-house by the Company, has been outsourced to Karvy Computershare Pvt. Ltd.

## GENERAL BODY MEETINGS

### Particulars of last three AGMs

Year	Date	Time	Venue	Special Resolution passed
2005	April 29, 2005	10.00 a.m.	Punjab Public School Auditorium, The Punjab Public School (Senior Wing), Nabha 147 201 (Punjab)	Payment of Commission and Sitting Fees to Non Executive Directors except those employed with GSK group of Companies
2006	April 29, 2006	10.00 a.m.		Payment of Commission and Sitting Fees to Non Executive Directors except those employed with GSK group of Companies
2007	April 27, 2007	09.30 a.m.		Amendment of Article 96 of the Articles of Association of the Company

### Postal Ballot Resolution

No Postal ballot resolution was passed during the year 2007. No special resolution requiring a postal ballot is being proposed for the ensuing Annual General Meeting.

### DISCLOSURE

- Materially significant related party transactions that may have potential conflict with the interests of Company at large - During the year 2007, the Company has related party transactions as envisaged under the Corporate Governance Code which have been mentioned in Note 25 under Schedule 16 to the Accounts.
- There has not been any non compliances, penalties or strictures imposed on the Company by any Stock Exchange or SEBI or any statutory authority on any matter related to capital markets, during the last three years.

### Whistle Blower Policy

The Company has formulated a Whistle Blower policy and procedure with an aim to deter and detect misconduct and to ensure that genuine concerns of misconduct / unlawful conduct, which an individual believes may be taking place, are raised at an early stage in a responsible and confidential manner. For the year 2007, the members of the Committee were Mr. Zubair Ahmed, Managing Director, Mr. Gautam K Chakraborty, Director – Finance & IT (till 30 November 2007), Mr. Praveen K Gupta, Director – Operations, Mr. Ramakrishnan Subramanian, Director - Finance & IT (w.e.f. 1 December 2007), Mr. Surinder Kumar, VP – Legal, Corporate Affairs & Company Secretary and Mr. Arun Sehgal, VP - HR & Administration. Apart from these members, the Committee has a Coordinator. The Audit Committee is kept informed of all the proceedings of the Whistle Blower Committee at regular intervals.

### Code of Conduct

The Board of Directors has adopted a Code of Conduct for Directors and Senior Management of the Company. An annual affirmation of compliance with the Code of Conduct is taken from all the Directors and Senior Management members of the Company to whom the Code applies. The Code of Conduct has also been posted at the website of the Company [www.gsk-ch.in](http://www.gsk-ch.in). CEO's affirmation that the Code of Conduct has been complied with by the Board of Directors and Senior Management is given at the end of this report.

### Policy for Insider Trading

The Company has a Policy for the Prevention of Insider trading in the securities of the Company. The policy applies to all persons connected or deemed to be connected (Directors, officers and employees of the Company etc.) with the Company who are required to comply with the same.

## Compliance

### Mandatory Requirements

The Company has followed all the mandatory requirements prescribed under Clause 49 of the Listing Agreement.

### Non Mandatory Requirements

Following non mandatory requirements of Clause 49 of the Listing Agreement have been complied with by the Company:

1. The Company has a Remuneration Committee whose composition is in conformity with the requirements of Clause 49. The details regarding composition and terms of reference of the Committee are given in this report.
2. The Company has adopted a Whistle Blower Policy, details of which regarding composition and terms of reference are given in this report. It is affirmed that no member has been denied access to the Audit Committee and the Whistle Blower Committee.

### CEO & CFO Certification

The Certificate issued by the Managing Director and Director – Finance certifying the accuracy of the financial statements and adequacy of internal controls for financial reporting, as required under Clause 49 of the Listing Agreement, forms part of this Annual Report.

Management Discussion and Analysis Report setting out Opportunities and threats and also Risks and Concerns forms part of the Directors Report and is reported in this Annual Report.

## MEANS OF COMMUNICATIONS

### Quarterly Results

Wide publicity is accorded to the Quarterly Results by publishing them in a widely circulated English daily (Financial Express) and a Punjabi daily (Punjabi Tribune) as per the requirements of the Listing Agreement with the Stock Exchanges. The results are also faxed to the Stock Exchanges where the Company is listed. The Company also has its own official press releases in various newspapers through its Public Relations agency.

The Quarterly results of the Company are also displayed on the website of the Company at [www.gsk-ch.in](http://www.gsk-ch.in).

### Half yearly Report to each household of shareholders

Half-yearly reports are provided to shareholders on a request being made to the Company in this regard.

### Presentations made to institutional investors or to analysts

Regular meetings & teleconferences were held with the Financial Institutions, Foreign Institutional Investors and Analysts. About thirteen meetings and twelve teleconferences were held during the year with different Financial Analysts. They are also provided with a copy of the quarterly results after the same have been faxed to the Stock Exchanges.

## GENERAL SHAREHOLDER INFORMATION

### Annual General Meeting:

Date: The Forty Ninth Annual General Meeting is scheduled to be held on April 25, 2008

Time: 9.30 a.m.

Venue: Punjab Public School Auditorium, The Punjab Public School (Senior Wing), Nabha, 147 201 (Punjab)

**Financial Year:** January 1, 2007 to December 31, 2007

### Financial Calendar:

S.No.	Particulars	Date of Board meeting
1.	Quarter ending March 31, 2008	End April 2008
2.	Quarter ending June 30, 2008	End July 2008
3.	Quarter ending September 30, 2008	End October 2008
4.	Quarter ending December 31, 2008	End January 2009

### Book closure:

The books will be closed for the purposes of the Annual General Meeting from April 17, 2008 to April 24, 2008 (both days inclusive).

**Dividend payment:**

No final dividend has been recommended by the Board of Directors for the year ended 31st December, 2007. An interim dividend of Rs. 12/- per equity share of Rs. 10/- each was paid to the shareholders for the year ended December 31, 2007.

Dividend	Date of Declaration	Date of Payment	Rate per equity share
Interim	October 23, 2007	November 16, 2007	Rs. 12/-

**Listing on Stock Exchanges and Stock Code:**

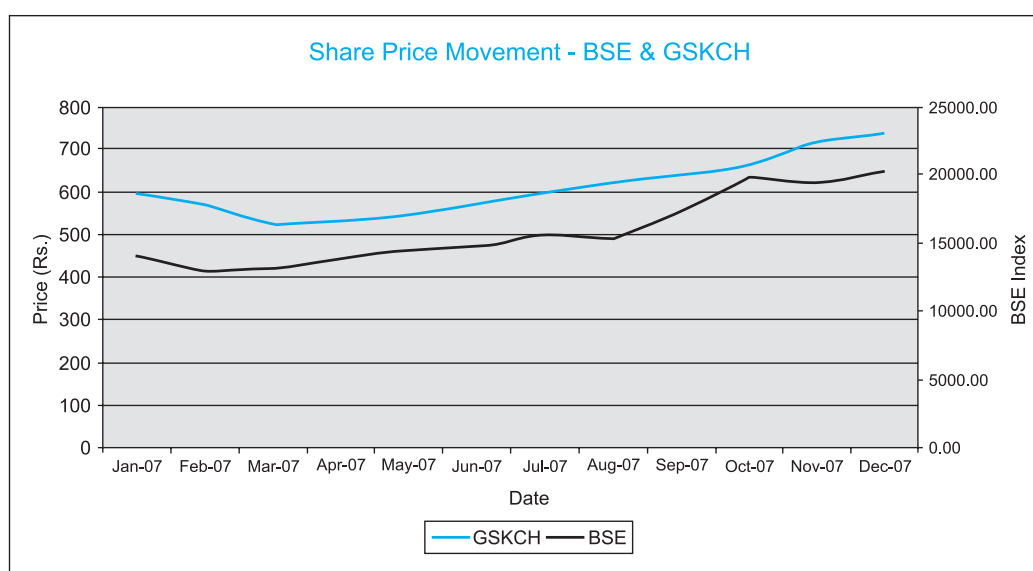
The shares of the Company are listed at two Stock Exchanges in India, the addresses of which are given below:

Stock Exchange	Stock Code
The Stock Exchange, Stock Exchange Towers, Dalal Street, Fort, Mumbai - 400 023	Physical 676 Demat 50676
The National Stock Exchange Ltd., Exchange Plaza, Bandra - Kurla Complex, Bandra (East), Mumbai - 400 051	GSKCONS

**The Listing Fee for the year 2007-2008 has been paid to the Stock Exchanges where the shares of the Company are listed.**

**Stock Market Data: High and Low during each month in last financial year from January, 2007 – December, 2007 on the Stock Exchange, Mumbai**

MONTH	HIGH	LOW	MONTH	HIGH	LOW
January, 2007	610.00	542.15	July, 2007	616.90	553.05
February, 2007	602.00	533.05	August, 2007	627.40	570.00
March, 2007	573.00	510.00	September, 2007	665.00	598.00
April, 2007	618.00	500.00	October, 2007	694.00	585.15
May, 2007	575.00	529.00	November, 2007	723.45	600.00
June, 2007	587.10	527.00	December, 2007	742.00	653.00

**Performance in comparison to BSE Sensex:****Registrar and Transfer Agents:**

The Company has outsourced the Share Transfer and Registrar work, so far being handled in house, to Karvy Computershare Pvt. Ltd. w.e.f. September 1, 2007. The office of Karvy Computershare Pvt. Ltd. is located at:

Plot No. 17-24, Vittal Rao Nagar, Near Image Hospital, Madhapur, Hyderabad - 500 081

*Distribution of shareholding as on 31st December, 2007:*

No. of Shares	No. of Shareholders	No. of Shares	Percent of total shares
01 to 250	15,825	13,56,252	3.22
251 to 500	4,305	14,58,675	3.47
501 to 1000	1,318	9,23,471	2.20
1001 to 2000	399	5,75,624	1.37
2001 to 3000	126	3,13,564	0.75
3001 to 4000	65	2,32,489	0.55
4001 to 5000	42	1,90,994	0.45
5001 to 10000	108	7,87,359	1.87
10001 and above	127	3,62,17,110	86.12
In transit	-	-	-
<b>Total</b>	<b>22,315</b>	<b>4,20,55,538</b>	<b>100.00</b>

S.No.	Particulars	No. of Shares Held	Percent of shares held (rounded off)
1.	Promoters - M/s Horlicks Limited	1,81,52,243	43.16
2.	Mutual Funds & UTI	58,83,034	13.99
3.	Banks, Financial Institutions & Insurance Companies	58,73,941	13.97
4.	Foreign Institutional Investors	16,52,629	3.93
5.	Private Corporate Bodies	32,52,474	7.73
6.	Indian Public	70,93,469	16.87
7.	NRIs / OCBs	1,47,748	0.35
8.	Any others	-	-
	<b>Total</b>	<b>4,20,55,538</b>	<b>100.00</b>

*Dematerialisation of shares and liquidity:*

We have dematerialised 50.41% of our equity share capital, whilst 43.16% is held by Horlicks Ltd. in the physical form. Therefore, apart from the Horlicks Ltd. holding, only 6.43% is held in physical form.

*Outstanding GDRs/ADRs/warrants or any convertible instruments, conversion date and likely impact on equity:*

We have no GDRs/ADRs or any commercial instrument.

*Plant locations:*

**Nabha Plant:** GlaxoSmithKline Consumer Healthcare Limited, Patiala Road, Nabha – 147 201 (Punjab).

**Rajahmundry Plant:** GlaxoSmithKline Consumer Healthcare Limited, Industrial Area, Dowleswaram - 533 124, (Andhra Pradesh).

**Sonepat Plant:** GlaxoSmithKline Consumer Healthcare Limited, 14 km Stone, Sonepat – Meerut Road, Village Khewra, P.O. Bahalgarh – 130 121, District Sonepat (Haryana).

