

## **CORPORATE INFORMATION**

<b>Board of Directors</b>	SANG HOO KIM (From 16.11.2010) Chairman
	YONG TACK KIM (Till 16.11.2010) Chairman
	MYUNG KI MIN Managing Director
	D.G. RAJAN Director
<b>Company Secretary</b>	S. MURALIKRISHNA
<b>Registered Office</b>	NO. 4/111, MOUNT POONAMALLEE ROAD, MANAPAKKAM, CHENNAI 600 089
<b>Head Office</b>	MURUGESAN COMPLEX ,SECOND FLOOR, NO. 84, GREAMS ROAD CHENNAI 600 006
<b>Factory</b>	NELLIKUPPAM, TAMIL NADU CHENNAI, TAMIL NADU
<b>Auditors</b>	B S R & COMPANY CHARTERED ACCOUNTANTS CHENNAI
<b>Bankers</b>	STATE BANK OF INDIA HDFC BANK LTD. STANDARD CHARTERED BANK MIZUHO CORPORATE BANK LTD. SHINHAN BANK



## NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Fifty-Sixth Annual General Meeting of the Company will be held on Wednesday, the 15<sup>th</sup> June, 2011 at 11.00 a.m. at the Head Office of the Company at Murugesan Complex, Second Floor, No. 84, Greams Road, Thousand Lights, Chennai 600 006 to transact the following:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report and the audited Profit and Loss Account for the nine months period ended 31<sup>st</sup> December, 2010 and the Balance Sheet as at that date and the Auditors' Report thereon.
2. To appoint a Director in the place of Mr. Sang Hoo Kim who retires by rotation and is eligible for reappointment.
3. To consider the re-appointment of M/s. B S R & Company, Chartered Accountants, Chennai, as auditors of the Company to hold office from the conclusion of the 56<sup>th</sup> Annual General Meeting till the conclusion of the 57<sup>th</sup> Annual General Meeting and to fix their remuneration.

### SPECIAL BUSINESS

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

RESOLVED THAT pursuant to the provisions of Sections 198, 309, 310, 311 Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of shareholders and such other approvals as may be required, Mr. Myung Ki Min, Managing Director, be paid the increase in house rent only from Rs.1,00,000/- to Rs.1,20,000/- per month with effect from 15.10.2010 to 21.04.2013 subject to tax deduction as applicable and all other perquisites/ benefits/ facilities remain unchanged.

Description		Present Remuneration Per year (Rs.)	Revised Remuneration Per year (Rs.)
Salary	Basic Salary	900,000	900,000
	Total (A)	900,000	900,000
Benefits / Medical facilities	Housing	1,200,000	1,440,000
	Car running & maintenance expenses	240,000	240,000
	Club Entrance Fee	165,000	165,000
	Medical / Domicilliary	100,000	100,000
	Medical Insurance Premium	10,000	10,000
	Hospitalisation not covered by insurance	60,000	60,000
	Personal Accident Insurance Premium	10,000	10,000
	Telephone - Land Line & Cell	76,356	76,356
	Total (B)	1,861,356	2,101,356
Retirement Benefits	Provident Fund (12%)	108,000	108,000
	Gratuity (4.81%)	43,290	43,290
	Superannuation Fund (15%)	135,000	135,000
	Total (C)	286,290	286,290
<b>Total Salary (A+B+C)</b>		<b>3,047,646</b>	<b>3,287,646</b>

FURTHER RESOLVED THAT Mr. Myung Ki Min will not be entitled to any sitting fee for attending the meeting of the Board or any Committee thereof.

FURTHER RESOLVED THAT in the event of inadequacy or absence of profits, Mr. Myung Ki Min shall be entitled to the above remuneration as the minimum remuneration, subject to the approval of the Central Government.

FURTHER RESOLVED THAT Mr. Myung Ki Min will be governed by all service conditions of the Company as applicable to the Senior Management Staff including retirement age.

FURTHER RESOLVED THAT Mr. S Muralikrishna, Secretary, be and is hereby authorized to file a certified copy of the resolution with the Registrar of Companies, Tamil Nadu and with other statutory authorities, if any, and do such other acts, deeds, things as may be required from time to time in giving effect to this resolution.

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

RESOLVED THAT pursuant to the provisions of Sections 198, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of shareholders and such other approvals as may be required, Mr. Myung Ki Min be paid the following revised minimum remuneration with effect from 01.02.2011 to 21.04.2013.

Description		Present Remuneration Per year (Rs.)	Revised Remuneration Per year (Rs.)
Salary	Basic Salary	900,000	900,000
	Total (A)	900,000	900,000
Benefits / Medical facilities	Housing	1,440,000	1,440,000
	Car running & maintenance expenses	240,000	240,000
	Club Entrance Fee & Subscription	165,000	165,000
	Medical / Domicilliary	100,000	100,000
	Medical Insurance Premium	10,000	10,000
	Hospitalisation not covered by insurance	60,000	60,000
	Personal Accident Insurance Premium	10,000	10,000
	Telephone - Land Line & Cell	76,356	100,000
	Personal Allowance	—	1,286,520
	Special Personal Allowance	—	960,000
	Incentive	—	1,000,000
	Total (B)	2,101,356	5,371,520

Retirement Benefits	Provident Fund (12%)	108,000	108,000
	Gratuity (4.81%)	43,290	43,290
	Superannuation Fund (15%)	135,000	135,000
	Total (C)	286,290	286,290
<b>Total Salary (A+B+C)</b>		<b>3,287,646</b>	<b>6,557,810</b>

The maximum incentive eligibility will be Rs. 10,00,000/- per year. The actual payment will be determined by the Remuneration and Nomination Committee.

FURTHER RESOLVED THAT in the event of inadequacy or absence of profits, Mr Myung Ki Min shall be entitled to the above remuneration as the minimum remuneration, subject to the approvals as may be required.

FURTHER RESOLVED THAT Mr Myung Ki Min will be governed by all service conditions of the Company as applicable to Senior Management Staff including retirement age.

FURTHER RESOLVED THAT Mr Myung Ki Min will not be entitled to any sitting fee for attending the meeting of the Board or any Committee thereof.

FURTHER RESOLVED THAT Mr. S Muralikrishna, Secretary, be and is hereby authorized to file a certified copy of the resolution with the Registrar of Companies, Tamil Nadu and with other statutory authorities, if any, and do such other acts, deeds, things as may be required from time to time in giving effect to this resolution

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

RESOLVED THAT in accordance with the provisions of Sections 198, 309, 310, 314 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as "The Act") and subject to such approvals as may be required from time to time, the Directors (other than the Directors not resident in India but including alternate Directors, who are resident in India) who are neither in the whole-time employment of the Company nor the Managing Director of the Company be paid with effect from 1<sup>st</sup> January, 2011 in respect of

each financial year of the Company for a period of five financial years ending 31<sup>st</sup> December 2015, remuneration by way of commission not exceeding an amount equal to 1% of the net profits of the Company as computed under Section 349 and 350 of the Companies Act, 1956.

FURTHER RESOLVED THAT the quantum and manner of distribution of the aforesaid commission amount be decided by the Board of Directors from time to time.

FURTHER RESOLVED THAT the aforesaid commission shall be exclusive of fees payable to such Directors for attending the meetings of the Board and committees thereof.

FURTHER RESOLVED THAT the Board of Directors be and is hereby authorised to take all such steps as may be necessary, desirable or expedient to give effect to this resolution.

FURTHER RESOLVED THAT Mr. S Muralikrishna, Secretary, be and is hereby authorized to file a certified copy of the resolution with the Registrar of Companies, Tamil Nadu and with other statutory authorities, if any, and do such other acts, deeds, things as may be required from time to time in giving effect to this resolution.

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

RESOLVED THAT subject to the provisions of the Companies Act, 1956, if any, the Memorandum of Association of the Company be amended under the Main Objects, as below :

The existing clause No. III(2) be amended as follows :

*“To carry on the business of manufacturers, fabricators, processors, producers, makers, importers, exporters of cakes, pastry, biscuits, chocolates, confectionery, sweets, chewing gums, milk cream, ice-creams and all kinds of process foods as well as materials required or used for preparation of food products”*

By Order of the Board  
for Lotte India Corporation Limited

Chennai  
25<sup>th</sup> February, 2011

S MURALIKRISHNA  
Company Secretary

## NOTES

1. The relevant explanatory statement pursuant to Sec.173 of the Companies Act, 1956 (“The Act”) in respect of Item No. 4, 5, 6 & 7 are annexed.
2. A member entitled to attend and vote at the above meeting may appoint one or more Proxies to attend and vote instead of himself / herself. The Proxy need not be a Member of the Company. Proxy to be valid, shall be deposited with the Company not later than forty eight hours before the time for holding the meeting.
3. The Register of Members and the Share Transfer Books of the Company shall remain closed from 10<sup>th</sup> June, 2011 to 15<sup>th</sup> June, 2011 (both days inclusive)
4. Members are requested to intimate change in their addresses, if any, immediately to the Company at its Head Office quoting their folio number / Client ID number.

## ANNEXURE TO THE NOTICE

### A Details of Directors seeking appointment / re-appointment

#### PROFILE OF MR. SANG HOO KIM

Mr. Sang Hoo Kim is a Graduate in Agricultural Chemistry from Korean University. He has experience of over three decades. He has held various positions in Lotte Confectionery Co., Ltd, Korea and presently he is holding the position of 'CEO' in Lotte Confectionery Co., Ltd, Korea.

### B Explanatory Statement under Section 173(2) of the Companies Act, 1956

#### Item No. 4 & 5

The members may be aware that Mr Myung Ki Min was appointed as the Managing Director (MD) with effect from 22<sup>nd</sup> April, 2008 and the Company is paying remuneration with the approval of members and Government of India.

The Remuneration and Nomination Committee at its Meeting held on 21<sup>st</sup> July, 2010 has revised the remuneration of MD with effect from 15<sup>th</sup> October 2010 to 21<sup>st</sup> April, 2013 by increasing house rent alone from Rs.1,00,000/- to Rs.1,20,000/- per month and all other perquisites / benefits / facilities remain unchanged, subject to the approvals as may be required.

Again, the Remuneration and Nomination Committee at its Meeting held on 1<sup>st</sup> February, 2011 has revised the remuneration of MD as detailed above under Item No.5, based on the experience, knowledge, responsibilities and leadership, which has contributed immensely in the areas of sales, marketing, distribution and building a consumer franchise etc., which enabled the Company to achieve targets, the company has set for itself. Further, MD's responsibilities has also increased due to increase in operations of the Company upon amalgamation of Lotte Foods India Private Limited with the Company.

Considering the above, the revised remuneration being paid to Mr Myung Ki Min, MD is considered reasonable.

Pending approval of the Central Government , due to inadequacy of profits, Mr. Myung Ki Min will be paid remuneration, as may be determined by the Board or a Committee thereof, within the limits the Company is entitled to pay as per Schedule XIII of the Companies Act, 1956. Accordingly, the Special Resolutions set out under Item no.4 & 5 of the notice are submitted to the meeting for the approval of the members.