*Address for correspondence:*

**Registered Office:** GlaxoSmithKline Consumer Healthcare Limited, Patiala Road, Nabha – 147 201 (Punjab).

**Head Office:** DLF Plaza Tower, DLF City, Phase I, Gurgaon – 122 002 (Haryana)

**Registrars and Share Transfer Agents:** Karvy Computershare Pvt. Ltd.

Plot No. 17-24 Vittal Rao Nagar, Near Image Hospital, Madhapur, Hyderabad - 500 081

Phone: 040-23420818, Fax: 040-23420814

**Name, Address and contact numbers of the Compliance Officer:**

Surinder Kumar, Company Secretary, DLF Plaza Tower, DLF City, Phase I, Gurgaon - 122 002

Telephone: (0124) 409 7200 or (0124) 254 0724, Facsimile: (0124) 254 0734

**Email for Investors:** igkcpl@karvy.com, investor.2.co@gsk.com

**Company's website address:** www.gsk-ch.in

For and on behalf of the Board

Zubair Ahmed

Managing Director

Place : Gurgaon

Dated : January 29, 2008

### DECLARATION AS REQUIRED UNDER CLAUSE 49 OF THE LISTING AGREEMENT

All Directors and Senior Management members of the Company have affirmed compliance with the Code of Conduct for Directors and Senior Management of GlaxoSmithKline Consumer Healthcare Limited for the financial year ended December 31, 2007.

Place : Gurgaon

Zubair Ahmed

Dated : January 29, 2008

*Managing Director*

### AUDITORS' CERTIFICATE REGARDING COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

To the Members of GlaxoSmithKline Consumer Healthcare Limited

We have examined the compliance of conditions of Corporate Governance by GlaxoSmithKline Consumer Healthcare Limited ('the Company') for the year ended December 31, 2007 as stipulated in Clause 49 of the Listing Agreements of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

U. Rajeev

Partner

Membership No: 087191

*For and on behalf of*

Place : Gurgaon

Price Waterhouse

Dated : January 29, 2008

*Chartered Accountants*

### CERTIFICATION BY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

We, Zubair Ahmed, Managing Director and Ramakrishnan Subramanian, Director – Finance & IT, to the best of our knowledge and belief certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account of the Company for the year ended December 31, 2007 as well as the cash flow statement as on that date and that to the best of our knowledge and belief:
  - a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - b) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.
3. We accept responsibility for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps have been taken to rectify these deficiencies.
4. We have indicated to the Auditors and the Audit committee:
  - a) significant changes in internal control over financial reporting during the year;
  - b) significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
  - c) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

Place : Gurgaon

Ramakrishnan Subramanian

Zubair Ahmed

Dated : January 29, 2008

*Director – Finance & IT*

*Managing Director*

## TO THE MEMBERS OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

1. We have audited the attached Balance Sheet of GlaxoSmithKline Consumer Healthcare Limited, as at December 31, 2007, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this

report are in agreement with the books of account;

- (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
- (e) On the basis of written representations received from the directors, as on December 31, 2007 and taken on record by the Board of Directors, none of the directors is disqualified as on December 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
- (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2007;
  - (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
  - (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

U. RAJEEV  
*Partner*

Membership Number: F 087191

*For and on behalf of*

Place : Gurgaon

Price Waterhouse

Dated : January 29, 2008

Chartered Accountants

## ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of GlaxoSmithKline Consumer Healthcare Limited on the financial statements for the year ended December 31, 2007]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

- (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company during the year.
2. (a) The inventory (excluding certain stocks with third parties) has been physically verified by the management during the year/year end. In respect of inventory lying with third parties and not physically verified, confirmations have been obtained. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act, accordingly clauses 3 (a) to (d) of the Order are not applicable.
- (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act, accordingly clauses 3 (e) to (g) of the Order are not applicable.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section.
6. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
9. (a) According to the information and explanations given to us and the records of the Company examined by us, in our opinion, the Company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable with the appropriate authorities.
- (b) According to the information and explanations given to us and the records of the Company examined by us, the particulars of dues of income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty and cess as at December 31, 2007 which have not been deposited on account of disputes, are as follows -

Name of the Statute	Nature of dues	Amount under dispute not yet deposited (Rs. Million)	Period to which the amount relates	Forum where the dispute is pending
<b>Excise Duty</b>				
The Central Excise Act, 1944	Interest on duty on Freight & Insurance	7.1	2001	Customs, Excise, Service Tax Appellate Tribunal (CESTAT), New Delhi
The Central Excise Act, 1944	Valuation Cases and Other matters	52.37	1983-2006	Customs, Excise, Service Tax Appellate Tribunal (CESTAT), various States
The Central Excise Act, 1944	Post Manufacturing Expenses and other matters	0.15	1997-2005	Commissioner of Central Excise (Appeals)
The Central Excise Act, 1944	Valuation Cases and Other matters	13.47	1995-2006	Additional/Deputy Commissioner of Central Excise
The Central Excise Act, 1944	Refund of duty and Other matters	441.51	1997-2006	Commissioner of Central Excise
<b>Sub Total</b>		<b>514.6</b>		
<b>Sales Tax</b>				
Andhra Pradesh General Sales Tax Act, 1957	Turnover Tax on Milk Purchases	1.32	1997-1999	Andhra Pradesh High Court
Tamil Nadu General Sales Tax Act, 1959	Additions on account of concessional rates of Tax	0.15	1990-1999	Madras High Court
Orissa Entry Tax Act, 1999	Entry Tax	1.82	2007	Orissa High Court
The Haryana Local Area Development Tax Act, 2000	Local Area Development Tax	5.17	2007	Punjab & Haryana High Court
As per Statutes applicable in the following states- Chattisgarh, Uttar Pradesh, West Bengal, Bihar, Orissa and Andhra Pradesh	Disallowance of Credit Notes and Others	1.61	1983-2004	Sales Tax Appellate Tribunal/Revenue Board
As per Statutes applicable in the following states- West Bengal, Bihar, Orissa Jharkhand, Assam and Uttar Pradesh	Miscellaneous demands	27.81	2001-2005	First Appellate Authorities of various states
As per Statutes applicable in the following states- Punjab, Delhi, Uttar Pradesh and Rajasthan	Miscellaneous demands	0.81	2000-2005	Adjudication Level
<b>Sub Total</b>		<b>38.69</b>		
<b>Grand Total</b>		<b>553.29</b>		

Note: The above details exclude Departmental Appeals to higher authorities as there is no stay on the order of lower authority favouring the Company and the amount is not ascertainable.



10. The Company has no accumulated losses as at December 31, 2007 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the information and explanations given to us and the records of the Company examined by us, the Company has not availed any loan from financial Institutions or banks or debenture holders as at the balance sheet date. Accordingly, there have been no defaults in repayment of dues.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
16. The Company has not obtained any term loans.
17. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment.
18. The Company has not made any preferential allotment of shares to parties and Companies covered in the register maintained under Section 301 of the Act during the year.
19. The Company has not issued any debentures during the year and accordingly, no securities or charges have been created.
20. The Company has not raised any money by public issues during the year.
21. During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

U. Rajeev

*Partner*

Membership Number: F 087191

*For and on behalf of*

Place : Gurgaon

Price Waterhouse

Dated: January 29, 2008 Chartered Accountants



## BALANCE SHEET

### OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED AS AT DECEMBER 31, 2007

	Schedule No.	As at December 31, 2007 (Rs.Million)	As at December 31, 2006 (Rs. Million)
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	1	420.56	420.56
Reserves and Surplus	2	6,042.94	5,006.63
		<u>6,463.50</u>	<u>5,427.19</u>
DEFERRED TAX LIABILITIES (net)		172.81	240.67
[Schedule 16 (Notes 1(i) (b), 17)]			
		<u>6,636.31</u>	<u>5,667.86</u>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross Block	3	5,236.76	5,216.87
Less: Depreciation		<u>2,976.52</u>	<u>2,703.23</u>
Net Block		2,260.24	2,513.64
Capital Work in Progress		<u>173.11</u>	<u>65.28</u>
		<u>2,433.35</u>	<u>2,578.92</u>
INVESTMENTS	4	2,978.35	2,196.80
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	5	1,948.24	1,455.73
Sundry Debtors	6	273.62	280.85
Cash and Bank Balances	7	936.66	479.16
Other Current Assets	8	202.40	159.41
Loans and Advances	9	<u>358.44</u>	<u>602.50</u>
		<u>3,719.36</u>	<u>2,977.65</u>
<b>Less: CURRENT LIABILITIES AND PROVISIONS</b>			
Current Liabilities	10	2,203.08	1,882.29
Provisions	11	<u>291.67</u>	<u>203.22</u>
		<u>2,494.75</u>	<u>2,085.51</u>
<b>NET CURRENT ASSETS</b>		<u>1,224.61</u>	<u>892.14</u>
		<u>6,636.31</u>	<u>5,667.86</u>
Notes to the Accounts	16		

This is the Balance Sheet referred to in our report of even date.

U.Rajeev  
Partner  
Membership No.: F 087191  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place : Gurgaon  
Dated : January 29, 2008

The schedules referred to above form an integral part of the Balance Sheet.

S. J. Scarff  
Chairman  
  
Zubair Ahmed  
Managing Director

Ramakrishnan Subramanian  
Subodh Bhargava  
Directors

Surinder Kumar  
Company Secretary

# PROFIT AND LOSS ACCOUNT



## OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED FOR THE YEAR ENDED DECEMBER 31, 2007

	Schedule No.	Year ended December 31, 2007 (Rs.Million)	Year ended December 31, 2006 (Rs. Million)
<b>INCOME</b>			
Sales [Schedule 16 (Notes 1(h) and 6)]		<b>13,955.05</b>	12,101.88
Less: Excise Duty		<b><u>1,176.77</u></b>	<u>1,023.17</u>
Other Income	12	<b><u>688.60</u></b>	<u>521.80</u>
		<b><u>13,466.88</u></b>	<u>11,600.51</u>
<b>EXPENDITURE</b>			
Consumption of Raw Materials		<b>3,476.56</b>	2,750.54
Packing Material Expenses		<b>1,230.19</b>	1,115.59
Employees' Cost	13	<b>1,549.38</b>	1,346.64
Expenses	14	<b>4,553.92</b>	4,079.20
Depreciation / Amortization	3		
- On Patents and Trade Marks		<b>46.06</b>	46.06
- On Other Fixed Assets		<b><u>388.88</u></b>	<u>381.03</u>
Adjustment due to (Increase)/Decrease in Stock of Finished Goods and Goods in Process	15	<b><u>(229.31)</u></b>	<u>(24.21)</u>
		<b><u>11,015.68</u></b>	<u>9,694.85</u>
<b>PROFIT BEFORE TAX</b>		<b>2,451.20</b>	1,905.66
Tax for the year			
- Current Tax		<b>845.00</b>	621.50
- Deferred Tax Charge / (Credit)		<b>(67.86)</b>	(35.33)
- Fringe Benefits Tax		<b>47.50</b>	50.40
- Adjustment relating to previous years		<b>(0.19)</b>	(0.25)
Schedule 16 [Notes 1(i) and 17]			
<b>PROFIT AFTER TAX</b>		<b><u>1,626.75</u></b>	<u>1,269.34</u>
<b>APPROPRIATIONS:</b>			
Dividend			
- Interim		<b>504.67</b>	420.56
Corporate Dividend Tax		<b>85.77</b>	58.98
Transferred to General Reserve		<b>1,036.31</b>	789.80
		<b><u>1,626.75</u></b>	<u>1,269.34</u>
<b>Earnings Per Share (Nominal value of Rs.10 each)</b>			
Basic/Diluted (Rs.) [Schedule 16 (Note 19)]		<b>38.68</b>	30.18
Notes to the Accounts 16			

This is the Profit and Loss Account referred to in our report of even date.

U.Rajeev  
Partner  
Membership No.: F 087191  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

S. J. Scarff  
Chairman  
  
Zubair Ahmed  
Managing Director

The schedules referred to above form an integral part of the Profit and Loss Account.

Ramakrishnan Subramanian  
Subodh Bhargava  
Directors

Place : Gurgaon  
Dated : January 29, 2008

Surinder Kumar  
Company Secretary



## CASH FLOW STATEMENT

### OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED FOR THE YEAR ENDED DECEMBER 31, 2007

	Year ended December 31, 2007 (Rs. Million)	Year ended December 31, 2006 (Rs. Million)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
PROFIT BEFORE TAX	2,451.20	1,905.65
Add :		
Depreciation / Amortization		
- On Patents and Trade Marks	46.06	46.06
- On Other Fixed Assets	388.88	381.03
Provision for Doubtful Debts	0.44	1.19
Advances written off	5.36	2.94
Stocks Written Off	7.43	7.18
Interest Expense	46.11	35.32
Loss on Sale of Fixed Assets	-	3.49
Loss on Fixed Assets retired from active use	7.08	-
Less :		
Interest Income	72.90	73.69
Dividend received	176.08	56.61
Release of accruals	42.79	83.70
Gain on Sale of Fixed Assets	1.91	-
Operating Profit Before Working Capital Changes	2,658.88	2,168.86
Add/(Less):		
(Increase)/Decrease in Current Assets		
Sundry Debtors	6.79	(40.89)
Loans and Advances	41.61	(87.08)
Other Current Assets	(42.29)	(2.92)
Inventories	(499.94)	(152.52)
Add/(Less): Increase/(Decrease) in Current Liabilities and Provisions		
Current Liabilities and Provisions	366.10	241.81
Cash Generated from Operations	2,531.15	2,127.26
Less:		
Income Tax paid (net) [excludes tax deducted at source]	650.55	741.51
- Current Tax	596.46	692.11
- Fringe Benefits Tax	54.09	49.40
<b>Net Cash flow from Operating Activities</b>	<b>1,880.60</b>	<b>1,385.75</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets /		
Additions to Capital Work in Progress	(261.78)	(193.26)
Sale proceed of Fixed Assets	9.91	8.80
Interest Received	66.84	77.10
Dividend Received	176.08	56.61
Purchase of Investments (net)	(781.55)	(2,196.80)
<b>Net Cash flow from Investing Activities</b>	<b>(790.50)</b>	<b>(2,247.55)</b>

# CASH FLOW STATEMENT



## OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED FOR THE YEAR ENDED DECEMBER 31, 2007

	Year ended December 31, 2007 (Rs. Million)	Year ended December 31, 2006 (Rs. Million)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Interest Paid	(42.82)	(32.06)
Dividends Paid	(504.01)	(425.96)
Dividend Tax Paid	(85.77)	(58.98)
<b>Net cash flow from Financing Activities</b>	<b>(632.60)</b>	(517.00)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(457.50)</b>	(1,378.80)
<b>Cash and Cash Equivalents at the beginning of the year</b>		
Cash and Bank Balances [including exchange fluctuation (gain)/Loss Rs. 0.23 Million (Previous Year Rs. 0.15 Million)]	479.16	1,857.96
<b>Cash and Cash Equivalents at the end of the year</b>		
Cash and Bank Balances [including exchange fluctuation (gain)/Loss Rs. 0.54 Million (Previous Year Rs. 0.23 Million)]	936.66	479.16
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(457.50)</b>	(1,378.80)

Notes:

1. The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard-3 on Cash Flow Statement issued by Institute of Chartered Accountants of India.
2. Cash and Cash equivalents include balances with Scheduled Banks on Dividend accounts Rs.12.29 Million (Previous Year Rs.11.63 Million) and Rs.0.11 Million (Previous Year Rs.0.11 Million) lodged as Security Deposits, which are not available for use by the Company.
3. Notes to the Accounts (Schedule 16) form an integral part of the Cash Flow Statement.
4. Previous Year's figures have been regrouped wherever necessary to conform to the current year's classification.

This is the Cash Flow Statement referred to in our report of even date.

U.Rajeev  
Partner  
Membership No.: F 087191  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

S. J. Scarff  
Chairman  
  
Zubair Ahmed  
Managing Director

Ramakrishnan Subramanian  
Subodh Bhargava  
Directors

Place : Gurgaon  
Dated : January 29, 2008

Surinder Kumar  
Company Secretary

## FORMING PART OF THE ACCOUNTS

	As at December 31, 2007 (Rs.Million)	As at December 31, 2006 (Rs. Million)
<b>1. SHARE CAPITAL</b>		
<b>AUTHORISED</b>		
60,000,000 Equity Shares of Rs. 10 each	<u>600.00</u>	<u>600.00</u>
<b>ISSUED AND SUBSCRIBED</b>		
42,055,538 (Previous Year 42,055,538) Equity Shares of Rs. 10 each fully paid-up	<u>420.56</u>	<u>420.56</u>
<b>Notes:</b>		
1. 217,386 Equity Shares of Rs. 10 each were allotted as fully paid-up pursuant to a contract for consideration other than cash.		
2. 27,760,539 Equity Shares of Rs.10 each were allotted as fully paid-up bonus shares by capitalisation of reserves Rs. 271.00 Million and share premium Rs. 6.60 Million in the year 1995.		
3. 17,017,733 Equity Shares of Rs.10 each were allotted as fully paid-up bonus shares by capitalisation of reserves Rs.170.18 Million in the year 1997.		
4. 3,325,083 Equity Shares of Rs. 10 each fully Paid up were bought back by capitalisation of reserves Rs.33.25 Million in the year 2005.		
<b>2. RESERVES AND SURPLUS</b>		
<b>GENERAL RESERVE</b>		
As per last Balance Sheet	4,973.38	4,297.31
Less : Transitional adjustment for Employee Benefits* as at January 1,2006	<u>-</u>	<u>(113.72)</u>
	<b>4,973.38</b>	4,183.59
Transferred from Profit and Loss Account	<u>1,036.31</u>	<u>789.79</u>
	<b>6,009.69</b>	4,973.38
<b>CAPITAL REDEMPTION RESERVE **</b>	<b>33.25</b>	33.25
	<u><b>6,042.94</b></u>	<u><b>5,006.63</b></u>

\*Schedule 16 [Notes 1(g), Note 16(d)]

\*\*Schedule 1[Note 4]

FORMING PART OF THE ACCOUNTS

3. FIXED ASSETS \*

	GROSS BLOCK			DEPRECIATION / AMORTISATION				(Rs.Million)		
	Cost as at	Additions	Deletions/	Cost as at	Upto	During	Deletions/	Upto	As at	As at
	January	during	Adjustments	December	January	the Year	Adjustments	December	December	December
	1, 2007	the Year	during the Year	31, 2007	1, 2007		during the Year	31, 2007	31, 2007	31, 2006
<b>Tangible Assets</b>										
Land (Freehold)	22.51	-	-	22.51	-	-	-	-	22.51	22.51
Buildings***	894.37	8.48	0.44	902.41	162.49	27.34	0.30	189.53	712.88	731.88
Plant & Machinery **	2,908.88	105.08	21.31	2,992.65	1,532.04	270.84	21.03	1,781.85	1,210.80	1,376.84
Information Technology										
Equipments	294.74	24.74	126.46	193.02	248.72	25.59	126.36	147.95	45.07	46.02
Furniture & Fittings	107.37	3.43	2.06	108.74	67.65	8.42	1.48	74.59	34.15	39.72
Office Equipment	177.35	20.66	(3.09)	201.10	88.16	27.12	(4.86)	120.14	80.96	89.19
Motor Vehicles	93.32	27.17	22.49	98.00	40.76	16.67	17.34	40.09	57.91	52.56
Leasehold Improvements	54.16	-	-	54.16	41.26	12.90	-	54.16	-	12.90
<b>Intangible Assets</b>										
Patent and Trade										
Marks ***	664.17	-	-	664.17	522.15	46.06	-	568.21	95.96	142.02
	<u>5,216.87</u>	<u>189.56</u>	<u>169.67</u>	<u>5,236.76</u>	<u>2,703.23</u>	<u>434.94</u>	<u>161.65</u>	<u>2,976.52</u>	<u>2,260.24</u>	<u>2,513.64</u>
Previous Year	5,069.10	223.43	75.66	5,216.87	2,339.50	427.09	63.36	2703.23		
Capital Work in Progress includes Capital Advances - Rs 15.83 Million (Previous Year Rs 9.55 Million)									173.11	65.28
									<u>2,433.35</u>	<u>2,578.92</u>

\* Schedule 16 [Notes 1(b), 20]

\*\* Includes Rs.6.45 Million (Previous Year Rs.6.45 Million) paid to State Electricity Board for electrical installations not represented by physical assets owned by the Company and depreciated over a period of 5 years.

Net Block of Plant & Machinery includes assets retired from active use aggregating Rs.7.59 million (Previous Year Rs. Nil) which have been valued at lower of cost and net realizable value.

\*\*\* Includes Dwelling Units valuing Rs.12.39 Million (Previous Year Rs 12.39 Million) and Patents and Trade Marks valuing Rs.664.17 Million (Previous Year - Rs.664.17 Million) for which registration is awaited.

<b>As at</b>	<b>As at</b>
<b>December 31,</b>	<b>December 31,</b>
<b>2007</b>	<b>2006</b>
<b>(Rs.Million)</b>	<b>(Rs. Million)</b>

4. INVESTMENTS \*

**Long Term Investments (Non-Trade) Unquoted**

Government Securities at Cost

7 - Year National Savings Certificates

(Lodged with Government Authorities)

0.01

0.01

**Short Term Investments ( Non-Trade) Unquoted - Investments in Mutual Funds\***

ABN AMRO Fixed Term Plan - Series 4 - Quarterly

Plan B- Dividend Payout (Previous Year 15,000,000 units)

Redeemed during the year 15,000,000 units

-

150.00

DWS -Fixed Term Fund-Series 22 Dividend Plan

(Previous Year 10,000,000 units)

Redeemed during the year 10,000,000 units

-

100.00

HDFC FMP 90 Days Dec 06 (2) Dividend Wholesale

- Dividend (Previous Year 8,500,000 units)

Redeemed during the year 8,500,000 units

-

85.00

Standard Chartered FMP Qs-2 Dividend (Previous Year 5,000,000 units)

Redeemed during the year 5,000,000 units

-

50.00

Principal FMP- 32- 91 Days- Series VI Dividend Payout

(Previous Year 10,000,000 units)