The details of the Remunerations as furnished above may be taken as an abstract as required under Section 302 of the Companies Act, 1956. The other terms and conditions of his employment remain unchanged. The contract of employment entered into between the Company and Mr. Myung Ki Min is available for inspection by the members at the Head Office of the Company on all working days.

None of the directors other than Mr Myung Ki Min is interested in the resolution.

**Item No. 6**

The responsibility of the Non-Executive Directors has grown during the last few years. The constitution and functioning of the Board and its committees, the conduct of meetings in terms of regularity, participation and contents demand greater time and devotion from the Board of Directors.

Further higher standards of Corporate Governance requires the Board of Directors to ensure quality in Financial reporting, fairness, transparency, compliance with accounting standards, internal control, statutory compliance etc. This requires the Board of Directors to devote more time and attention on the Business.

Approval of shareholders is sought for payment of commission to Non-Executive directors, who are neither in the whole time employment of the Company nor the Managing Director of the Company for an amount not exceeding 1% of the net profits of the Company computed under Section 349 and 350 of the Companies Act, 1956.

In view of the aforesaid reasons, the resolution is brought for Shareholders approval.

All directors except Mr. Myung Ki Min are interested in the resolution.

**Item No. 7**

In order to comply with Foreign Exchange Management Act Regulations, the Memorandum of Association of the company needs to be amended.

None of the directors is interested in the resolution.

By Order of the Board  
for Lotte India Corporation Limited

Chennai  
February 25, 2011

S MURALIKRISHNA  
Company Secretary

## DIRECTORS' REPORT

Your Directors present the 56<sup>th</sup> Annual Report of your Company together with the audited financial statements for the nine months period ended 31<sup>st</sup> December 2010.

### Financial Results

	For the nine month period April 1, 2010 to December 31, 2010 (Rs.in Lakh)	For the year ended March 31,2010 (Rs.in Lakh)
Sales	17386.01	19703.19
Less : Excise duty	794.79	864.32
Less : Discount	1091.14	1339.57
	15500.08	17499.30
Profit before depreciation and interest & finance charges	1020.33	982.75
Less : Depreciation and Interest & finance charges	964.04	481.54
Profit before tax	56.29	501.21
Less :		
Provision for Taxes :		
-Current	11.50	86.00
-Deferred	662.58	161.00
Profit / (Loss)after tax	(617.79)	254.21
Add: Balance brought forward	(82.79)	(337.00)
Balance profit/Loss transferred to Balance Sheet	(700.58)	(82.79)

The Board of Directors has decided not to recommend any dividend for the nine months period ended 31<sup>st</sup> December 2010.

### Change in financial year

The Company has changed the financial year in order to be in line with our parent company, M/s. Lotte Confectionery Co. Ltd., Korea.

The current financial year will be for nine (9) months period i.e. from April 2010 to December 2010. Subsequent to this, the Company will follow the Calendar year (January-December) as its Financial Year.

### Review of operations

For the nine months period ended 31<sup>st</sup> December, 2010 the Company achieved gross sales of Rs.17,386.01 Lakh as against Rs. 19,703.19 Lakh for twelve months ended 31<sup>st</sup> March 2010 in the previous year .

The Company has achieved a profit before depreciation, interest and finance charges of Rs.1020.33 lakh for nine months ended 31<sup>st</sup> December 2010 as against Rs.982.75 lakh for twelve months ended 31<sup>st</sup> March, 2010 in the previous year. The current year depreciation is higher consequent to the addition of a new facility in Chennai.

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

### Directors

Mr. Sang Hoo Kim is retiring by rotation in the ensuing Annual General Meeting and offers himself for re-appointment.

Dr. Yong Tack Kim has resigned from the Board as Director with effect from 16<sup>th</sup> November, 2010. The Board wishes to place on record its deep appreciation of his valuable contribution to the growth of the Company.

Mr. Sang Hoo Kim was appointed as Director and Chairman in the casual vacancy caused by the resignation of Dr. Yong Tack Kim.

### Directors' Responsibility Statement

As required under Section 217(2AA) of the Companies Act, 1956 Directors' Responsibility Statement is given in Annexure 'C' to this Report.

### Auditors

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

### Amalgamation of Lotte Foods India Private Limited

The amalgamation of Lotte Foods India Private Limited, with your Company was sanctioned by the Hon'ble High

## **DIRECTORS' REPORT (Contd.)**

Court of Madras on 11<sup>th</sup> November, 2010. The Court Order has since been received and filed with Registrar of Companies on 26<sup>th</sup> November, 2010. The Scheme of amalgamation has been given effect in the financial statements of your Company for the nine months period ended 31<sup>st</sup> December, 2010.

Upon amalgamation, the authorized capital of the company increased from Rs. 100,000,000 to Rs. 3,700,000,000 and paid up capital from Rs. 37,712,890 to Rs. 95,600,210

Consequent to this, the Company now has the facility to manufacture Chocopia in India.

### **Corporate Governance**

As a good Corporate Governance, a report on compliance of Corporate Governance as on 31<sup>st</sup> December, 2010 duly certified by the Practicing Company Secretary is annexed.

### **Disclosures**

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

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

During the year 2010, the Company had initiated a number of measures for Conservation of Energy and Water at its manufacturing facility at Nellikuppam. Through these measures, the Company has achieved significant reduction in Consumption of power and usage of water, and is expected to reap the resultant benefits in the coming years.

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

### **Acknowledgement**

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

On behalf of the Board

Chennai	MYUNG KI MIN	D G RAJAN
February 25, 2011	Managing Director	Director



**ANNEXURE 'A' TO DIRECTORS' REPORT**

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

**A. (I) POWER AND FUEL CONSUMPTION**

	For the nine months period April 1, 2010 to December 31, 2010	For the Year ended March 31, 2010
1. Electricity		
(a) Purchases		
Units	1611039	2100719
Total amount (Rs.lakh)	81.01	94.33
Rate/unit (Rs.)	5.03	4.49
(b) Own generation: Through Diesel generator		
Units	638168	799915
Total amount (Rs.lakh)	98.42	104.05
Units per litre of diesel oil	2.56	2.70
Cost/unit(Rs.)	15.42	13.01
2. Furnace oil quantity		
(K.litre)	629.12	702.08
Total amount (Rs.lakh)	164.85	163.65
Average rate per K.Litre(Rs.)	26203.83	23309.68
<b>(II) CONSUMPTION OF ELECTRICITY PER QUINTAL OF PRODUCTION (UNITS)</b>	<b>32.51</b>	<b>34.35</b>

**B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION**

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

**C. FOREIGN EXCHANGE**

Earning : Rs. 119.89 lakh  
Outgo : Rs. 883.75 lakh

On behalf of the Board

Chennai February 25, 2011  
MYUNG KI MIN Managing Director  
D G RAJAN Director

## ANNEXURE 'B' TO DIRECTORS' REPORT

Information as per Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report - Details of remuneration paid for the nine months period ended December 31, 2010

[A] EMPLOYED THROUGHOUT THE PERIOD AND WERE IN RECEIPT OF REMUNERATION AGGREGATING NOT LESS THAN Rs.18,00,000 FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31,2010

NAME (AGE)	DESIGNATION/ NATURE OF DUTIES	REMUNERATION Rs.	QUALIFICATION/ EXPERIENCE (YEARS)	DATE OF COMMENCEMENT OF EMPLOYMENT	PREVIOUS EMPLOYMENT
Myung Ki Min (48 Yrs)	Managing Director	19,33,108	Bachelor of Commerce Masters degree in Marketing (20 years)	22.04.2008	Lotte Confectionery Co. Ltd., Korea

[B] EMPLOYED FOR PART OF THE YEAR AND WERE IN RECEIPT OF REMUNERATION AGGREGATING NOT LESS THAN Rs.2,00,000 p.m.

NAME (AGE)	DESIGNATION/ NATURE OF DUTIES	REMUNERATION Rs.	QUALIFICATION/ EXPERIENCE (YEARS)	DATE OF COMMENCEMENT OF EMPLOYMENT	PREVIOUS EMPLOYMENT
— NIL —					

- Note:
- The nature of employment of the employee mentioned above is contractual.
  - Remuneration as shown above includes salary, allowances, leave travel assistance, Company's contribution to Provident Fund, Superannuation Fund and Gratuity Fund, Medical facilities and perquisites valued in terms of actual expenditure incurred by the company in providing the benefits to the employee excepting in cases of certain expenses where the actual amount of expenditure cannot be ascertained with reasonable accuracy and in such cases, notional amount as per the Income-Tax Rules has been adopted.
  - The employee is not related to any Director of the company.

On behalf of the Board

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

D G RAJAN  
Director

## ANNEXURE 'C' TO DIRECTORS' REPORT

### DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of Lotte India Corporation Limited confirm that in the preparation of the Profit and Loss account for the nine months period ended 31<sup>st</sup> December, 2010 and the Balance Sheet as at that date (financial statement) :

- The applicable Accounting Standards issued by the Institute of Chartered Accountants of India have been followed.
- Appropriate accounting policies have been selected and applied consistently and judgments and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the loss incurred by the Company during that period.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. To ensure this, the Company has established internal control systems, consistent with its size and nature of operations, subject to the inherent limitations that should be recognized in weighing the assurance provided by any such system of internal controls. These systems are reviewed and updated on an ongoing basis. Periodic internal audits are conducted to provide reasonable assurance of compliance with these systems. The Audit Committee meets at regular intervals to review the internal audit function.
- The financial statements have been prepared on a going concern basis.
- The financial statements have been audited by M/s. B S R & Company, the Statutory Auditors and their report is appended thereto.

On behalf of the Board

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

D G RAJAN  
Director

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## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Lotte India Corporation Limited is one of the pioneer and also one of the market leaders in the Indian Confectionery sector. It is engaged in the manufacture and marketing of Toffees, Hard Boiled Confectionery, Chewing Gum and Bubble Gum. Lotte India Corporation Limited is a subsidiary of Lotte Confectionery Co. Ltd., Korea, which is a US \$ 1.5 billion company.

Lotte India Corporation Limited products are well established across the Indian market. Some of our leading brands are Coffy Bite, Lacto King, Caramilk, Chocopie, 'Spout' Chewing Gum, 'Booproo' Bubble Gum and Eclairs. The Company aims to be a consumer friendly and a dominant player in fun food business in the long run.

The Company caters to the market through its own manufacturing facility located in Tamil Nadu with an all India distribution network and also through outsourcing units located across India.

### INDUSTRY TRENDS

GDP for the year 2010-11 is 8.5 per cent and the advance estimates of the Central Statistical Organisation (CSO) expects the economy to grow by 9 per cent in 2011-12.

The confectionery industry in India is approximately divided into chocolates, hard boiled candies, Eclairs and toffees, chewing gums, lollipops, bubble gum, mints and lozenges.

The biggest change in the confectionery industry in India for more than a decade has been in terms of heavy competition, packaging and promotions. Today's confectionery products are far superior in terms of packaging. Even in terms of promoting and marketing the products, every company is spending much more on brand building initiatives, which was almost negligible a decade ago. There is always an increasing awareness among the consumers and the public in general about the confectionery products as more and

more international products are making its entry into Indian Market and the consumers today are demanding superior quality branded products with best price.