Redeemed during the year 10,000,000 units

-

100.00

### FORMING PART OF THE ACCOUNTS

	As at December 31, 2007 (Rs. Million)	As at December 31, 2006 (Rs. Million)
SBI Debt Fund Series- 180 Days (August 2006) (Previous Year 7,648,308 units) Re-invested during the year 35,213 units Redeemed during the year 7,683,521 units	-	76.49
Standard Chartered Liquidity Manager Plus - Daily Dividend (Previous Year 240,897 units) Purchased during the year 540,423 units Re-invested during the year 2,199 units Redeemed during the year 783,519 Units	-	240.92
Standard Chartered Liquidity Manager - Daily Dividend (Previous Year 15,009,361 units) Re-invested during the year 41,057 units Redeemed during the year 15,050,418 units	-	150.11
DSP Merrill Lynch Liquid Plus- Institutional Plan (Previous Year 244,107 units) Purchased during the year 239,983 units Re-invested during the year 1,427 units Redeemed during the year 485,517 Units	-	244.14
HSBC Liquid Plus- Regular- Daily Dividend 45,375,025 units (Previous Year 30,139,390 units) Purchased during the year 79,068,763 units Re-invested during the year 3,082,558 units Redeemed during the year 66,915,686 units	454.32	301.40
Principal Cash Mangement Liquid Institutional Plus (Previous Year 15,083,012 units) Purchased during the year 41,497,095 units Re-invested during the year 53,071 units Redeemed during the year 56,633,178 Units	-	150.83
DWS Money Plus Fund- Daily 53,639,885 units (Previous Year 17,075,648 units) Purchased during the year 51,975,369 units Re-invested during the year 1,886,169 units Redeemed during the year 17,297,301 units	536.84	170.90
DWS Insta Cash Plus Fund- Institutional Plan - Daily Dividend (Previous Year 5,021,664 units) Purchased during the year 51,898,797 units Re-invested during the year 52,710 units Redeemed during the year 56,973,171 Units	-	50.31
Franklin Templeton TMA Super Institutional Plan (Previous Year 80,381 units) Purchased during the year 449,888 units Re-invested during the year 593 units Redeemed during the year 530,862 Units	-	80.40
Templeton Floating Rate Income Fund Long Term Institutional Plan Dividend (Previous Year 18,776,427 units) Purchased during the year 19,328,901 units Re-invested during the year 337,175 units Redeemed during the year 38,442,502 Units	-	194.16
Prudential ICICI Floating Rate Plan D - Daily Dividend 16,662,503 units (Previous Year 5,212,288 units) Purchased during the year 16,584,550 units Re-invested during the year 95,625 units Redeemed during the year 5,229,960 Units	166.66	52.13
HDFC Floating Rate Income Fund-Wholesale Plan D - Daily Dividend 71,134,839 units Purchased during the year 70,595,889 units Re-invested during the year 538,950 units	717.10	-



## FORMING PART OF THE ACCOUNTS

	As at December 31, 2007 (Rs.Million)	As at	December 31, 2006 (Rs. Million)
Grindlays Floating Rate Long Term Institutional Plan- Plan B - Daily Dividend 6,008,614 units Purchased during the year 49,136,382 units Re-invested during the year 848,845 units Redeemed during the year 43,976,613 units	60.12		-
Principal Floating Rate fund - FMP. 72,193,424 units Purchased during the year 83,550,614 units Re-invested during the year 2,654,639 units Redeemed during the year 14,011,829 units	722.82		-
SBI Debt Fund serie - 90 Days - Dividend 12,047,591 units Purchased during the year 12,000,000 units Re-invested during the year 47,591 units	120.48		-
HSBC Fixed Term Serie - 25 Institutional Growth 10,000,000 units Purchased during the year 10,000,000 units	100.00		-
Franklin Tempelton Fixed Horizon Fund - 13 Months Plan - Institutional Growth, 10,000,000 units Purchased during the year 10,000,000 units	100.00		-
Aggregate value of Unquoted Investments	<u>2,978.35</u>		<u>2,196.80</u>

\* Schedule 16 [Notes 1(d), 15]

### 5. INVENTORIES \*

(At lower of Cost and Net Realisable Value)

Raw Materials [Includes Goods in Transit Rs.9.90 Million (Previous Year- Rs.9.97 Million)]	452.47		225.98
Packing Materials [Includes Promotional material Rs.72.32 Million (Previous Year Rs.66.92 Million)] and Goods in Transit Rs.4.65 Million (Previous Year Nil)	153.51		141.22
Goods in Process	67.03		78.90
Finished Goods (including Bulk powder)	1,199.32		919.35
Stores and Spare parts	64.21		83.91
By-products (at Net Realisable Value)	11.70		6.37
	<u>1,948.24</u>		<u>1,455.73</u>

\* Schedule 16 [Notes 1(e), 22]

### 6. SUNDRY DEBTORS \*

(Considered good, unless otherwise stated)

	As at December 31, 2007 (Rs.Million)	As at	December 31, 2006 (Rs. Million)
Over six months			
Secured - Considered good	2.72	1.63	
Unsecured - Considered good	4.05	3.32	
Unsecured - Considered doubtful	9.53	9.60	
Less: Provision for doubtful debts	<u>(9.53)</u>	<u>(9.60)</u>	4.95
Others			
Secured - Considered good	54.60	135.72	
Unsecured - Considered good	<u>212.25</u>	<u>140.18</u>	<u>275.90</u>
	<u>266.85</u>		<u>280.85</u>
	<u>273.62</u>		<u>280.85</u>

\* Schedule 16 [ Note 22]

## FORMING PART OF THE ACCOUNTS

	As at December 31, 2007 (Rs.Million)	As at December 31, 2006 (Rs. Million)
<b>7. CASH AND BANK BALANCES</b>		
Cash and cheques in hand	0.30	0.30
With Scheduled Banks:		
On Current accounts	308.96	352.12
On Dividend accounts	12.29	11.63
On Fixed Deposit Accounts	615.00	115.00
Post Office in Savings Bank Accounts (Lodged as security deposits)	0.11	0.11
	936.66	479.16
<b>8. OTHER CURRENT ASSETS</b>		
(Considered Good, unless otherwise stated)		
Interest accrued on Fixed Deposit Accounts / Loans	8.51	2.45
Others Receivables	109.28	83.01
Security Deposits	84.61	73.95
	202.40	159.41
<b>9. LOANS AND ADVANCES</b>		
(Considered Good, unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received *		
- Unsecured	330.48	293.68
- Secured	26.26	26.13
Balances with Excise authorities	1.70	18.57
Advance Tax [net of Provision Rs.Nil (Previous Year Rs.4,665.26 Million)]	-	264.12
	358.44	602.50
* Includes amount due from Directors/ Officers of the Company.	-	-
Maximum amount outstanding during the Year	0.70	1.57
<b>10. CURRENT LIABILITIES *</b>		
Sundry Creditors	1,452.84	1,243.63
Other Liabilities	325.97	271.42
Advances from Customers	31.00	26.26
Trade Security Deposits	380.98	329.35
Unclaimed Dividend	12.29	11.63
	2,203.08	1,882.29
* Schedule 16 [Note 23]		
<b>11. PROVISIONS *</b>		
Income Tax [Net of Advance Tax Rs.5,479.75 Million]	45.89	-
Fringe Benefits Tax [Net of Advance Tax - Rs.130.09 Million (Previous Year - Rs.76 Million)]	9.41	16.00
Employee Benefits	236.37	187.22
	291.67	203.22
* Schedule 16 [Notes 1(g), 1(i), 1(l), 16]		

## FORMING PART OF THE ACCOUNTS

	Year ended December 31, 2007 (Rs.Million)	Year ended December 31, 2006 (Rs. Million)
<b>12. OTHER INCOME *</b>		
Miscellaneous Sales	34.47	34.22
Selling Commission	-	7.86
Business Auxillary Service Commission	310.18	221.60
Insurance and other claims	27.16	24.36
Miscellaneous Income	23.11	19.76
Release of accruals	42.79	83.70
Profit on sale of Fixed Assets	1.91	-
Interest Income (gross)		
[Tax Deducted at Source Rs.5.16 Million (Previous Year Rs.14.53 Million)]		
- Loans/Deposits	0.92	1.09
- Bank Deposits	23.08	69.25
- Income tax refunds	47.54	2.13
- Others	1.36	1.22
Dividend Income on Non-Trade Current Investments (Unquoted)	176.08	56.61
	<u>688.60</u>	<u>521.80</u>
* Schedule 16 [ Notes 1(h),14, 26(b)]		
<b>13. EMPLOYEES' COST *</b>		
Salaries, Wages and Bonus	1,139.46	985.30
Contribution to Provident and Other Funds	221.70	169.14
Welfare Expenses	188.22	209.34
Less : recoveries made	-	(17.14)
	<u>1,549.38</u>	<u>1,346.64</u>
* Schedule 16 [Notes 1(g), 14, 16, 21, 26]		
<b>14. EXPENSES *</b>		
Stores and Spare Parts consumed	9.35	9.62
Conversion charges to third parties	510.08	482.87
Repairs & Maintenance		
- Buildings	19.66	18.03
- Plant & Machinery	80.89	59.40
- Others	46.67	41.49
Power and fuel	304.37	299.30
Rent (including Lease Rent)	92.45	91.55
Rates and taxes	56.57	151.45
Insurance	62.55	63.11
Travelling	96.08	102.52
Carriage and freight	657.88	576.17
Service charges paid to selling agents	1.24	0.97
Discounts - Sales	5.04	7.74
Donations	6.28	4.44
Advertising and Promotions	1,640.98	1,431.58
Royalty	543.12	464.91
Loss on Fixed Assets retired from active use	7.08	-
Loss on sale of Fixed Assets	-	3.49
Exchange fluctuations (net)	12.75	2.00
Scientific Research and Development	16.58	8.93
Interest Expense - Others	46.11	35.32
Provision for Doubtful Debts	0.44	1.19
Advances Written Off	5.36	2.94
Stock written off	7.43	7.18
Other General Expenses	324.96	255.73
Less : Recoveries made	-	(42.73)
	<u>4,553.92</u>	<u>4,079.20</u>
* Schedule 16 [Notes 1(c) ,1(f),1(j),1(k), 5, 8, 9, 14]		

## FORMING PART OF THE ACCOUNTS

	Year ended December 31, 2007 (Rs.Million)	Year ended December 31, 2006 (Rs. Million)
<b>15. ADJUSTMENT DUE TO (INCREASE) / DECREASE IN STOCK OF FINISHED GOODS AND GOODS IN PROCESS</b>		
Opening Stock		
Finished Goods (including Bulk power)	919.35	891.70
Goods in Process	78.90	92.39
By-products	<u>6.37</u>	<u>6.06</u>
	<b>1,004.62</b>	990.15
Less: Closing Stock		
Finished Goods (including Bulk power)	1,199.32	919.35
Goods in Process	67.03	78.90
By-products	<u>11.70</u>	<u>6.37</u>
	<b>1,278.05</b>	1,004.62
Excise duty adjustment for movement in Finished Goods inventory	<u>44.12</u>	<u>(9.74)</u>
Net (Increase)/Decrease	<u><b>(229.31)</b></u>	<u><b>(24.21)</b></u>

## 16. NOTES TO ACCOUNTS

### 1. Significant Accounting Policies:

#### a. Accounting Convention

The financial statements are prepared under the historical cost convention on an accrual basis and in accordance with the applicable Accounting Standards notified by the Companies (Accounting Standard) Rules, 2006 and the relevant provisions of the Companies Act, 1956.

#### b. Fixed Assets and Depreciation / Amortisation

All tangible fixed assets are stated at historical cost less accumulated depreciation. Cost includes all incidental expenditure net of CENVAT wherever applicable. The Company follows the Straight Line Method of charging depreciation, on all its tangible fixed assets, on pro-rata basis except for assets costing less than and upto Rs.5,000 which are fully depreciated in the year of purchase. The Company has provided depreciation at higher of the rates determined by the management or those specified in Schedule XIV to the Companies Act, 1956. The depreciation rates which are different from the principal rates specified in Schedule XIV to the Companies Act, 1956 are as follows: -

	(Rates in Percentages)			
	Assets acquired after December 31, 1994	Assets acquired after April 30, 1986 but upto December 31, 1994	Assets acquired after March 31, 1983 but upto April 30, 1986	Assets acquired upto March 31, 1983
Buildings				
- Factory	-	-	3.5	2/3.5/5.5
- Non – factory	2 / 6.67	2	2	2/2.5
- Tubewells	10	10	10	10/100
Plant and Machinery				
- Triple Shift	12.5	12.5	-	-
- Double Shift	10/12.5	10/12.5	-	-
- Single Shift	10/12.5/20/33.33	10/12.5	-	-
Information Technology				
Equipment	25/33.33	25	25	25
Motor Vehicles	14.28/20	14.28/20	14.28/20	14.28/20/25
Furniture and Fittings	10/20	10/20	10/20	10/20
Office Equipment	10/12.5	10	10	10

## FORMING PART OF THE ACCOUNTS

Patents and Trade Marks (Intangible Assets) are accounted at their cost of acquisition and amortized over their estimated economic life not exceeding 10 years. Leasehold improvements are charged to the Profit and Loss Account over the primary period of lease. At each Balance Sheet date, the Company assesses whether there is any indication that assets may be impaired. If any such indication exists, the Company estimates the recoverable amount. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recognized in the accounts to the extent the carrying amount exceeds the recoverable amount. Also Refer Notes (c), (j) below.

## c. Foreign Currency Transactions

Transactions in Foreign Exchange other than those covered by forward contracts are accounted for at the exchange rates prevailing on the date of transactions. The exchange differences arising out of the settlements, including those on liabilities relating to fixed assets acquired outside India are dealt with in the Profit and Loss Account. Foreign currency assets and liabilities are restated at the year end rates and the resultant gains or losses are recognized in the Profit and Loss account.

## d. Investments

Long term Investments are stated at cost less provision, if any, for diminution in the value of such investments other than temporary. Current investments are valued at lower of cost and net realizable/fair value.

## e. Inventories

Inventories are valued at lower of cost and net realizable value, except for ghee, a by-product, which is valued at selling price. Cost is determined on the basis of the weighted average method. It includes all the appropriate allocable overheads and excise duty wherever applicable.

## f. Research and Development

The revenue expenditure is charged against the profits for the year in which it is incurred. Capital expenditure is accounted in the same way as fixed assets.

## g. Employee Benefits

The Company has a Defined Contribution plan for post employment benefits namely Superannuation Fund which is recognized by the income tax authorities. These funds are administered through trustees and the Company's contributions thereto are charged to revenue every year. The Company also pays insurance premiums to fund a post-employment medical assistance scheme, a Defined Contribution plan administered by NIC (National Insurance Company) on the basis of an actuarial valuation as at the year end. The Company's contributions to State plans namely Employee's State Insurance Fund and Employee's Pension Scheme 1995 are charged to revenue every year.

The Company has Defined Benefit plans namely leave encashment /compensated absences for workers and Gratuity and Provident Fund for all employees, the liability for which is determined on the basis of an actuarial valuation at the end of the year. Gratuity Fund and Provident Fund are recognized by the income tax authorities and are administered through trustees. Termination benefits are recognised as an expense immediately. Actuarial gains and losses comprise experience adjustments and the effects of changes in actuarial assumptions and are recognised immediately in the Profit and Loss Account as income or expense.

In the year of transition, the difference between transitional liability and the liability that would have been recognized at the beginning of the financial year under the Company's previous accounting policy is adjusted against the opening revenue reserves of the financial year in accordance with Accounting Standard AS 15 (revised 2005) 'Employee Benefits'.

## h. Revenue Recognition

Sales comprise of value of sale of goods (net of returns) excluding sales tax and discounts but including excise duty. Sales are recognized at the point of despatch to the customers. Claims for Insurance / Breakage are recognized on accrual basis. Dividend income is accounted for in the year in which the right to receive the same is established. Interest on Investments is booked on a time proportion basis taking into account the amounts invested and the fixed rate of interest.

## i. Taxation

Tax expense/(saving) is the aggregate of current year tax and deferred tax charged/(credited) to the Profit and Loss Account for the year.

## a) Current Tax

Provision for taxation is based on assessable profits of the Company as determined under the Income Tax Act, 1961. The Company also provides for such disallowances made on completion of assessments pending appeals,

### FORMING PART OF THE ACCOUNTS

as considered appropriate depending on the merits of each case. Provision for taxation for the Company's financial year ended December 31, 2007 has been determined based on the results for 3 months ended March 31, 2007 (Assessment Year 2007-2008) and for the 9 months ended December 31, 2007 (Assessment Year 2008-2009). The ultimate liability for the Assessment Year 2008-2009, however, will be determined on the total income of the Company for the year ending on March 31, 2008.

b) Deferred Tax

Deferred tax assets & liabilities resulting from timing differences between book profits and tax profits are accounted for under the liability method and measured at substantially enacted rates of tax at the Balance Sheet date to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax asset/liability can be realized.

c) Fringe Benefits Tax

Provision for Fringe Benefits Tax has been made in respect of employee benefits and other specified expenses as determined under the Income Tax Act, 1961.

j. Borrowing Costs

The interest on working capital management is charged against the profits for the year in which it is incurred. Interest on borrowings for capital assets is capitalized till the date of commencement of commercial use of the asset.

k. Leases

Lease rentals in respect of asset taken on cancellable operating leases are charged to the Profit and Loss Account on straight line basis over the term of the lease.

l. Provisions and Contingent Liabilities

A provision is recognized when there is a present obligation as a result of past events for which it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Contingent liabilities are disclosed after an evaluation of the facts and legal aspects of the matters involved.

	<b>As at December 31, 2007 (Rs. Million)</b>	<b>At at December 31, 2006 (Rs. Million)</b>
2. Estimated amount of Contracts remaining to be executed on Capital account (net of Capital advances) and not provided for	<b>70.34</b>	38.63
	<b>Year ended December 31, 2007 (Rs. Million)</b>	<b>Year ended December 31, 2006 (Rs. Million)</b>
3. Managerial Remuneration		
Amount paid/ payable to Directors:		
Salaries and allowances (including Termination Benefits)	<b>35.86</b>	46.33
Contribution to Provident and other Funds	<b>6.99</b>	3.44
Value of Perquisites	<b>4.22</b>	8.16
Directors' sitting fees	<b>0.61</b>	0.57
Commission to Non-Executive Directors	<b>1.80</b>	1.76
	<b><u>49.48</u></b>	<u>60.26</u>

Note:

- i. The contribution to Gratuity Fund and Post Employment Medical assistance has been made on a group basis based on an actuarial valuation and separate figures applicable to an individual employee are not available and accordingly, the same has not been considered in the above computation.

Computation of Net Profits under Section 198/349 of the Companies Act, 1956 and calculation of Commission payable to Non-Executive Directors

FORMING PART OF THE ACCOUNTS

	Year ended December 31, 2007 (Rs. Million)	Year ended December 31, 2006 (Rs. Million)
<b>Profit before Taxation</b>	<b>2,451.20</b>	1,905.65
Add: Directors' Remuneration	47.07	57.93
Directors' sitting fees	0.61	0.57
Commission to Non-Executive Directors	1.80	1.76
Provision for doubtful debts	0.44	1.19
Voluntary Retirement Scheme	27.94	53.62
Compensation paid / payable to third parties	1.10	17.50
Loss on fixed assets retired from active use	7.08	-
(Profit) / Loss on sale of fixed assets	(1.91)	3.49
Other Provisions	11.22	-
Less: Provision for Stock obsolescence written back / adjusted	-	(6.10)
Provision for Doubtful Debts adjusted	(0.60)	(8.79)
Net Profits under section 198/349 on which Commission is payable	<u>2,545.95</u>	<u>2,026.82</u>
<b>Commission payable to Non-Executive Directors:</b>		
Maximum allowed as per the Companies Act, 1956 at 1%	25.46	20.27
Restricted by the Board of Directors to	1.80	1.76

Note: The Company depreciates its fixed assets based on estimated useful lives that in certain cases are lower than those implicit in Schedule XIV of the Companies Act, 1956. Accordingly, the rates of depreciation used by the Company in such cases are higher than the minimum rates prescribed by Schedule XIV.

4. Provisions and/or payments in respect of Auditors' Remuneration		
(i) Statutory Audit *	2.02	1.80
(ii) Tax Audit *	1.77	1.32
(iii) In other capacity *	1.52	1.26
(iv) Out-of-Pocket expenses	0.62	0.66
* (includes service tax)	<u>5.93</u>	<u>5.04</u>
5. Expenditure indicated below allocated to other Revenue Accounts		
Consumption of Stores and Spare Parts	144.08	153.16
Insurance	28.38	26.76
Scientific Research and Development	118.41	89.29

	Unit	Year ended December 31, 2007		Year ended December 31, 2006	
		Quantity	Value (Rs. Million)	Quantity	Value (Rs. Million)
6. Sales / Turnover					
Class of Goods :					
(i) Malt Based food/ Cereal Based					
Beverage / Protein Rich Food **	DOZS*	12,620,809	13,389.64	11,484,731	11,527.89
(ii) Biscuits	DOZS*	7,204,780	484.72	7,633,427	491.18
(iii) Ghee (By product)	MT	545	76.52	511	66.67
(iv) MilkMT		290	4.17	1,326	14.85
(vi) Others			-		1.29
			<u>13,955.05</u>		<u>12,101.88</u>

\*Converted into uniform pack size

\*\* Previous Year figures includes traded quantities

## SCHEDULES

### FORMING PART OF THE ACCOUNTS

	Unit	Year ended December 31, 2007		Year ended December 31, 2006	
		Quantity	Value (Rs. Million)	Quantity	Value (Rs. Million)
7. Raw Materials Consumed (Refer Note 9) (Includes goods processed by third parties)					
Milk Powder	MT	6,522	852.47	6,090	624.07
Liquid Milk	MT	48,178	763.30	45,719	626.27
Malt and Malt Extract	MT	44,745	844.91	39,160	666.51
Flour (Wheat)	MT	25,292	352.76	24,128	297.73
Others			720.59		648.32
			3,534.03		2,862.90
		Year ended December 31, 2007		Year ended December 31, 2006	
		Percentage	Value (Rs. Million)	Percentage	Value (Rs. Million)
8. Imported and Indigenous Raw Materials, Spare Parts and Stores consumed:					
(a) Raw Materials (Refer Note 9):					
Imported		0.37	13.12	1.08	30.82
Indigenous		99.63	3,520.91	98.92	2,832.08
		100.00	3,534.03	100.00	2,862.90
(b) Spare Parts and Stores (Refer Note 5):					
Imported		0.27	0.42	0.01	0.01
Indigenous		99.73	153.02	99.99	162.77
		100.00	153.44	100.00	162.78
9. Raw Materials consumed as shown under Notes 7 and 8 (a) above includes Rs.45.12 Million (Previous Year Rs.97.18 Million) being the cost of materials consumed on samples used for promotional purposes included under Advertising and Promotion expenses (Refer Schedule 14), Rs.12.35 Million (Previous Year Rs.15.18 Million) being the cost of stock breakages recoverable from Insurance company.					
			Year ended December 31, 2007 (Rs. Million)		Year ended December 31, 2006 (Rs. Million)
10. Value of Imports calculated on C.I.F. basis:					
Raw Materials			8.22		24.23
Spares			0.63		0.64
Capital Goods			8.93		3.55
			17.78		28.42
11. Expenditure in Foreign Currency (on cash basis)					
Travelling			1.22		1.41
Advertisement & Promotions			4.43		6.23
Consultancy			6.04		5.24
Software			0.40		0.70
Others			8.21		1.16
			20.30		14.74
12. Amount remitted in Foreign Currency for Dividend :					
(a) Number of non-resident shareholders		1		1	
(b) Number of shares held (Equity Shares of Rs. 10 each)		18,152,243		18,152,243	
(c) Dividend remitted, - Current Year			217.83		181.52



## FORMING PART OF THE ACCOUNTS

	Year ended December 31, 2007 (Rs. Million)	Year ended December 31, 2006 (Rs. Million)
13. Earnings in Foreign Exchange :		
- Export of goods on F.O.B. basis [Including sales to Nepal and Bhutan Rs 257.04 Million (Previous Year Rs. 221.25 Million)]	696.66	608.99
- Royalty (on cash Basis)	1.15	0.19

14. During the last year, there was a change in the commercial arrangements for sharing of services with certain related Companies. Effective April 1, 2006, the value of share of costs attributable to these Companies is recovered as Business Auxiliary Service Commission, in accordance with the recommendations of an independent study. Further, the Company also recovers Employee benefits of employees seconded to other group companies.