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

Overall, this sector itself has become more organized and the players in this business are concentrating on ways to improvise their packaging, merchandising and product promotion schemes. There is an uphill trend in the confectionery trade as more companies showing interest in the segment, so this industry is expected to grow in the future.

### COMPANY PERFORMANCE

Despite a steep increase in the price of critical raw materials like Sugar, Liquid Glucose, Milk etc, the Company has sustained its margins through various strategic measures and very focused cost reduction initiatives. To enhance the product image, the Company is also working on improving the quality of the packaging for majority of its key products and which has been backed by some superior quality marketing strategies. With support from its parent Company, Lotte Confectionery Co. Ltd., Korea and access to their wider product portfolio, the Company is confident of achieving its growth targets, while sustaining its profit margins.

The Company has documented procedures and controls in respect of critical operations which are reviewed by the internal audit function and Audit Committee periodically.

A number of HR development initiatives in the form of training in Selling skill ISO Awareness and skill development programmes has been conducted during

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT (Contd.)

the year. As on 31<sup>st</sup> December, 2010, the total number of employees in the organization was 646. The Company has given ERP Training for its employees.

The Company has started a new facility at Nemam, Thiruvallur District with state of art technology, for manufacturing Chocopie which the company imported prior to this. The Company sales of Chocopie has been very encouraging and steadily growing which has been backed by key marketing and promotional strategy.

### RISK FACTORS

The main risk for the Company has been its single sector dependence, price point sensitivity, volatile raw material prices and stiff competition from other organized players. During the course of this year, the Company has launched a series of measures to broad base its product portfolio varied price point offerings and has put into place a series of measures including alternate sourcing for critical commodities and raw material substitution in few cases. The concentration on Chocopie and stickpacks are the efforts to move away from this risk and in future would venture into varied products with Lotte Korea's guidance. These, we believe, will strengthen the Company to weather any unforeseen volatility in raw material prices.

### OUTLOOK

FMCG industry is expected to grow at a decent pace in the coming years particularly in respect of high value niche products for which the demand is growing substantially. There has been a great change in people's mindset and this will lead to increased confectionery consumption. With Indian consumers becoming more health conscious and the government waiving the restriction on using artificial sweeteners, the sugar-free segment would drive growth in the confectionery business.

There is substantial increase in demand for branded high quality products, like Lotte Chocopie, the sales of the product through modern trade and territorial trade

format is making tremendous progress. With retailing through modern format stores becoming the order of the day, the Company is poised to capture a significant share of such markets for both its present and future products. The Company has also laid focus on the increasing its market share in the modern format stores by setting up a exclusive team for concentrating on modern trade. Nevertheless the Company plans to focus on minor / major towns across India as still it is the major contributor for sales. Intense competition is expected to prevail in the industry in the coming years resulting in consolidation in the market place with only established players with quality products expected to reap gains. Our Company has always believed in innovation and by planning to bring in new products and new offers to its strategy and by introducing innovative products in the existing category, our Company is poised for significant growth in the coming years.

The Company plans to invest significantly in brand building and expand its distribution network substantially in the coming years.

All these measures backed up by cost management initiatives will help the Company to achieve its revenue and profit targets in the competitive market in the years ahead.

On behalf of the Board

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

D G RAJAN  
Director

## REPORT ON CORPORATE GOVERNANCE

### 1 COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Lotte India Corporation Limited (LICL) is committed to the highest standards of corporate governance in all its activities and processes.

Corporate Governance refers to the manner in which a Company is directed, and laws and customs affecting that direction. It includes the manner in which a Company operates under the laws governing Companies, the bylaws established by the Company itself, and the structure of the Company. The corporate governance structure specifies the relationship, and the distribution of rights and responsibilities, among primarily three groups of participants viz. the Board of directors, managers and shareholders. It spells out the rules and procedures for making decisions on corporate affairs; it also provides the structure through which the Company objectives are set, as well as the means of attaining and monitoring the performance of those objectives.

The fundamental concern of corporate governance is to ensure conditions whereby a Company's directors and managers act in the interests of the Company and its various stakeholders.

The following is a report on the status and progress on major aspects of Corporate Governance.

### 2 BOARD OF DIRECTORS

#### (a) Composition

The present strength of the Board as on the date of this report is three Directors of which one Director is Executive Director. The remaining two Directors are Non-Executive Directors of which one is an Independent Director.

Name of the Directors	Category	No. of Directorships held in other Indian Companies #	Number of Board Committees membership held in other companies	No. of shares held
Dr. Yong Tack Kim Chairman *	Non Executive Director	Nil	Nil	—
Mr. Myung Ki Min Managing Director	Executive Director	Nil	Nil	—
Mr. D G Rajan	Independent Director	5	6	—
Mr. Sang Hoo Kim Chairman **	Non Executive Director	Nil	Nil	—

\* Resigned with effect from 16<sup>th</sup> November, 2010

\*\* Appointed with effect from 16<sup>th</sup> November, 2010

# Directorships held by Directors as mentioned above, do not include Alternative Directorships and Directorships of Foreign Companies, Section 25 Companies and Private Limited Companies.

#### (b) Attendance of each director at the Board Meetings and the last AGM

During the nine months period ended 31<sup>st</sup> December, 2010, six Board Meetings were held on the following dates :

11<sup>th</sup> May, 2010, 25<sup>th</sup> May, 2010, 7<sup>th</sup> June, 2010, 10<sup>th</sup> August, 2010, 16<sup>th</sup> November, 2010 and 22<sup>nd</sup> November, 2010

Name of the Directors	No. of Board Meetings attended	Attendance at last AGM held on 10.08.2010
Dr. Yong Tack Kim	1	No
Mr. Myung Ki Min	6	Yes
Mr. D G Rajan	6	Yes
Mr. Sang Hoo Kim	—	—

### 3 AUDIT COMMITTEE

#### (a) Constitution

The Audit Committee comprises of three Directors viz. Mr. D G Rajan as Chairman and Mr. Sang Hoo Kim & Mr. Myung Ki Min as members of which one is Executive Director. The remaining two are Non-Executive Directors of which one is Independent Director.

## REPORT ON CORPORATE GOVERNANCE (Contd.)

### (b) Meetings and Attendance

There were two meetings held during the nine months period ended 31<sup>st</sup> December 2010. The attendance of each member of the Committee is given below :

Name of the Director	Position	No. of Meetings attended
Mr. D G Rajan	Chairman	2
Mr. Myung Ki Min	Member	2
Dr. Yong Tack Kim*	Member	—
Mr. Sang Hoo Kim*	Member	—

\* Consequent to the resignation of Dr. Yong Tack Kim and appointment of Mr. Sang Hoo Kim, the Audit Committee was reconstituted viz. Mr. D G Rajan as Chairman and Mr. Sang Hoo Kim and Mr. Myung Ki Min as members of the Committee at the meeting of the Board of Directors held on 16<sup>th</sup> November, 2010

Non-Executive Chairman, Managing Director, Vice President & CFO, Senior Management Personnel, Statutory Auditors and Internal Auditors are regularly invited to the meeting. Mr. S Muralikrishna, Company Secretary acts as Secretary to the Committee.

Mr. D G Rajan, Director is a Fellow of the Institute of Chartered Accountants in England and Wales and Fellow of the Institute of Chartered Accountants of India. He has vast exposure in financial activities.

## 4 REMUNERATION TO DIRECTORS

### (a) Policy

- Executive Directors

The compensation of the Executive Directors comprises of a fixed component and a performance incentive. The compensation is determined taking into account the industry trend and level of responsibility. Performance incentive is based on certain pre-agreed parameters. The Executive Directors are not paid any sitting fees for any board / committee meetings attended by them.

- Non-Executive Directors

Non-Executive Directors are entitled to a sitting fees for every Board / Committee Meetings attended by them within the statutory limits and also commission upto 1% of net profits of the Company to Non-Executive Directors is placed before the shareholders for approval in this Annual General Meeting.

### (b) Remuneration and Nomination Committee

- The Company set up a Remuneration & Nomination Committee on 24<sup>th</sup> May, 2004.

Consequent to the resignation of Dr. Yong Tack Kim and appointment of Mr. Sang Hoo Kim, the Remuneration and Nomination Committee was reconstituted viz. Mr. D G Rajan as Chairman and Mr. Sang Hoo Kim as member of the Committee at the meeting of the Board of Directors held on 16<sup>th</sup> November, 2010.

- Remuneration and Nomination Committee consists of two directors viz. Mr. D G Rajan as Chairman and Mr. Sang Hoo Kim as member.
- The scope of Remuneration and Nomination Committee is to recommend to the Board the remuneration package to Executive Directors with fixed component and performance linked incentive, terms and conditions of service etc.
- The Company currently does not have any stock option scheme.

Details of the remuneration paid to the Executive Director for the nine months period ended 31<sup>st</sup> December, 2010 :

Name	Salary & Allowances and Performance incentive Rs.	Contribution to Retiral benefits Rs.	Value of perks Rs.	Total Rs.
Mr. Myung Ki Min	6,75,000	1,82,250	10,75,858	19,33,108

## REPORT ON CORPORATE GOVERNANCE (Contd.)

The details of sitting fees paid to Non Executive Directors for the nine months period ended 31<sup>st</sup> December, 2010.

Name of the Director	Sitting fees	Commission
Mr. D G Rajan	Rs.1,80,000/-	Nil

### 5 SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The Committee oversees share transfers and monitor investors' grievances such as complaints on transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, etc. and redressal thereof. The Committee also look in to the matters of issue of duplicate share certificates, re-materialization, subdivision, consolidation, transposition and thereupon issue of share certificates to the shareholders etc. No complaints of material nature were received during the year under review.

The Committee comprises of Mr. D G Rajan as Chairman and Mr. Myung Ki Min as member. Mr. S Muralikrishna, Company Secretary is the Compliance Officer.

The Company has created separate e-mail id [compsecy@lotteindia.com](mailto:compsecy@lotteindia.com) for grievance redressal.

### 6 ANNUAL GENERAL MEETINGS (AGM) / EXTRAORDINARY GENERAL MEETINGS (EGM)

Details of the last four AGM / EGM held are given below :

Date of Meeting	Time of Meeting	Venue of the Meeting
10 <sup>th</sup> August, 2010 (Court convened Meeting)	03.00 P.M.	Murugesan Complex, Second Floor, No. 84, Greams Road, Thousand Lights, Chennai 600 006
10 <sup>th</sup> August, 2010 (55 <sup>th</sup> AGM)	11.00 A.M.	Murugesan Complex, Second Floor, No. 84, Greams Road, Thousand Lights, Chennai 600 006

18 <sup>th</sup> September, 2009 (54 <sup>th</sup> AGM)	11.00 A.M.	Murugesan Complex, Second Floor, No. 84, Greams Road, Thousand Lights, Chennai 600 006
9 <sup>th</sup> April, 2009 (EGM)	11.00 A.M.	Kasturi Srinivasan Hall (Mini Hall), Music Academy, 168 TTK Road Royapettah, Chennai- 600 014
22 <sup>nd</sup> July, 2008 (53 <sup>rd</sup> AGM)	4.00 P.M.	Kasturi Srinivasan Hall (Mini Hall), Music Academy, 168 TTK Road Royapettah, Chennai- 600 014

Details of Special Resolutions passed during the last four AGMs/ EGM:

Date of AGM / EGM	Whether any Special Resolution was passed	Particulars
10.08.2010	Yes	Amendment of Memorandum of Association by insertion of new clause 20A viz. To amalgamate with any Company or Companies having objects altogether or in part similar to those of this Company.
18.09.2009 (AGM)	No	
09.04.2009 (EGM)	Yes	Voluntary delisting of shares from all Stock Exchanges
22.07.2008 (AGM)	Yes	i) Appointment of Mr. Myung Ki Min as Managing Director and remuneration payable to him. ii) Approval for payment of Commission to Non-executive Directors from 01.04.2008 to 31.03.2013. iii) Voluntary delisting of shares from all Stock Exchanges.

**REPORT ON CORPORATE GOVERNANCE (Contd.)**

26.07.2007 (AGM)	Yes	<ul style="list-style-type: none"> <li>i) Appointment of Mr.K.V. Ramachandra as Managing Director and remuneration payable to him.</li> <li>ii) Re-appointment of Mr.In Do Hwang as Joint Managing Director and remuneration payable to him.</li> <li>iii) Appointment of Mr.Jea Yel Kim as Wholetime Director and remuneration payable to him.</li> <li>iv) To keep registers, returns, documents etc. at a place other than the Registered Office</li> <li>v) Rights issue.</li> </ul>
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No special resolution was passed by postal ballot in the last financial year and the Company does not propose to pass any special resolution by postal ballot process at the ensuing Annual General Meeting.

**7 DISCLOSURES**

(i) Related Party Transactions: There were no materially significant related party transactions with Directors/promoters/management which had potential conflict with the interest of the Company at large.

Transactions with the Related Parties are disclosed in Schedule No.18(C)(18b) to the accounts in the Annual Report.

(ii) Risk Management: The Board of Directors were presented the risk assessment and minimization of the same which is subject to periodical review.

(iii) Code of Conduct: Code of Conduct for the Board members and Senior Management personnel has been adopted by the Board and posted on the website of the Company. Annual declaration regarding compliance with the Code is obtained from every person covered by the Code of Conduct. A declaration to this effect signed by the Managing Director is forming part of this report.

(iv) Compliance by the Company: The Company has complied with the requirements of the Statutory Authorities on all matters related to capital markets during the last three years and there were no strictures or penalties imposed on the Company by any statutory authority for non-compliance on any matter related to capital markets during the said period.

(v) We affirm that no personnel have been denied access to the Audit Committee (in respect of matters involving misconduct, if any).

(vi) Internal Control System

Your Company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of internal policies. The Company has a well defined delegation of power with authority limits for approving revenue as well as capital expenditure. Processes for formulating and reviewing annual and long term business plans have been laid down to ensure adequacy of the control system, adherence to the management instructions and legal compliances.

**8 COMPLIANCE WITH CORPORATE GOVERNANCE NORMS**

The Company has complied with the requirements of Corporate Governance norms.

**9 MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

The Management Discussion and Analysis Report forms part of the Annual Report.

On behalf of the Board

Chennai MYUNG KI MIN D G RAJAN  
February 25,2011 Managing Director Director



## **CERTIFICATE OF COMPLIANCE FROM PRACTISING COMPANY SECRETARY**

To

**The Members**

**Lotte India Corporation Limited**

We have examined all relevant records of M/s. Lotte India Corporation Limited for the purpose of certifying compliance of the conditions of corporate governance for the nine months period from April 1, 2010 to December 31, 2010. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of certification.

The compliance of the conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof. This certificate is neither an assurance as to the future viability of the Company nor

of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

We state that no investor grievance is pending for a period exceeding one month against the Company as per records maintained by the Shareholders/ Investors' Grievance Committee.

On the basis of our examination of the records produced, explanations and information furnished, we certify that the company has complied with all the requirements of Corporate Governance.

For Parimala Natarajan  
Company Secretary in practice

Chennai  
February 25, 2011

Parimala Natarajan  
C.P. No.5239

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## **CONFIRMATION ON CODE OF CONDUCT**

To

**The Members of Lotte India Corporation Limited**

I hereby confirm that, for the nine months period ended 31<sup>st</sup> December, 2010, all the Board Members and the Senior Management Personnel have affirmed compliance with the code of conduct framed by the Company.

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

## **CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION**

In relation to the Audited Financial Accounts of the Company as at 31<sup>st</sup> December, 2010, we hereby certify that

- a. We have reviewed financial statements and the cash flow statement for the nine months period ended 31<sup>st</sup> December, 2010 and that to the best of their knowledge and belief :
  - i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - ii. 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.
- b. There are, to the best of their knowledge and belief, no transactions entered into by the company during the period which are fraudulent, illegal or volatile of the company's code of conduct.
- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which are aware and the steps have taken or propose to take to rectify these deficiencies.
- d. We have indicated to the auditors and the Audit Committee
  - i. significant changes if any, in the internal control over financial reporting during the period;
  - ii. significant changes, if any, in the accounting policies during the period and that the same have been disclosed in the notes to the financial statements; and
  - iii. 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

For Lotte India Corporation Limited

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

KYO HEE KIM  
Vice President & CFO

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**GENERAL SHAREHOLDER INFORMATION**

1. **Registered Office** : No. 4/111, Mount Poonamallee Road,  
Manapakkam, Chennai 600 089
2. **Date and venue of the forthcoming Annual General Meeting** : 15<sup>th</sup> June, 2011  
Wednesday, at 11.00 a.m. at the  
Head Office of the Company at Murugesan Complex, Second Floor,  
No.84, Greams Road, Thousand Lights, Chennai 600 006
3. **Book Closure Dates** : 10<sup>th</sup> June 2011 to 15<sup>th</sup> June, 2011  
(both days inclusive).
4. **Plant Location** : Nellikuppam – 607 105  
(Cuddalore Dist.) Tamil Nadu  
  
Nemam, Chennai  
Tamil Nadu - 602 107
5. **Share Capital** : - 95,60,021 equity shares of Rs.10/- each  
- 36,87,183 (38.57 %)equity shares have been  
dematerialized as on 31<sup>st</sup> December, 2010.

**6. Share Transfer System**

The Company has appointed Cameo Corporate Services Ltd., 'Subramanian Building', No.1, Club House Road, Chennai- 600 002 as the Registrar and Transfer Agent (R&TA) of the Company for all aspects of investor servicing relating to shares.

The Board has delegated the power to approve the transfer to a committee of Directors and also to the Senior Executives of the Company, with limits.

Share transfers are completed within a period of 15 days from the date of receipt of the documents, if the documents are clear in all respects.

There are no pending complaints from investors.

Requests for dematerialisation of shares are processed and confirmation is given to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) within 15 days.

**7. Address for Correspondence :**

- i) To contact R&TA for all matters relating to shares : K.Ranganathan, Asst.Manager (Shares)  
Cameo Corporate Services Limited  
'Subramanian Building', No.1, Club House Road  
Chennai- 600 002  
Tel : 91-44-2846 0390-394; Fax: 91-44-28460129  
E-mail: [investor@cameoindia.com](mailto:investor@cameoindia.com)
- ii) To the Company : S Muralikrishna, Company Secretary  
Lotte India Corporation Limited  
Head Office: Murugesan Complex,  
Second Floor, 84, Greams Road, Chennai - 600 006  
Tel: 91-44-28298600; Fax: 91-44-28298700

- iii) The Company designated Email  
Id for Investor Complaints is : [compsecy@lotteindia.com](mailto:compsecy@lotteindia.com)
- iv) Compliance Officer : S. Muralikrishna, Company Secretary

**8. Depositories Connectivity**

National Securities Depository Ltd. (NSDL)

Central Depository Services (India) Ltd. (CDSL)

ISIN: INE185A01011

**9. Dematerialisation of shares**

The Company has signed agreements with both National Securities Depository Limited (NSDL) and with Central Depository Services (India) Limited (CDSL) to provide the facility of holding equity shares in dematerialized form. As on 31<sup>st</sup> December, 2010, 3687183 equity shares constituting 38.57 % of the total paid up capital of the Company have been dematerialized.

**10. Outstanding GDRs/ ADRs etc.**

The Company has not issued any GDR, ADR or any convertible instruments pending conversion or any other instrument likely to impact the equity share capital of the Company.

**11. Shareholding pattern as on 31<sup>st</sup> December, 2010**

Sl. No.	Category	Total no. of Shares held	% to total Shareholding
1	Promoters - foreign	9404693	98.37
2	Mutual Funds and UTI	—	—
3	Banks/ Financial Institutions/ Insurance Companies	1567	0.02
4	Foreign Institutional Investors	—	—
5	Private Corporate Bodies	4483	0.05
6	Indian Public	140941	1.47
7	NRIs / OCBs	2522	0.02
8	Any other	—	—
	- Trusts	15	0.01
	- Foreign Nationals	5800	0.06
	<b>TOTAL</b>	<b>9560021</b>	<b>100.00</b>

**12. Distribution of shareholding as on 31<sup>st</sup> December, 2010**

Number of shares	Number of Shareholders	% to total Shareholders	No.of Shares	% to total Shares
1 - 500	2739	98.21	108917	1.14
501 - 1000	31	1.11	21235	0.23
1001 - 2000	16	0.57	22131	0.23
2001 - 3000	0	0.00	0	0.00
3001 - 4000	1	0.04	3112	0.03
4001 - 5000	0	0.00	0	0.00
5001 - 10000	0	0.00	0	0.00
10001 & Above	2	0.07	9404626	98.37
<b>TOTAL</b>	<b>2789</b>	<b>100.00</b>	<b>9560021</b>	<b>100.00</b>

**13. Other Disclosures :**

I. Location and date of Annual General Meetings (AGM) / Extraordinary General Meetings (EGM) held in last 3 years

Year	Date & Time of AGM / EGM	Venue
2009-2010 (Court convened Meeting)	10 <sup>th</sup> August, 2010 at 3.00 p.m.	Murugesan Complex, Second Floor, No.84, Greams Road, Thousand Lights, Chennai 600 006
2009-2010 (AGM)	10 <sup>th</sup> August, 2010 at 11.00 a.m.	Murugesan Complex, Second Floor, No.84, Greams Road, Thousand Lights, Chennai 600 006
2008-2009 (AGM)	18 <sup>th</sup> September, 2009 at 11.00 a.m.	Murugesan Complex, Second Floor, No.84, Greams Road, Thousand Lights, Chennai 600 006
2008-2009 (EGM)	9 <sup>th</sup> April, 2009 at 11.00 a.m.	Kasturi Srinivasan Hall (Mini Hall), Music Academy, 168 TTK Road Royapettah, Chennai - 600 014
2007-2008 (AGM)	22 <sup>nd</sup> July, 2008 at 4.00 p.m.	Kasturi Srinivasan Hall (Mini Hall), Music Academy, 168 TTK Road Royapettah, Chennai - 600 014

II. Our web-site address – [www.lotteindia.com](http://www.lotteindia.com)

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**AUDITORS' REPORT TO THE MEMBERS OF LOTTE INDIA CORPORATION LIMITED**

- 1 We have audited the attached Balance Sheet of Lotte India Corporation Limited (“the Company”) as at December 31, 2010, the Profit and Loss account and the Cash Flow statement for the nine months period ended on that date annexed thereto. 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 Without qualifying our report, we draw attention to Note 18(C) (1) (iii) regarding accounting for revaluation of certain immovable properties. In accordance with the scheme of amalgamation approved by the Honorable High Court of Madras, the Company has revalued land and the revaluation adjustment aggregating to INR 9327.71 lakhs has been credited to general reserve.  
  