15. Detail of Investments purchased, reinvested and sold during the year

**Particulars of Mutual Funds Purchased and Sold during the year**

	No. of Units		
	Purchased	Reinvested	Reinvested
ABN AMRO - FTP Series 4 - QP - C Monthly Dividend	15,000,000.00	279,990.09	15,279,990.09
ABN AMRO - Money Plus Institutional Plan Daily Dividend	39,280,158.13	620,175.29	39,900,333.42
ABN AMRO - Cash Fund Institutional Daily Dividend	9,000,000.00	1,351.85	9,001,351.85
SBI Debt Fund Series - 90 Days - Dividend	12,000,000.00	-	12,000,000.00
SBI Debt Fund Series - 90 Days - Dividend	10,000,000.00	-	10,000,000.00
HDFC Cash Management Fund - Savings Plan Daily Dividend Reinvestment	62,991,237.64	12,030.34	63,003,267.98
HDFC Cash Management Fund - Saving Plus Plan - Wholesale - Daily Dividend	5,982,115.31	11,100.12	5,993,215.42
HDFC FMP 90 Days - Wholesale Plan Dividend	10,000,000.00	-	10,000,000.00
HDFC Floating Rate Income Fund - Short Term Plan - Retail Dividend Reinvestment	22,820,842.03	153,927.42	22,974,769.45
DWS Fixed Term Fund Series 23 - Dividend Option	5,066,280.31	-	5,066,280.31
ICICI Prudential FMP Series 35 - Three Months Plan A - Retail - Dividend	10,005,194.47	189,210.87	10,194,405.35
ICICI Prudential FMP Series 35 - Three Months Plan B - Retail - Dividend	10,000,000.00	197,361.33	10,197,361.33
ICICI Prudential - Flexible Income Plan Dividend - Daily - Reinvest Dividend	23,833,211.09	366,942.59	24,200,153.68
ICICI Prudential - Institutional Liquid Plan Super Institutional Daily - Reinvest Dividend	42,999,250.04	98,288.82	43,097,538.86
DSPML FTP Plan Series - 1 H Dividend Institutional	75,000.00	1,447.36	76,447.36
DSPML Strategic Bond Fund - Institutional - Monthly Dividend	537,434.05	11,996.95	549,431.00
DSPML Liquidity Fund - Institutional - Daily Dividend	429,914.02	47.90	429,961.91
Principal PNB Fixed maturity Plan (FMP-35) 91 Days - Series VIII	10,131,525.89	-	10,131,525.89
HSBC Cash Fund - Institutional Plus - Daily Dividend	78,955,784.76	162,490.16	79,118,274.93
Standard Chartered FMP - Quaterly series 3 - Dividend	10,000,000.00	147,600.00	10,147,600.00
Standard Chartered FMP - Quaterly series 4 - Dividend	17,000,000.00	187,680.00	17,187,680.00
Tempelton Fixed Horizon Fund - 3 Months Plan - Institutional Dividend Payout	5,000,000.00	-	5,000,000.00
Tempelton Floating Rate Income Fund Long Term Plan Super Institutional Option - Weedly Dividend Reinvestment	45,063,179.54	355,336.09	45,418,515.62
Tempelton Floating Rate Income Fund Long Term Plan Super Institutional Option - Daily Dividend Reinvestment	70,407,444.20	1,117,264.17	71,524,708.37

## FORMING PART OF THE ACCOUNTS

16. (a) The Company has classified the various benefits provided to employees as under -

**I. Defined Contribution Plans**

- a. Indian Senior Executive Superannuation Fund
- b. Post Employment Medical Assistance Scheme

During the year, the Company has recognised the following amounts in the Profit and Loss Account -

	Year ended December 31, 2007	(Rs. Million) Year ended December 31, 2006
- Employers' Contribution to Indian Senior Executives Superannuation Fund *	49.83	31.03
- Employers' Contribution to Post Employment Medical Assistance Scheme**	14.97	4.24

**II. State Plans**

- a. Employers' Contribution to Employee's State Insurance
- b. Employers' Contribution to Employee's Pension Scheme 1995.

During the year, the Company has recognised the following amounts in the Profit and Loss Account

- Employers' Contribution to Employee's State Insurance **	2.78	2.07
- Employers' Contribution to Employee's Pension Scheme 1995 *	20.97	20.14

\* Included in Contribution to Provident and Other Funds under Employees' Cost (Refer Schedule 13)

\*\* Included in Welfare expenses under Employees' Cost (Refer Schedule 13)

**III. Defined Benefit Plans**

In accordance with Accounting Standard 15 (revised 2005), actuarial valuation was done as at December 31, 2007 in respect of following defined Benefit Plans based on following assumptions:

- a. Contribution to Gratuity Funds – Employee's Gratuity Fund, Senior Staff Gratuity Fund
- b. Leave Encashment / Compensated Absences for workers – ( Earned leave, Sick leave and Special leave)

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund		Provident Fund
	2007	2006	2007	2006	2007	2006	2007
Discount Rate (per annum)	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Rate of increase in Compensation levels	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Rate of Return on Plan Assets	Nil	Nil	8.35%	8.15%	8.59%	8.55%	7.50%
Expected Average remaining working lives of employees (years)	13.24	27.84	15.22	20.57	20.64	15.52	-

- (i) In case of Employee's Gratuity Fund and Senior Staff Gratuity Fund and provident Fund, merger of allowances has been assumed to be 50 % of the remaining allowances as per the policy of the Company.
- (ii) In calculating the leave encashment liability, 20% of the earned / special leave has been assumed to be availed of during the service before separation.
- (iii) In calculating the compensated absences for sick leave liability, 50% of the leave has been assumed to be availed of during the service before separation.
- (iv) The liability for Gratuity fund for the year 2008 has not been worked out as the same is based on the increase in the basic salary and merger of allowances in April 2009.
- (v) The expected rate of return on Gratuity fund assets has been worked out based on the full year's interest on the investment as at December 31, 2007 after reducing the amount of amortization of premium for one year.
- (vi) In case of Provident Fund, Plan members are assumed to withdraw in accordance with the following table:

Age	Withdrawal Rate %
Up to 30 years	3.0
Up to 44 years	2.0
Above 44 years	1.0

FORMING PART OF THE ACCOUNTS

**A) Changes in the Present Value of Obligation**

(Rs. Million)

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund	
	2007	2006	2007	2006	2007	2006
Present Value of Obligation as at January 1	10.36	7.76	120.86	95.39	194.88	163.09
Interest Cost	0.83	0.62	9.67	7.63	15.59	13.05
Past Service Cost	Nil	Nil	Nil	Nil	Nil	Nil
Current Service Cost	1.48	0.64	11.31	11.50	18.61	22.08
Curtailment Cost / (Credit)	Nil	Nil	Nil	Nil	Nil	Nil
Settlement Cost / (Credit)	Nil	Nil	Nil	Nil	Nil	Nil
Benefits paid	(0.38)	(0.30)	(14.86)	(10.89)	(21.98)	(30.42)
Actuarial (gain)/ loss on obligations	1.99	(1.40)	23.32	17.23	38.96	27.08
<b>Present Value of Obligation as at December 31</b>	<b>14.28</b>	<b>7.32</b>	<b>150.30</b>	<b>120.86</b>	<b>246.06</b>	<b>194.88</b>

**B) Changes in the Fair value of Plan Assets**

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund	
	2007	2006	2007	2006	2007	2006
Fair Value of Plan Assets as at January 1	Nil	Nil	99.23	82.66	156.49	137.18
Expected Return on Plan Assets	N.A.	N.A.	10.09	6.74	16.74	11.73
Actuarial Gains and Losses	N.A.	N.A.	(0.49)	1.65	(0.89)	1.87
Contributions	Nil	Nil	28.38	19.04	49.30	35.78
Benefits Paid	Nil	Nil	(14.86)	(10.84)	(21.98)	(29.72)
Fair Value of Plan Assets at December 31	Nil	Nil	122.35	99.25	199.66	156.84
Unpaid Amount	Nil	Nil	(0.02)	(0.02)	(0.68)	(0.35)
<b>Fair Value of Plan Assets at December 31 (net of unpaid amount)</b>	<b>Nil</b>	<b>Nil</b>	<b>122.33</b>	<b>99.23</b>	<b>198.98</b>	<b>156.49</b>

**C) Reconciliation of Present Value of Defined Benefit Obligation and the Fair value of Assets**

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund	
	2007	2006	2007	2006	2007	2006
Present Value of funded / (unfunded) Obligation as at January 1	(14.28)	(7.32)	150.30	120.86	246.06	194.88
Fair Value of Plan Assets as at the end of the period	Nil	Nil	122.33	99.23	198.98	156.49
Funded Status	Nil	Nil	(27.97)	(21.63)	(47.08)	(38.39)
Present Value of unfunded Obligation as at December 31	14.28	7.32	Nil	Nil	Nil	Nil
Unrecognized Actuarial (gains) / losses	Nil	Nil	Nil	Nil	Nil	Nil
<b>Unfunded Net Asset / (Liability) Recognized in Balance Sheet</b>	<b>(14.28)*</b>	<b>(7.32)*</b>	<b>(27.97)*</b>	<b>(21.63)*</b>	<b>(47.08)*</b>	<b>(38.39)*</b>

\* included in Employee Benefits (Refer Schedule 11)

### FORMING PART OF THE ACCOUNTS

#### D) Expense recognised in the Profit and Loss Account

(Rs. Million)

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund	
	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
Current Service Cost	1.48	0.64	11.31	11.50	18.61	22.08
Past Service Cost	Nil	Nil	Nil	Nil	Nil	Nil
Interest Cost	0.83	0.62	9.67	7.63	15.59	13.05
Expected Return on Plan Assets	Nil	Nil	(10.09)	(6.74)	(16.74)	(11.73)
Curtailment Cost / (Credit)	Nil	Nil	Nil	Nil	Nil	Nil
Settlement Cost / (Credit)	Nil	Nil	Nil	Nil	Nil	Nil
Net actuarial (gains) / losses recognized in the period	1.99	(1.40)	23.81	15.58	39.85	25.21
<b>Total Expenses recognized in the Profit &amp; Loss Account</b>	<b>4.30***</b>	<b>(0.14)***</b>	<b>34.70**</b>	<b>27.97**</b>	<b>57.31**</b>	<b>48.61**</b>

\*\* included in Contribution to Provident and Other Funds (Refer Schedule 13)

\*\*\* included in Salaries, Wages and Bonus (Refer Schedule 13)

#### E) Constitution of Plan Assets

	Leave Encashment / Compensated Absences		Employee's Gratuity Fund		Senior Staff Gratuity Fund	
	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006	As at December 31, 2007	As at December 31, 2006
Equity Instruments	-	-	Nil	Nil	Nil	Nil
Debt Instruments	-	-	116.66	98.27	185.02	157.98
Property	-	-	Nil	Nil	Nil	Nil
Other Assets	-	-	5.67	0.96	13.96	(1.48)
<b>Total of the Plan Assets</b>	<b>-</b>	<b>-</b>	<b>122.33</b>	<b>99.23</b>	<b>198.98</b>	<b>156.50</b>