As more fully discussed in Note 18(C) (1) (iii), an increase in net book value arising on revaluation of fixed assets is normally credited to owner’s interest under the heading of revaluation reserves and is regarded as not available for dividend distribution under the Accounting standards (Accounting Standards 10 on ‘Fixed Assets’) referred to in Section 211(3C) of the Companies Act, 1956 and the relevant pronouncement of the Institute of Chartered Accountants of India. Had the Company not credited such revaluation adjustment of INR 9327.71 to the general reserve; the same would have been credited separately to revaluation reserve.
- 4 As required by the Companies (Auditor’s Report) Order, 2003 (as amended), issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 5 Further to our comments in the Annexure referred to Paragraph 4 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 purpose of the 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 Companies Act, 1956 *except as referred to in Paragraph 3 above.*
  - e) on the basis of written representations received from the directors, as on December 31, 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 December 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956; and

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**AUDITORS' REPORT (Contd.)**

- f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
- iii. in the case of the Cash flow statement, of the cash flows for the period from April 1, 2010 to December 31, 2010.
- i. in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2010;
- ii. in the case of the Profit and Loss account, of the loss for the period from April 1, 2010 to December 31, 2010 and
- Chennai  
February 25, 2011.
- for **B S R & Company**  
Chartered Accountants  
Firm Registration No.128032W
- Vikas R Kasat**  
Partner  
Membership No. 105317

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**ANNEXURE TO AUDITORS' REPORT**

(Referred to in our report of even date)

- (i) a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b. The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were verified during the year and as explained to us, no material discrepancies were noticed on such verification.
- c. Fixed assets disposed off during the period were not substantial, and therefore, do not affect the going concern assumption.
- (ii) a. The inventory, except goods-in-transit and stocks lying with third parties, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable. For stocks lying with third parties at the year-end, written confirmations have been obtained.
- b. The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material and have been properly dealt with in the books of accounts.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the

**ANNEXURE TO AUDITORS' REPORT (Contd.)**

(Referred to in our report of even date)

explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.

- (v) a. In our opinion, and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
- b. In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time except for purchases of certain items of inventories for the Company's specialised requirements and for which suitable alternative sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for any of the products manufactured by the Company. Accordingly, provisions of Para 4 (viii) of the Order relating to maintenance of cost records under section 209(1) (d) of the Act are presently not applicable to the Company.
- (ix) a. According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues have generally been regularly deposited during the year by the Company with the appropriate authorities *except in respect of service taxes of INR 2.27 lacs and withholding taxes of INR 2.30 lacs on royalty payable to group company which is outstanding for a period ranging from 0- 153 days*. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund. There were no dues on account of cess under section 441A of the Companies Act, 1956 since the aforesaid section has not yet been made effective by the Central Government.
- b. According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues were in arrears as at December 31, 2010 for a period of more than six months from the date they became payable
- c. According to the information and explanations given to us, the following dues in respect of Excise Duty, Service Tax, and Sales Tax which have not been deposited on account of disputes.



**ANNEXURE TO AUDITORS' REPORT (Contd.)**

(Referred to in our report of even date)

Name of the Statute	Nature of the Dues	Amount (Rs.in lakhs) (Net of payment under protest)	Period to which the amount relates	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty	11.04	2007	Pending before various forums
Central Excise Act, 1944	Excise Duty	114.93	2008	Pending before various forums
Central Excise Act, 1944	Excise Duty	77.75	2005	Pending before various forums
Central Excise Act, 1944	Excise Duty	0.55	2009	Commissioner of Central Excise ( Appeals), Kochi
Central Excise Act, 1944	Excise Duty	12.19	2006	Pending before various forums
Sales Tax Act	Sales Tax	19.05	1999-2008	Pending before various State Tax Authorities

- (x) The Company has accumulated losses at the end of the financial year which does not exceed 50% of the net worth the Company. The Company has not incurred cash losses in the financial year and in the immediately preceding financial year.
- (xi) The Company did not have any outstanding debentures or any outstanding loans from any financial institution or bank during the period.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) 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.
- (xvi) The Company did not have any term loans outstanding during the period.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we are of the opinion that the funds raised on short-term basis have not been used for long- term investment
- (xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the period.
- (xx) The Company has not raised any money by public issues.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

for **B S R & Company**  
Chartered Accountants  
Firm Registration No.128032W

**Vikas R Kasat**  
Partner  
Membership No. 105317

Chennai  
February 25, 2011.

**BALANCE SHEET AS AT DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	Schedule No	As at December 31, 2010	As at March 31, 2010
<b>I SOURCES OF FUNDS</b>			
<b>Shareholders' Funds</b>			
Share Capital	1	956.00	377.13
Reserves and surplus	2	43,087.46	3,887.52
<b>Total</b>		<u>44,043.46</u>	<u>4,264.65</u>
<b>II APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>			
Gross block	3	48,390.21	12,766.84
Less: Accumulated depreciation/amortisation		8,265.38	7,314.69
Net block		40,124.83	5,452.15
Capital work in progress		26.67	0.50
		<u>40,151.50</u>	<u>5,452.65</u>
<b>Deferred tax asset (net)</b>	18(C)(6)	-	662.58
<b>Investments</b>	4	-	-
<b>Current assets, Loans and advances</b>			
Inventories	5	2,890.14	2,084.24
Sundry debtors	6	483.11	357.72
Cash and bank balances	7	3,058.10	1,509.85
Other current assets	8	7.24	2.67
Loans and advances	9	1,388.37	515.19
		<u>7,826.96</u>	<u>4,469.67</u>
<b>Current liabilities and provisions</b>			
Current liabilities	10	3,862.39	6,254.11
Provisions	11	72.61	66.14
		<u>3,935.00</u>	<u>6,320.25</u>
<b>Net current assets</b>		3,891.96	(1,850.58)
Profit and Loss account	12	-	-
<b>Total</b>		<u>44,043.46</u>	<u>4,264.65</u>

**Significant accounting policies and notes to the financial statements**

18

The schedules referred to above and notes thereon form an integral part of the balance sheet

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

For B S R & Company  
Chartered Accountants  
Firm Registration No.128032W

For and on behalf of the Board of Directors

Vikas R Kasat  
Partner  
Membership No: 105317

MYUNG KI MIN  
Managing Director

D.G. RAJAN  
Director

Chennai  
February 25, 2011

S. MURALIKRISHNA  
Company Secretary

KYO HEE KIM  
Vice President and CFO

**PROFIT AND LOSS ACCOUNT FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	Schedule No.	For the nine months Period April 1, 2010 to December 31, 2010	For the Year Ended March 31, 2010
<b>INCOME</b>			
Sales		17,386.01	19,703.19
Less : Excise duty		794.79	864.32
Less: Discount		1,091.14	1,339.57
		<u>15,500.08</u>	<u>17,499.30</u>
Other income	13	92.32	79.55
		<u>15,592.40</u>	<u>17,578.85</u>
<b>EXPENDITURE</b>			
Materials	14	9,993.25	11,481.52
Employee costs	15	1,226.71	1,529.69
Other expenses	16	3,352.11	3,584.89
Depreciation	3	952.75	463.88
Interest and finance charges	17	11.29	17.66
		<u>15,536.11</u>	<u>17,077.64</u>
<b>Profit before tax</b>		56.29	501.21
Provision for tax			
- Current tax		11.50	86.00
- Deferred tax charge	18(C)(6)	662.58	161.00
<b>(Loss) / Profit after tax</b>		<u>(617.79)</u>	<u>254.21</u>
Balance brought forward from previous year		(82.79)	(337.00)
Balance carried to balance sheet		<u>(700.58)</u>	<u>(82.79)</u>
<b>(Loss) / Earnings per share</b>	18(C)(6)		
Basic & Diluted (Rs.)		(6.95)	6.74
Par value of equity shares (Rs.)		10	10
<b>Significant Accounting Policies and Notes to the financial statements</b>	18		

The schedules referred to above and notes thereon form an integral part of the profit and loss account

This is the profit and loss account referred to in our report of even date

For B S R & Company  
Chartered Accountants  
Firm Registration No.128032W

Vikas R Kasat  
Partner  
Membership No: 105317

Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director

S. MURALIKRISHNA  
Company Secretary

For and on behalf of the Board of Directors

D.G. RAJAN  
Director

KYO HEE KIM  
Vice President and CFO

**CASH FLOW STATEMENT FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	Schedule No	For the nine months Period April 1, 2010 to December 31, 2010	For the Year Ended March 31, 2010
<b>A Cash flows from operating activities</b>			
Net profit before tax		56.29	501.21
<b>Adjustments for</b>			
Depreciation / amortisation	3	952.75	463.88
Provision for doubtful debts		0.09	-
Interest expenses	17	0.25	5.42
Interest income	13	(53.86)	(13.48)
Profit on sale of fixed assets		(0.02)	(1.54)
<b>Operating profit before working capital changes</b>		955.50	955.49
(Increase) / decrease in sundry debtors		(125.48)	14.91
(Increase) / decrease in loans and advances and other assets		(80.80)	(37.48)
(Increase) / decrease in inventories		(805.90)	(74.35)
Increase / (decrease) in current liabilities and provisions		623.32	186.44
<b>Cash generated from operations</b>		566.64	1,045.01
Taxes paid, net		(36.13)	(72.72)
<b>Net cash from operating activities</b>		530.51	972.29
<b>B Cash flows from investing activities</b>			
Purchase of fixed assets		(4,671.34)	(70.98)
Sale of fixed assets		0.13	10.97
Issue of share capital and share premium		3,476.30	-
Interest income		49.29	12.22
<b>Net cash used in investing activities</b>		(1,145.62)	(47.79)
<b>C Cash flows from financing activities</b>			
Interest expenses		(0.25)	(5.42)
Short term loan repaid		-	(34.10)
<b>Net cashflows from / (used in) financing activities</b>		(0.25)	(39.52)
<b>Net increase in cash and cash equivalents (A+B+C)</b>		(615.36)	884.98
Cash and cash equivalents as at the beginning of the year	7	1,509.85	624.87
Add: Cash and cash equivalents transferred pursuant to the scheme of amalgamation (Refer Note (1) of Schedule 18(c))		2,163.61	-
<b>Cash and cash equivalents as at the end of the year</b>	7	3,058.10	1,509.85
Cash and cash equivalents includes Rs.232.48 (March 31, 2010: Rs.7.44) which are restrictive in nature			

Significant accounting policies and notes to accounts 18

The Schedules referred to above and notes thereon form an integral part of the cash flow statement