- (b) The Guidance Note on Implementing AS 15, Employee Benefits (Revised 2005) issued by the Accounting Standard Board (ASB) states that Provident Funds set up by employers that guarantee a specified rate of return and which require interest shortfall to be met by the employer would be defined benefit plans in accordance with the requirements of paragraph 26(b) of AS 15. Pursuant to the Guidance Note, the Company has accounted for the shortfall of interest earnings of Provident Fund aggregating Rs.15.12 Million (Refer Schedule 11) determined on the basis of an actuarial valuation carried out as at December 31, 2007 as an other long term benefit. The Company's actuary has in his certificate stated that the valuation is in respect of "Other Long Term Employee Benefits" and accordingly the detailed disclosures stated in A-E above are not required.
- (c) During the previous year, the Company reviewed its previous accounting policy of Leave Travel Allowance for a more appropriate presentation of the financial statements. Accordingly Salaries, Wages and Bonus expenses under employee cost (Refer Schedule 13) for the year ended December 31, 2006 included an amount of Rs.33.10 Million corresponding to the change made.
- (d) During the previous year, the Company adopted Accounting Standards 15 (revised 2005) 'Employee Benefits'. Accordingly, the transitional adjustment aggregating to Rs.113.72 Million (net of deferred tax asset Rs. Nil) had been charged against the general reserves as at January 1, 2006.
17. The Company estimates the deferred tax charge/(credit) using the applicable rate of taxation based on the impact of timing differences between financial statements and estimated taxable income for the current year. The movement of provision for deferred tax is given below :-

FORMING PART OF THE ACCOUNTS

Provision for Deferred Tax

(Rs. Million)

Deferred Tax Liability / (Asset)	Balance as at		Charge/ (Credit)		Balance as at	
	January 1, 2007	January 1, 2006	Year Ended December 31, 2007	Year Ended December 31, 2006	December 31, 2007	December 31, 2006
Depreciation / Amortisation	286.49	328.95	(53.03)	(42.46)	233.46	286.49
Section 43B Disallowance	(18.50)	(24.22)	(11.05)	5.72	(29.55)	(18.50)
VRS Payment	(23.38)	(17.00)	(0.63)	(6.38)	(24.01)	(23.38)
Provision For Doubtful Debts	(3.94)	(6.19)	0.70	2.25	(3.24)	(3.94)
Others Disallowances	-	(5.54)	(3.85)	5.54	(3.85)	-
Deferred Tax Liability (net)	240.67	276.00	(67.86)	(35.33)	172.81	240.67

18. The Company's Nutritional business is organized and focused in India as a single business segment. Accordingly, Segment information is not required to be disclosed pursuant to Accounting Standard 17.

19. Earnings Per Share (EPS) – The numerator and denominator used to calculate Basic and Diluted Earnings per Share

	Year ended December 31, 2007	Year ended December 31, 2006
- Profit attributable to the Equity Shareholders (Rs.)- (A)	1,626,754,285	1,269,331,512
- Basic/Weighted average number of Equity Shares outstanding during the year- (B)	42,055,538	42,055,538
- Nominal value of Equity Shares (Rs.)	10.00	10.00
- Basic/ Diluted Earnings per Share (Rs.) – (A)/(B)	38.68	30.18

20. As at December 31, 2007, the Company has reviewed the future earnings of all its cash generating units in accordance with the Accounting Standard 28 "Impairment of Assets". As the carrying amount of assets does not exceed the future recoverable amount, consequently, no adjustment to the carrying amount of assets is considered necessary by the management.

21. In continuation of the restructuring process, the Company has during the year made certain exgratia payments to its employees as per the VRS scheme duly approved by the Board of Directors aggregating Rs. 27.94 Million (Previous Year Rs. 53.62 Million) included under Employee's Cost (Refer Schedule 13).

22. The Company has entered into an arrangement for a working capital facility with Deutsche Bank AG, whereby it has secured by way of hypothecation of stock in trade (both present and future), consisting of stock of raw material, goods in process, semi finished & finished goods, consumable stores, spares etc and books debts by execution of a Deed of Hypothecation of Stocks and Book Debts dated December 22, 2006 in favour of Deutsche Bank for an amount of Rs. 530 Million. A charge has been created in favour of Deutsche Bank and filed in the office of Registrar of Companies on January 13, 2007.

23. This being the first year of applicability, the Company is in the process of compiling the information required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006. The management does not envisage any material impact on the financials in this regard, which has been relied upon by the auditors.

24. Details of Class of Goods -

	ANNUAL CAPACITY				ACTUAL PRODUCTION*		STOCK OF GOODS PRODUCED							
	LICENSED		INSTALLED		YEAR ENDED	YEAR ENDED	OPENING			CLOSING				
	31.12.07	31.12.06	31.12.07	31.12.06	31.12.07	31.12.06	AS ON 01.01.07	AS ON 01.01.06	AS ON 31.12.07	AS ON 31.12.06				
QTY	QTY	QTY	QTY	QTY	QTY	QTY	VALUE	QTY	VALUE	QTY	VALUE	QTY	VALUE	
MT	MT	MT	MT	MT	MT	MT	Rs. Million	MT	Rs. Million	MT	Rs. Million	MT	Rs. Million	
1. MALT BASED FOODS	91,100	91,100			66,884	62,058	9,217	778.15	8,728	675.95	10,352	968.86	9,217	778.15
2. CEREAL BASED BEVERAGE	2,000	-	94,400	94,060	1,204	-	-	-	-	-	214	25.11	-	0.00
3. MILKOSE BABY FOODS	228	228			-	-	-	-	-	-	-	-	-	-
4. POWDERED MILK	3,528	3,528	2,200	1,440	-	-	-	-	-	-	-	-	-	-
5. PROTEIN RICH FOODS	3,000	1,000			768	514	88	16.88	134	20.63	210	48.53	88	16.88
6. MALT BASED FOODS					9,366	7,426	1,128	85.52	1,615	126.26	1,431	114.22	1,128	85.52
TOTAL	99,856	95,856	96,600	95,500	78,222	69,998	10,433	880.55	10,477	822.84	12,207	1,156.72	10,433	880.56
7. GHEE	6,000	6,000	4,000	4,000	594	537	68	6.37	49	6.06	109	11.70	68	6.37
8. BISCUITS					9,412	10,807	874	38.80	1,674	68.86	956	42.58	874	38.80
								925.72		897.76		1,211.00		925.72

\* Actual Production includes Bulk production and does not include Trial Production

## FORMING PART OF THE ACCOUNTS

### Notes:

1. The Installed Capacities on triple shift basis are as per certificates given by the Director-Operations and has not been verified by the Auditors, being a technical matter.
  2. Production figure is net of captive consumption.
  3. Powdered Milk is for captive consumption and accordingly the same have been included in Goods in Process in Schedule 5 & 15. Boost Intermediate/Horlicks Intermediates are included in Goods in Process in Schedule 5 & 15 as these are semi-finished products.
  4. Licensed Capacity listed under Serial No. 1,2,4, 5 & 7 above are in respect to all the three factories of the Company and are covered by Industrial Entrepreneurs' Memorandums (IEMs) in terms of Notification No. 477 (E) dated 25th July, 1991 of the Department of Industrial Development, Ministry of Industry, Government of India. Capacity of 228 MT listed under Serial No. 3 and capacity of 528 MT is included under Serial No 4 for which licences are held under Industrial (Development and Regulation) Act, 1951 by the Company.
  5. The Products under Serial No. 3 to 5 are manufactured in an integrated plant and, therefore, Installed Capacity can not be given separately.
  6. The Products listed under Serial No. 6 & 8 are processed by Third Parties.
  7. Closing Stock is net of samples, internal consumption and other stock losses.
25. In accordance with the requirements of Accounting Standard (AS) – 18 'Related Party Disclosures' the names of the related party where control exists/able to exercise significant influence along with the aggregate transactions and year end balance with them as identified and certified by the management in the ordinary course of business and on arms' length basis are given below:
- A. Promoter Company Horlicks Limited, (a subsidiary of GlaxoSmithKline Plc UK) holds 43.16% of equity shares of the Company.
  - B. Other related parties in GlaxoSmithKline group where Common Control exists-
 

(a) GlaxoSmithKline Asia Private Limited	(p) S B Pharmaceutical Services
(b) GlaxoSmithKline Pharmaceuticals India Limited	(q) GSK China Investment Company Ltd.
(c) Sterling Drugs (Malaya) Sdn Bhd	(r) SmithKline Beecham Corp., U.S.A
(d) GlaxoSmithKline Services Unlimited (U.K.)	(s) GlaxoSmithKline Pte. Ltd.
(e) GlaxoSmithKline Consumer Healthcare Sdn Bhd (Malaysia)	(t) Pt. Sterling Products, Indonesia
(f) SmithKline Beecham (Pvt) Ltd. (Sri Lanka)	(u) GlaxoSmithKline Philippines Inc.
(g) GlaxoSmithKline Exports Ltd (U.K.)	(v) Glaxo Wellcome Indonesia
(h) Glaxo Operation UK Area	(w) Glaxo Wellcome Manufacturing Pte Ltd
(i) GlaxoSmithKline Ltd. Hong Kong	(x) GlaxoSmithKline Consumer Healthcare GMBH
(j) SB (Mauritius) Ltd.	(y) GSK Plc., UK
(k) SmithKline Beecham Corporation	(z) SmithKline Beecham Research Ltd.
(l) GlaxoSmithKline Bangladesh Ltd.	(aa) GSKCH - L.P., Bangkok
(m) SB Corp CB (U.S.A.)	(bb) GlaxoSmithKline Ilaclari Sanayi ve Ticaret A.S., Turkey
(n) GlaxoSmithKline Australia Pvt. Ltd.	(cc) GSK Caribbean Ltd. (Jamaica)
(o) Tianjin SmithKline & French Labs Ltd., China	
  - C. Trusts under Control of the Company -
 

a. Senior Staff Gratuity Fund	c. Provident Fund
b. Employees' Gratuity Fund	d. Indian Senior Executives Superannuation Fund
  - D. Key Managerial Personnel-
    - a. Nicholas J Massey (ceased to be the Managing Director effective December 31<sup>st</sup>, 2007)
    - b. Zubair Ahmed (nominated as Managing Director effective January 1<sup>st</sup>, 2007)
    - c. Gautam K. Chakraborty (resigned as a Wholetime Director effective November 30<sup>th</sup>, 2007)
    - d. Ramakrishnan Subramanian (nominated as a Wholetime Director effective December 1<sup>st</sup>, 2007)
    - e. P. S. Mukherjee (ceased to be a Wholetime Director effective May 1<sup>st</sup>, 2006)
    - f. P. Dwarkanath (retired as Wholetime Director effective August 1<sup>st</sup> 2006, continues as Non Executive Director)
    - g. David S Allen (ceased to be a Wholetime Director effective January 24<sup>th</sup>, 2006)
    - h. Praveen K Gupta (nominated as Wholetime Director effective January 24<sup>th</sup>, 2006)

# SCHEDULES



## FORMING PART OF THE ACCOUNTS

25 (b) The following transactions were carried out with the related parties in the ordinary course of business (Rs. Million)