This is the cash flow statement referred to in our report of even date

For B S R & Company  
Chartered Accountants  
Firm Registration No.128032W

For and on behalf of the Board of Directors

Vikas R Kasat  
Partner  
Membership No: 105317  
Chennai  
February 25, 2011

MYUNG KI MIN  
Managing Director  
S. MURALIKRISHNA  
Company Secretary

D.G. RAJAN  
Director  
KYO HEE KIM  
Vice President and CFO

**SCHEDULES FORMING PART OF BALANCE SHEET AS AT DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	As at December 31, 2010	As at March 31, 2010
<b>Schedule 1: Share capital</b>		
Authorised		
370,000,000 (March 31, 2010: 10,000,000) equity shares of Rs.10 each	<u>37,000.00</u>	<u>1,000.00</u>
<b>Issued and subscribed and paid-up</b>		
9,560,021 (March 31, 2010: 3,771,289) equity shares of		
Rs.10 each fully paid up	<u>956.00</u>	<u>377.13</u>
Notes :		
1. Of the above 5,808,732 (March 31, 2010 - 20,000) equity shares have been allotted as fully paid up pursuant to a contract without payment being received in cash. During the period, the company has allotted 5,788,732 shares of Lotte Confectionery Co. Ltd., South Korea, (5,788,665 shares) and Lotte Pharmaceuticals Company Limited, South Korea (67 shares) pursuant to the merger of Lotte Foods India Private Limited with the Company. Refer note 18(C)(1)		
2. 155,000 (March 31, 2010 - 155,000) equity shares have been allotted as fully paid up bonus shares by way of capitalisation of General reserve (Rs.8.00) and Securities premium account (Rs.7.50).		
3. 9,404,626 (March 31, 2010 -3,031,647) equity shares are held by the holding company Lotte Confectionery Co. Ltd., South Korea		
<b>Schedule 2: Reserves and surplusss</b>		
(i) Capital reserve	464.47	464.47
(ii) Securities premium account	966.18	966.18
(iii) General reserve		
Opening balance	2,539.66	2,539.66
Add: Adjustment arising from merger of Lotte Foods India Pvt Ltd with the Company (Refer Note 18 (C)(1))	<u>39,817.73</u>	<u>-</u>
Less: Debit balance in profit and loss account as per contra (Refer Schedule 12)	<u>(700.58)</u>	<u>(82.79)</u>
Closing balance	<u>41,656.81</u>	<u>2,456.87</u>
	<u>43,087.46</u>	<u>3,887.52</u>

## SCHEDULES FORMING PART OF BALANCE SHEET AS AT DECEMBER 31, 2010

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

### SCHEDULE 3: FIXED ASSETS

Description	GROSS BLOCK			DEPRECIATION / AMORTISATION			NET BLOCK		
	As at April 01, 2010	Revaluation *	Additions	Deletions	As at December 31, 2010	For the Period	Deletions	As at December 31, 2010	As at April 01, 2010
<b>Tangible assets</b>									
Free hold Land	3,731.89	9,327.71	-	-	13,059.60	-	-	13,059.60	3,731.89
Buildings	455.42	-	15,918.07	-	16,373.49	174.70	-	15,950.89	280.72
Buildings on lease hold land	140.91	-	2.51	-	143.42	81.25	-	46.99	59.66
Lease hold improvements	45.00	-	-	-	45.00	40.37	-	2.25	4.63
Plant and machinery	7,702.09	-	10,300.68	2.17	18,000.60	6,463.28	2.06	10,896.49	1,238.81
Furniture, fixtures and office equipment	455.90	-	55.18	-	511.08	386.42	-	96.40	69.48
Vehicles	56.73	-	8.65	-	65.38	35.97	-	22.73	20.76
<b>Intangible assets</b>									
Computer software	178.90	-	12.74	-	191.64	132.70	-	49.48	46.20
<b>Total</b>	<b>12,766.84</b>	<b>9,327.71</b>	<b>26,297.83</b>	<b>2.17</b>	<b>48,390.21</b>	<b>7,314.69</b>	<b>2.06</b>	<b>40,124.83</b>	<b>5,452.15</b>
Previous year	12,746.43	-	147.51	127.10	12,766.84	6,968.48	117.67	26.67	0.50
Capital work in progress								40,151.50	5,452.65

\* Refer note 18(C) (1)

**SCHEDULES FORMING PART OF BALANCE SHEET AS AT DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	As at December 31, 2010	As at March 31, 2010
<b>Schedule 4: Investments</b>		
5(March 2010:5 ) equity shares of Padmavathi Co-operative Housing Society Limited of Rs. 50/- each aggregating to Rs. 250/- (Round off in lakhs)	-	-
<b>Schedule 5: Inventories</b>		
Stores and spares	86.00	70.57
Raw materials including packing materials	1,191.98	702.52
Work-in-progress	47.49	27.31
Finished goods and trading stocks	1,564.67	1,283.84
	<u>2,890.14</u>	<u>2,084.24</u>
<b>Schedule 6: Sundry debtors</b>		
Debts outstanding for a period exceeding six months		
Unsecured -considered good	35.80	13.31
Unsecured -considered doubtful	143.04	142.95
	<u>178.84</u>	<u>156.26</u>
Less : Provision for doubtful debts	(143.04)	(142.95)
	<u>35.80</u>	<u>13.31</u>
Other debts - considered good	447.31	344.41
	<u>483.11</u>	<u>357.72</u>
<b>Schedule 7: Cash and bank balances</b>		
Cash in hand	0.30	0.35
Cheques on hand	77.39	177.97
Balances with scheduled banks:		
In Current account	832.58	906.52
In Unpaid dividend account	-	-
In Deposit account *	2,147.83	425.01
	<u>3,058.10</u>	<u>1,509.85</u>
* (Lien marked in favour of banker Rs.232.48 (March 31, 2010, Rs. 7.44))		
<b>Schedule 8: Other current assets</b>		
(Unsecured - considered good)		
Interest accrued	7.24	2.67
	<u>7.24</u>	<u>2.67</u>
<b>Schedule 9: Loans and advances</b>		
(Unsecured and considered good )		
Advances recoverable in cash or in kind or for value to be received	353.71	175.28
Deposits	153.92	200.01
Balance with government authorities	798.27	101.80
Advance tax (net of tax provision: Rs.605.18 (March 31, 2010: Rs.593.68))	82.47	38.10
	<u>1,388.37</u>	<u>515.19</u>

**SCHEDULES FORMING PART OF BALANCE SHEET AS AT DECEMBER 31, 2010**

(All amounts are in Indian Rupees in lakhs, except share data and as stated)

	As at December 31, 2010	As at March 31, 2010
<b>Schedule 10: Current liabilities</b>		
Sundry creditors		
- Dues to micro small and medium enterprises (Refer note 18(C)(15))	-	-
- Dues to others	3,374.27	2,576.60
Advances and deposits	135.99	3,412.58
Investor education and protection fund:*		
a) Unpaid matured debenture instalments	-	0.15
b) Interest accrued on (a) above	0.01	0.01
Other liabilities	352.12	264.77
	<u>3,862.39</u>	<u>6,254.11</u>
* None of the amount disclosed are more than seven years old as on the balance sheet date and all are unclaimed.		
<b>Schedule 11: Provisions</b>		
Provision for compensated absences	46.45	41.45
Provision for gratuity	25.00	23.53
Provision for fringe benefits tax (net of advance for fringe benefit tax Rs.128.48 (March 31, 2010: Rs.128.48))	1.16	1.16
	<u>72.61</u>	<u>66.14</u>
<b>Schedule 12: Profit and Loss Account</b>		
Debit balance in Profit & Loss Account	700.58	82.79
Less: General Reserve as per contra (Refer Schedule 2)	<u>(700.58)</u>	<u>(82.79)</u>
	<u>-</u>	<u>-</u>



**SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2010** (All amounts are in Indian Rupees in lakhs, except share data and as stated)

	For the nine Months Period April, 1, 2010 to December, 31, 2010	For the year ended March 31, 2010
<b>Schedule 13: Other income</b>		
Interest from deposits etc: Gross (Tax deducted at source Rs.3.28 (2009-10 - Rs.1.08))	53.86	13.48
Insurance claim received	6.30	10.38
Rent received	9.94	18.11
Scrap sales	6.24	13.39
Provision / liabilities no longer required written back	-	4.25
Profit on sale/scraping of fixed assets (net)	0.02	1.54
Others	15.96	18.40
	<u>92.32</u>	<u>79.55</u>
<b>Schedule 14: Materials</b>		
Raw materials and packing materials consumed		
Opening stock	702.52	687.34
Purchases	9,873.14	9,223.28
	10,575.66	9,910.62
Closing stock	1,191.98	702.52
	9,383.68	9,208.10
Processing charges	764.47	927.14
Purchase of traded goods	87.66	1,468.01
(Increase) / decrease in stocks		
Opening stock		
Work in progress	27.31	41.26
Finished goods	1,283.84	1,196.18
	1,311.15	1,237.44
Closing stock		
Work in progress	47.49	27.31
Finished goods	1,564.67	1,283.84
	1,612.16	1,311.15
	(301.01)	(73.71)
Excise duty on finished goods		
Opening stock	63.40	111.42
Closing stock	121.85	63.40
	58.45	(48.02)
	<u>9,993.25</u>	<u>11,481.52</u>
<b>Schedule 15: Employee cost</b>		
Salaries, wages and bonus	1,040.65	1,310.74
Contribution to provident and other funds	89.48	113.90
Workmen and staff welfare expenses	96.58	105.05
	<u>1,226.71</u>	<u>1,529.69</u>

**SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE NINE MONTHS PERIOD ENDED DECEMBER 31, 2010** (All amounts are in Indian Rupees in lakhs, except share data and as stated)

	For the nine Months Period April 1, 2010 to December 31, 2010	For the year ended March 31, 2010
<b>Schedule 16: Other expenses</b>		
Consumption of stores and spares	46.92	56.12
Power and fuel	621.57	410.74
Rent	127.82	158.48
Repairs and maintenance		
Buildings	0.57	1.32
Plant and machinery	86.04	120.51
Others	66.73	61.09
Insurance	22.08	25.53
Rates and taxes	108.02	127.69
Packing, despatching and freight	1,067.89	1,020.72
Clearing forwarding and other charges	94.26	121.91
Rebates and claims	127.12	161.88
Travelling expenses	255.83	328.37
Advertisement expenditure	353.41	551.45
Audit fees and expenses:		
for fees	6.00	6.00
for other services	3.50	10.85
for expenses	0.25	0.20
Directors' sitting fees	1.80	1.50
Loss on sale / scrapping of fixed assets (net)		
Provision for doubtful debts / advances	0.09	1.81
Bad debts written off - Rs.Nil (2009-10 : Rs. 2.43)		
Less: Provision for doubtful debts adjusted-Rs.Nil (2009-10 : Rs.2.43)		
Sales development expenditure	134.96	197.51
Professional and consultancy charges	48.09	55.34
Communication expenditure	40.46	54.31
Miscellaneous expenses	138.70	111.56
	<u>3,352.11</u>	<u>3,584.89</u>
<b>Schedule 17: Interest and finance charges</b>		
Interest	0.25	5.42
Finance charges	11.04	12.24
	<u>11.29</u>	<u>17.66</u>

**18. Notes on accounts forming part of financial statements**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**18. (A) Background of the Company :**

Lotte India Corporation Limited is engaged in the business of manufacturing and marketing of confectionery products. The parent company is Lotte Confectionery Company Limited, South Korea, which is one of the leading manufacturers of confectionery products.

The Company has a wide range of confectionery products like Coffy Bite, Lacto King, Caramilk, Coconut Punch and Chocopie.

The Company's manufacturing units are primarily located at Cuddalore and Chennai.

**18 (B) Significant accounting policies:****1. Basis of preparation of financial statements**

The financial statements are prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under historical cost convention on accrual basis. GAAP comprises of accounting standards notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956, other pronouncements of the Institute of Chartered Accountants of India and the provision of Companies Act, 1956, to the extent applicable. The accounting policies have been uniformly applied by the company and are consistent with those used in the previous year.

**2. Use of Estimates**

The preparation of financial statements in conformity with the GAAP requires the management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the period reported. Actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods

**3. Revenue Recognition**

Revenue from the sale of goods are recognized on dispatch of goods which corresponds with transfer of all significant risks and rewards of ownership to the buyer. The amount recognized as sale is exclusive of sales tax.

Interest income on deposits and interest bearing securities is recognized on the time proportionate method. Insurance claims are recognized when the amount thereof can be measured reliably and ultimate collection is reasonably certain.

**4. Fixed assets and capital work in progress**

Fixed assets are stated at cost of acquisition less accumulated depreciation. The cost of fixed assets includes freights, duties and taxes and other incidental expenses related to acquisition, but exclude duties and taxes that are recoverable subsequently from tax authorities. Borrowing cost directly attributable to acquisition of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized. Other borrowing costs are accounted as expense in the profit and loss account.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of the fixed assets not ready for their intended use before such date, are disclosed as capital work in progress.

**5. Depreciation and amortization**

Depreciation is provided on the straight line method. The rates of depreciation prescribed in Schedule XIV to the Companies Act 1956, are considered as the minimum rates. If the management's estimate of the useful life of a fixed asset at the time of acquisition of the asset, or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

based on management's estimate of the useful life/ remaining useful life. Pursuant to this policy, the depreciation is provided on the following basis:

<b>Asset Description</b>	<b>Estimated life in years</b>
Building	28
Plant and machinery	5 - 13 years
Furniture, Fixtures, Office Equipment	5 - 10 years
Vehicles	5
Computers	5

All assets individually costing Rs. 5,000/- or less are depreciated at 100% in the year of purchase. Pro-rata depreciation is provided for all assets purchased/sold during the year.

Leasehold improvements are amortized on a straight line basis over the useful life of the asset or the lease period whichever is lower.

**6. Intangibles**

Intangible assets primarily representing computer software are recorded at the consideration paid for acquisition. These are amortized over their estimated useful life of 5 years on a straight line basis .

**7. Leases**

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the asset's fair value.

The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

**8. Impairment of Assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Recoverable amount is the higher of an asset's net selling price and value in use. If such recoverable amount of the asset or the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

**9. Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost includes all taxes and duties, but excludes duties and taxes that are subsequently recoverable from tax authorities.

The methods of determining cost of various categories of inventories are as follows:

<b>Description</b>	<b>Method of determining cost</b>
Raw materials, packing materials, stores and spares	Moving weighted average
Work in progress and finished goods(manufactured)	Moving weighted average and including an appropriate share of overheads
Finished goods (traded)	Moving weighted average

**18. Notes on accounts forming part of financial statements** (Contd.)

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**10. Employee benefits**

**Provident Fund:** Eligible employees receive benefits from the provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the provident fund plan equal to specified percentage of the covered employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions. Contributions to provident fund are charged to the profit and loss account on accrual basis.

**Gratuity:** The Company provide gratuity, a defined benefit retirement plan covering eligible employees. The Company provides the gratuity benefit through annual contribution to Life Insurance Corporation ("LIC"). Liabilities related to the gratuity plan are determined by actuarial valuation using projected unit credit method carried out by an independent actuary as at balance sheet date. Actuarial gain or loss is recognized immediately in the profit and loss account.

**Compensated absences:** Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation carried out at actual by an Independent actuary as at the balance sheet date.

**Superannuation:** Contribution to superannuation is made in accordance with the terms of employment contracts for eligible employees and is charged to the profit and loss account. The Company makes monthly contributions to the superannuation fund administrated by the trustees and managed by LIC. The Company has no further obligations beyond its monthly contributions. Contributions to superannuation fund are charged to profit and loss account.

**11. Foreign currency transactions and balances**

Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date. Exchange differences arising on foreign currency transactions settled during the period are recognised in the profit and loss account for the year, except that exchange differences arising on a long term foreign currency monetary liability related to acquisition of depreciable capital assets are adjusted in the carrying amount of the related fixed assets in accordance with the option exercised by the Company as per amendment to Companies (Accounting Standard) Rules, 2006 through notification of Ministry of Corporate Affairs dated March 31, 2009.

**12. Taxation**

Income tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income tax law), deferred tax charge or credit (reflecting the tax effects of the timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities and assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred taxes are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Current tax and deferred tax assets and liabilities are offset to the extent to which the Company has a legally enforceable right to set off and they relate to taxes on income levied by the same governing taxation laws.

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**13. Research and Development**

All Research and Development cost excluding capital expenditure is charged off in the year in which it is incurred.

**14. Provisions, contingent liabilities and contingent assets**

Provision is recognized when there is a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are determined based on best estimates required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not require an outflow of resources. When there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are neither recognised nor disclosed in the financial statements.

**15. Cash flow statements**

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flow from regular revenue generating, investing and financing activities of the Company is segregated.

**16. Earnings per share**

Basic earnings per share amounts are computed by dividing net profit or loss for the period attributable to equity shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share amounts are computed after adjusting the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

**18(C). Other notes on financial statements****1. Amalgamation of Lotte Foods India Private Limited ('Lotte Foods' or the 'Transferor Company') with the Company (also referred to as the 'Transferee Company' or 'the Company' in this context) under Section 391 and 394 of the Companies Act, 1956.**

- (i) Pursuant to a scheme of amalgamation sanctioned by the Hon'ble High Court of Madras on 11 November 2010 ('the Scheme'), Lotte Foods has been amalgamated with the Company with effect from April 1, 2010 ('appointed date')

The salient features of the Scheme are set out below:

- a) The assets, liabilities, rights and obligations of the Transferor Company are vested with the Company with effect from April 1, 2010.
- b) Upon the Scheme coming into effect, in consideration of the transfer of and vesting of the assets and liabilities of the Transferor Company in the Transferee Company in terms of the Scheme, the Company shall allot equity share(s) of the face value of Rs.10/- each in the Transferee Company, credited as fully paid up, to the members of the Transferor Company in the ratio of 1 equity share of Rs.10/- each, of the Transferee Company, for every 54 equity shares of Rs.10/- each, of the Transferor Company.

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

- c) The Company shall record all the assets and liabilities of the Transferor Company, existing as on the appointed date, in the books of the Company at their respective book values.
  - d) The Company shall credit the Share Capital Account in its books of account with the aggregate face value of the new equity shares issued to the shareholders of the Transferor Company.
  - e) The inter company balances shall be cancelled.
  - f) The difference, being the excess or shortfall between the assets and liabilities of the Transferor Company, transferred to the Company, over the face value of the new equity shares issued to the shareholders of the Transferor Company shall be adjusted against General Reserve.
  - g) Further, upon the Scheme becoming effective, immovable properties (Land and/or building) of the Transferee Company may be reinstated at their respective fair values as on appointed date as may be determined by Board of the Company. Any such revaluation adjustment in full or part, as may be determined by the Board, shall be credited to the General Reserve account which would be free for distribution.
  - h) Upon the Scheme being effective, the authorised share capital of the Transferee Company shall automatically stand increased to Rs.37,000 lakhs comprising of 370,000,000 shares of Rs.10/- each
- (ii) Pursuant to the scheme of amalgamation, the accounting for amalgamation has been recorded in the following manner.

SI No	Particulars	Amount	Amount
A.	Assets		
	- Capital Work in Progress	24,007.73	
	- Cash and bank balances	2,163.62	
	- Other Current Assets- Interest accrued	0.71	
	- Loans and advances	4,067.04	30,239.09
B.	Liabilities		
	- Current liabilities and provisions		(2,646.50)
C	<b>Net assets taken over (A-B)</b>		<b>27,592.59</b>
D	<b>Less:</b> Face value of shares issued by the transferee company pursuant to the above scheme of amalgamation		578.87
			27,013.72
E	<b>Add:</b> Funds received by Lotte Foods subsequent to April 1, 2010, against which shares are allotted by Lotte Foods		3,476.30
			<b>30,490.02</b>
F	<b>Add:</b> Adjustment arising from revaluation of land (Refer section (iii) below)		9327.71
G	<b>General Reserve</b>		<b>39,817.73</b>

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

As per Accounting Standard - 14 (AS 14) on Accounting for Amalgamations issued under Companies (Accounting Standards) Rules, 2006 and other pronouncements of the Institute of Chartered Accountants of India, the difference between the amount recorded as share capital issued and the amount of the share capital of the Transferor Company is adjusted against capital reserves of the Transferee Company. However, the approved Scheme provides that such amount shall be adjusted against General Reserve. In situations, where the accounting treatment prescribed by the approved scheme of amalgamation varies from the method prescribed under AS-14, the approved scheme prevails. Accordingly, the difference between the amount recorded as share capital issued and the share capital of the Transferor Company aggregating to Rs. 30,490.02 is adjusted against the General Reserve in accordance with the Scheme. Had the accounting treatment prescribed under AS-14 read with other pronouncements of the Institute of Chartered Accountants of India, been followed, the amount of Rs. 30,490.02 would have been adjusted against capital reserve.

- (iii) In accordance with the above Scheme, the Company through an independent valuer has valued the immovable properties being land and such revaluation adjustment aggregating to Rs. 9,327.71 has been credited to the General Reserve account. The details are set out below:

S. No.	Particulars	Amount
A	Fair value of immovable properties being Land	13,059.59
B	Original cost of immovable properties being Land	3,731.88
C	<b>General Reserve</b>	<b>9,327.71</b>

As per Accounting Standard-10 on 'Fixed Assets', an increase in net book value arising on revaluation of fixed assets is normally credited to owner's interest under the heading of revaluation reserves and is regarded as not available for distribution. Accordingly, the above said adjustment is not in accordance with the Accounting Standards referred to in Section 211 (3)(C) of the Companies Act, 1956 and other relevant pronouncements of the Institute of Chartered Accountants of India. Had the Company not credited such revaluation adjustment of Rs. 9,327.71 to the General Reserve; the same would have been credited to revaluation reserve, which would then not be available for dividend distribution. The financial effects of such adjustment in reserves and surplus are set out below.

Particulars	Amount as reported	Amount as per proforma
Revaluation reserve	-	9,327.71
General reserve	39,817.73	30,490.02

**2. Transfer pricing**

The Company has international transactions with related parties for the nine months period ended December 31, 2010. For the financial year 2009-10, the Company has obtained the Accountant's report from a Chartered Accountant as required by the relevant provisions of the Income-tax Act, 1961 and has filed the same with tax authorities. For the current period, management confirms that it maintains documents as prescribed by the Income-tax Act to prove that these international transactions are at arm's length and believes that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.