Particulars	Year ended December 31, 2007				Year ended December 31, 2006				Total	
	Promoter Company	Companies under common control	Key Managerial Personnel	Trust under the control of Board of trustees	Total	Promoter Company	Companies under common control	Key Managerial Personnel		Trust under the control of Board of trustees
<b>Sale of goods (Exports)</b>		<b>187.73</b>			<b>187.73</b>		<b>157.33</b>			<b>157.33</b>
SmithKline Beecham (Pvt) Ltd., Sri Lanka	-	187.32	-	-	187.32	-	146.23	-	-	146.23
GlaxoSmithKline Consumer Healthcare Sdn Bhd (Malaysia)	-	-	-	-	-	-	5.23	-	-	5.23
Others	-	0.41	-	-	0.41	-	5.87	-	-	5.87
<b>Consignment Sales (Net)</b>		<b>2,079.50</b>			<b>2,079.50</b>		<b>1,858.27</b>			<b>1,858.27</b>
GlaxoSmithKline Asia Pvt Ltd	-	1,449.69	-	-	1,449.69	-	1,292.34	-	-	1,292.34
GlaxoSmithKline Pharmaceuticals India Ltd.	-	629.81	-	-	629.81	-	565.93	-	-	565.93
<b>Purchase of Materials</b>										
GlaxoSmithKline Pharmaceuticals India Ltd	-	0.46	-	-	0.46	-	1.45	-	-	1.45
<b>Rendering of services (Cross Charge Recovered)*</b>										
GlaxoSmithKline Asia Pvt Ltd	-	-	-	-	-	-	65.97	-	-	65.97
GlaxoSmithKline Pharmaceuticals India Ltd.	-	-	-	-	-	-	58.10	-	-	58.10
GlaxoSmithKline Pharmaceuticals India Ltd.	-	-	-	-	-	-	7.87	-	-	7.87
<b>IT Services received (Paid / Payable)</b>										
GlaxoSmithKline Australia Pty	-	5.90	-	-	5.90	-	5.03	-	-	5.03
<b>Shared Services</b>										
GlaxoSmithKline Pharmaceuticals India Ltd.	-	0.60	-	-	0.60	-	0.78	-	-	0.78
<b>Payment on Behalf of Fellow (Received / Receivable)**</b>		<b>225.77</b>			<b>225.77</b>		<b>124.09</b>			<b>124.09</b>
GlaxoSmithKline Asia Pvt Ltd	-	40.24	-	-	40.24	-	15.39	-	-	15.39
GlaxoSmithKline Pharmaceuticals India Ltd.	-	36.00	-	-	36.00	-	31.14	-	-	31.14
GlaxoSmithKline Limited, Hongkong	-	-	-	-	-	-	7.52	-	-	7.52
GlaxoSmithKline Pte. Ltd	-	26.85	-	-	26.85	-	-	-	-	-
SmithKline Beecham Corporation	-	56.98	-	-	56.98	-	14.00	-	-	14.00
Others	-	65.70	-	-	65.70	-	56.04	-	-	56.04
<b>Reimbursements of Expenses (Paid / Payable)**</b>		<b>27.22</b>			<b>27.22</b>		<b>2.75</b>			<b>2.75</b>
GlaxoSmithKline Services Unlimited (U.K.)	-	4.22	-	-	4.22	-	2.09	-	-	2.09
GlaxoSmithKline Pte. Ltd	-	17.87	-	-	17.87	-	-	-	-	-
Others	-	5.13	-	-	5.13	-	0.66	-	-	0.66
<b>Agency arrangements (Selling Commission Income)*</b>										
GlaxoSmithKline Asia Private Limited	-	-	-	-	-	-	8.67	-	-	8.67
GlaxoSmithKline Pharmaceuticals India Ltd.	-	-	-	-	-	-	1.65	-	-	1.65
<b>Business Auxiliary Service Fee*</b>										
GlaxoSmithKline Asia Private Limited	-	348.40	-	-	348.40	-	7.02	-	-	7.02
GlaxoSmithKline Asia Private Limited	-	274.10	-	-	274.10	-	248.47	-	-	248.47
GlaxoSmithKline Pharmaceuticals India Ltd.	-	74.30	-	-	74.30	-	196.80	-	-	196.80
<b>Rent paid</b>										
GlaxoSmithKline Asia Private Limited	-	12.96	-	-	12.96	-	51.67	-	-	51.67
<b>Rent received</b>										
GlaxoSmithKline Asia Private Limited	-	0.07	-	-	0.07	-	12.96	-	-	12.96
<b>Licence agreements (Royalty Paid/Payable)</b>										
GlaxoSmithKline Asia Private Limited	-	0.07	-	-	0.07	-	0.07	-	-	0.07
<b>Advance Received Back</b>										
GlaxoSmithKline Asia Private Limited	-	555.76	-	-	555.76	-	478.51	-	-	478.51
<b>Dividend Paid</b>										
Horlicks Plc, UK	217.83	-	-	-	217.83	181.52	-	-	-	25.00
<b>Interest Received</b>										
GlaxoSmithKline Asia Private Limited	-	-	-	-	-	-	-	-	-	-
<b>Remuneration paid***</b>										
Nicholas J Massey	-	-	47.08	-	47.08	-	-	57.93	-	57.93
G. K. Chakraborty	-	-	10.28	-	10.28	-	-	8.33	-	8.33
	-	-	-	-	-	-	-	10.88	-	10.88

# SCHEDULES

## FORMING PART OF THE ACCOUNTS



Particulars	Year ended December 31, 2007				Year ended December 31, 2006				Total	
	Promoter Company	Companies under common control	Key Managerial Personnel	Trust under the control of Board of trustees	Total	Promoter Company	Companies under common control	Key Managerial personnel		Trust under the control of Board of trustees
<b>Remuneration paid**</b>			47.08	-	47.08			57.93	-	57.93
P. Dwarkanath			-	-	-			10.51	-	10.51
P. S. Mukherjee			-	-	-			19.31	-	19.31
Praveen K Gupta			10.13	-	10.13			8.38	-	8.38
Zubair Ahmed			25.82	-	25.82			-	-	-
Ramakrishnan Subramanian			0.85	-	0.85			-	-	-
David S Allen			-	-	-			0.52	-	0.52
<b>Annual Contributions made by the Company</b>			376.77	376.77	376.77			222.90	222.90	222.90
Provident Fund Trust			193.96	193.96	193.96			159.64	159.64	159.64
Senior Staff Gratuity Fund			-	58.00	58.00			39.08	39.08	39.08
Employees Gratuity Fund			-	34.36	34.36			21.68	21.68	21.68
Indian Senior Executives Superannuation Scheme			-	90.45	90.45			2.50	2.50	2.50
<b>Payments made by the Company to the employees on behalf of Trust towards their settlement</b>			201.31	201.31	201.31			278.13	278.13	278.13
Provident Fund Trust			-	156.86	156.86			203.53	203.53	203.53
Senior Staff Gratuity Fund			-	22.00	22.00			30.10	30.10	30.10
Employees Gratuity Fund			-	14.86	14.86			10.86	10.86	10.86
Indian Senior Executives Superannuation Scheme			-	7.59	7.59			33.64	33.64	33.64
<b>Interest Shortfall on Provident Fund Trust written back</b>			-	3.54	3.54			7.91	7.91	7.91
<b>Recoveries made from Trusts on account of Settlement and Investments</b>			217.77	217.77	217.77			240.95	240.95	240.95
Provident Fund Trust			-	160.49	160.49			188.31	188.31	188.31
Senior Staff Gratuity Fund			-	31.10	31.10			14.04	14.04	14.04
Employees Gratuity Fund			-	18.75	18.75			5.02	5.02	5.02
Indian Senior Executives Superannuation Scheme			-	7.43	7.43			33.58	33.58	33.58
<b>Interest Shortfall on Provident Fund Trust</b>			-	15.12	15.12			6.75	6.75	6.75
<b>Balances as at year end</b>			94.18	22.35	116.53			59.69	37.21	96.90
Receivables		94.18	-	-	-			22.52	-	22.52
SmithKline Beecham (Pvt) Ltd., Srilanka		32.76	-	-	32.76			7.20	-	7.20
GlaxoSmithKline Exports Ltd (U.K.)		-	-	-	-			8.18	-	8.18
GlaxoSmithKline Pte Ltd.		-	-	-	-			5.99	-	5.99
SmithKline Beecham Corporation		41.56	-	-	41.56			8.41	-	8.41
GlaxoSmithKline Services Unlited (U.K.)		-	-	-	-			-	-	-
Provident Fund Trust		-	13.13	13.13	13.13			15.22	15.22	15.22
Senior Staff Gratuity Fund		-	7.00	7.00	7.00			16.06	16.06	16.06
Employees Gratuity Fund		-	2.00	2.00	2.00			5.87	5.87	5.87
Indian Senior Executives Superannuation Scheme		-	0.22	0.22	0.22			0.06	0.06	0.06
Others		19.87	-	19.87	19.87			7.39	-	7.39
<b>Payables</b>		(172.69)	(0.03)	(152.35)	(325.07)			(76.85)	(202.22)	(202.22)
GlaxoSmithKline Asia Private Limited		(98.45)	-	(98.45)	(98.45)			(57.07)	(57.07)	(57.07)
GlaxoSmithKline Pharmaceuticals India Limited		(65.72)	-	(65.72)	(65.72)			(63.27)	(63.27)	(63.27)
GlaxoSmithKline Australia Pty		-	-	-	-			(5.03)	(5.03)	(5.03)
Provident Fund Trust		-	(33.15)	(33.15)	(33.15)			(13.59)	(13.59)	(13.59)
Senior Staff Gratuity Fund		-	(47.08)	(47.08)	(47.08)			(39.08)	(39.08)	(39.08)
Employees Gratuity Fund		-	(27.97)	(27.97)	(27.97)			(21.68)	(21.68)	(21.68)
Indian Senior Executives Superannuation Scheme		-	(44.15)	(44.15)	(44.15)			(2.50)	(2.50)	(2.50)
Zubair Ahmed		-	(0.03)	(0.03)	(0.03)			-	-	-
Ramakrishnan Subramanian		-	-	-	-			-	-	-
Praveen Kumar Gupta		-	-	-	-			-	-	-
Others		(8.52)	-	(8.52)	(8.52)			-	-	-

\* Amount is inclusive of Service Tax

\*\* Includes recovery of expenses on account of Employee's Cost, Travelling Expenses, Consultancy Fees, Distribution expenses and Other General expenses.

\*\*\* The contribution to Gratuity Fund and Post Employment Medical Assistance Scheme has been made on a group basis based on an actuarial valuation and separate figures applicable to an individual employee are not available and accordingly, the same has not been considered above except where paid during the year.



26. (a) The Company has initiated a long term incentive plan to maintain its competitiveness in attracting and retaining Senior Grade Managers. In terms of this plan, the eligible employees will receive cash equivalent to the market price of the shares of GSK Plc. at the end of the three years restricted period provided eligible employees are in continuous employment with the Company during that time. Accordingly, a sum of Rs. 11.24 Million (Previous Year Rs.13.17 Million) has been accounted in these financial statements on a prorata basis as Salaries, Wages, Bonus under 'Employees' Cost' (Refer Schedule 13).
- (b) Release of accruals includes a Prior adjustment aggregating Rs.10.08 Million (net) pertaining to the long term incentive scheme of 2005.
27. Previous Year's figures have been regrouped, wherever necessary, to conform to the current year's classification.

## OF GLAXOSMITHKLINE CONSUMER HEALTHCARE LIMITED

### I. REGISTRATION DETAILS

Registration No.      State Code

Balance Sheet Date

### II. CAPITAL RAISED DURING THE YEAR (Amount in Rs. Thousands)

Public Issue       Rights Issue

Bonus Issue       Private Placement

### III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs. Thousands)

Total Liabilities        Total Assets

#### SOURCES OF FUNDS \*

Paid -up Capital        Reserves & Surplus

Secured Loans       Unsecured Loans

#### APPLICATION OF FUNDS

Net Fixed Assets        Investments

Net Current Assets        Misc Expenditure

Accumulated Losses

### IV. PERFORMANCE OF THE COMPANY (Amount in Rs. Thousands)

Turnover (Sales\* and Other Income)         Total Expenditure

\* Sales are net of Excise Duty

Profit/Loss Before Tax        Profit/Loss After Tax

Earning per share in Rs \*\*     .   Dividend @%     .

\*\* Basic/Diluted

### V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS/SERVICES OF COMPANY

Item Code No.(ITC Code)       .   Product Description

Item Code No.(ITC Code)       .   Product Description





GlaxoSmithKline