**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**3. Commitments and Contingencies**

Particulars	As at December 31, 2010	As at March 31, 2010
Estimated amount of contracts remaining to be executed on capital accounts and not provided for (net of advances)	9.88	-
Guarantees issued by Company's banker on behalf of the company.	232.60	9.75
Letter of credit facilities provided by the bank	43.76	566.58
Claims against the company not acknowledged as debt in respect of:		
(i) Sales tax matters	19.06	17.03
(ii) Income tax matters	12.86	11.59
(iii) Excise matters	109.62	193.42

Certain proceedings/appeals in respect of industrial disputes/claims are pending before the appropriate judicial bodies or otherwise. No provision has been made in the financial statements as the liability of the Company depends on the final outcome of the proceedings, and in the opinion of the management is unlikely to be material.

**4. Other Financial Information**

Particulars	Nine months ended December 31, 2010	Year ended March 31, 2010
(i) Repair and Maintenance include stores and spares consumed	42.54	44.17
(ii) Revenue expenses incurred on Research and development included under various heads of account	32.44	33.53
(iii) <b>Details of Assets given on Lease</b>		
<b>Land</b>		
Original cost	-	1,742.12
<b>Plant and Machinery</b>		
Original cost	417.42	417.42
Depreciation	19.94	26.83
Accumulated depreciation	284.77	264.84
Net book value	<b>132.65</b>	<b>152.58</b>

(iv) The Company has funded and non funded facilities with a bank (limit Rs.1100 lakh) which are secured by a first charge on stock of raw materials, work in-progress, finished goods, consumable stores, book debts and a second charge on the entire fixed assets, present and future, including immovable properties by way of extension of equitable mortgage by deposit of title deeds of immovable properties at Maraimalai Nagar, Manapakkam.

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**5. Export obligations**

In respect to capital goods imported at concessional rate of duty under Export Promotion Capital Goods Scheme, as at the balance sheet date, the Company has outstanding export obligation of Rs. 11,139.50 (previous year- Rs. 328.50). The above said export obligation has to be met over eight years. The Company is confident of meeting its revenue commitments / obtaining extensions, if necessary.

**6. Deferred taxation**

Particulars	As at December 31, 2010	As at March 31,2010
<b>Deferred tax liability</b>		
Excess of depreciation allowable under Income tax Law over depreciation provided in accounts	(1,024.38)	(198.30)
	<b>(1,024.38)</b>	<b>(198.30)</b>
<b>Deferred tax assets</b>		
Provision for Doubtful debts / advances	54.67	54.64
Others	86.20	72.00
Unabsorbed depreciation (Restricted up to Deferred Tax Liability-See note below)	883.51	734.24
	<b>1,024.38</b>	<b>860.88</b>
<b>Deferred tax assets, net</b>	-	<b>662.58</b>

Pursuant to AS- 22 "Accounting for taxes on income", where there is an unabsorbed or carry forward of losses, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Accordingly, deferred tax asset arising out of unabsorbed depreciation as at December 31, 2010 has been restricted to the net deferred tax liability of Rs. 883.51 as at that date.

**7. Particulars of managerial remuneration**

The remuneration paid to managerial personnel during the year:

Particulars	Nine months ended December 31, 2010	Year ended March 31, 2010
Salaries and allowances	7	10
Contribution to provident and other funds	2	3
Perquisites	10	15
<b>Total</b>	<b>19</b>	<b>28</b>

Note:(i) The Managing director is covered under the Company's gratuity scheme and leave encashment scheme along with other employees of the Company. Contribution to gratuity and provision for leave encashment of is based on actuarial valuation done on an overall Company basis and hence is excluded above.

(ii) Ministry of Corporate Affairs through notification no G.S.R 70/E dated 8 February 2011 has amended Schedule XIII to the Companies Act, 1956 to do away with the requirement of Central Government approval for managerial remuneration in case of no profits / inadequate profits. Consequently, the remuneration as approved by the Remuneration and Nomination Committee of the Board of Directors is considered to be within the framework of limits as prescribed under the Companies Act, 1956.

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**8. Capacity and Production**

Classification of Goods	Licensed Capacity Quintals		Installed Capacity Quintals	
	Dec. 31, 2010	Mar. 31, 2010	Dec. 31, 2010	Mar. 31, 2010
Toffees *	€	€	\$	\$
Confectionery Other than Toffees	€	€	\$	\$
Cocoa Powder	3,750	3,750	-	-
Chocolates	1,250	1,250	-	-
Malted Milk Food	7,500	7,500	-	-

\* Includes Milk Toffees and Modified Toffees.

 (€) Under the liberalized policy of the Government vide notification no.5-0-477 (E) dated 25<sup>th</sup> July 1991, the products in which the company is currently dealing are exempted from licensing provision under the Industries (Development and Regulation) Act, 1951.

(\$) The products are manufactured in an integrated plant and hence Installed capacity cannot be specifically ascertained.

**9. Particulars of Goods manufactured, traded goods, stock, purchase and sales.**

Particulars	Nine months ended December 31, 2010		Year ended March 31, 2010	
	Quantity Quintals	Amount	Quantity Quintals	Amount
<b>Opening Stock</b>				
Toffees \$	13,381	939.55	15,655	993.58
Confectionery other than toffee	898	90.76	1,617	142.72
Traded Goods	1,560	253.53	333	59.88
	<b>15,839</b>	<b>1,283.84</b>	<b>17,605</b>	<b>1,196.18</b>
<b>Production €</b>				
Toffees \$	61,080	NA	76,448	NA
Confectionery other than toffee	18,639	NA	7,984	NA
	<b>79,719</b>		<b>84,432</b>	
<b>Purchases</b>				
Toffees	—	—	—	—
Confectionery other than toffee	—	—	—	—
Traded Goods	1,123	87.66	8,133	1,468.01
	<b>1,123</b>	<b>87.66</b>	<b>8,133</b>	<b>1,468.01</b>
<b>Sales</b>				
Toffees \$ £	130,610	13,523.80	164,928	16,378.76
Confectionery other than toffee £	18,320	3,229.89	13,030	1,711.49
Traded Goods	2,640	623.91	6,801	1,612.94
	<b>151,570</b>	<b>17,386.01</b>	<b>184,759</b>	<b>19,703.19</b>
<b>Closing Stock</b>				
Toffees \$ £	12,552	941.62	13,381	939.55
Confectionery other than toffee £	4,445	623.05	898	90.76
Traded Goods	-	-	1,560	253.53
	<b>17,007</b>	<b>1,564.67</b>	<b>15,839</b>	<b>1,283.84</b>

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

- €1. Toffee production does not include December 2010-68,808 (March 2010 – 86,502) quintals processed by third parties.
  - €2 Confectionery other than toffee does not include 3,164 (March 2010 – 4,151) quintals processed by third parties.
  - \$ Includes milk toffees and modified toffees
  - £ Includes processed by third parties
- Closing stock is arrived at after adjustment of shortage / excess / written-off.

**10. Details of Raw Materials including Packing Materials Consumed**

Description	UOM	Nine months ended December 31, 2010		Year ended March 31, 2010	
		Qty	Amount	Qty	Amount
Sugar	Qtls	51,529	1,505.67	69,189	1,871.95
Glucose	Qtls	59,210	1,314.77	64,897	1,162.33
Processed Milk	Kgs	2,993,186	1,577.09	3,966,817	1,814.51
Vanaspathi	Kgs	1,111,597	496.25	1,338,431	540.40
Wrapping Materials *			1,253.01		1,320.31
Packing Materials *			1,505.24		1,306.48
Others *			1,731.65		1,192.12
			<b>9,383.68</b>		<b>9,208.10</b>

\* In view of the considerable number of items that are diverse in size and nature, none of these items in value individually account for 10% or more of the total value of raw materials consumed during the year and hence quantitative particulars for these items has not been furnished

**11. Details of imported and indigenous raw materials, spares and packing material consumed**

Description	Nine months ended December 31,2010		Year ended March 31, 2010	
	Amount	%	Amount	%
<b>Raw Material</b>				
Imported	869.18	9.26%	55.79	0.61%
Indigenous	8,514.50	90.74%	9,152.31	99.39%
<b>Total</b>	<b>9,383.68</b>	<b>100.00%</b>	<b>9,208.10</b>	<b>100.00%</b>
<b>Stores &amp; Spares</b>				
Imported	7.39	10.28%	0.02	0.04%
Indigenous	64.53	89.72%	64.61	99.96%
	<b>71.92</b>	<b>100.00%</b>	<b>64.63</b>	<b>100.00%</b>

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**12. C.I.F Value of Imports**

Particulars	Nine months ended December 31, 2010	Year ended March 31, 2010
Raw Materials	869.18	54.10
Finished goods	5.94	942.56
	<b>875.12</b>	<b>996.66</b>

**13. Expenditure in Foreign Currency**

Particulars	Nine months ended December 31, 2010	Year ended March 31, 2010
Travel	1.97	2.25
Others	1.50	-
<b>Total</b>	<b>3.47</b>	<b>2.25</b>

**14. Earnings in Foreign Exchange**

Particulars	Nine months ended December 31, 2010	Year ended March 31, 2010
FOB Value of exports	114.90	172.37

**15. Amount due to Micro Small and Medium Enterprises**

The management has identified the enterprises which have provided goods and services to the Company and which qualify under the definition of "Micro and Small Enterprises" as defined under Micro, Small and Medium Enterprises Development Act, 2006 ("the Act") based on information received from the parties. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at December 31, 2010 has been made in the financial statements based on the information received and available to the Company. There are no overdue amounts payable to such enterprises as at December 31, 2010.

**16. Segment Reporting**

The Company is engaged into only one business namely manufacture and trading of confectionery and related products and accordingly there are no separate reportable segments according to AS 17 'Segment Reporting' issued under the Companies (Accounting Standards) Rules, 2006.

**17. Employee benefits**

Disclosure in respect of employee benefit pursuant to the Accounting Standard 15 (Revised)

Details of Actuarial Valuation of Gratuity

Change in projected benefit obligation	Nine months ended December 31, 2010	Year ended March 31, 2010
Projected benefit obligation as at the beginning of the year	181.38	166.34
Interest cost	7.32	13.31
Current service cost	11.40	13.44
Benefits paid	(20.91)	(23.32)
Actuarial loss / (gain) on obligation	(6.16)	11.61
Plan amendments	6.90	-
Projected benefit obligation as at the end of the year	179.93	181.38

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

<b>Change in plan assets</b>	<b>Nine months ended December 31, 2010</b>	<b>Year ended March 31, 2010</b>
Fair value of plan assets at the beginning of the year	157.85	150.89
Expected return on plan assets	9.56	14.36
Contributions	23.52	15.92
Benefits paid	(20.91)	(23.32)
Actuarial gain / (loss) on plan assets	(15.09)	-
Fair value of plan assets at the end of the year	154.93	157.85

<b>Reconciliation of present value of obligation on the fair value of plan assets</b>	<b>Nine months ended December 31, 2010</b>	<b>Year ended March 31, 2010</b>
Present value of projected benefit obligation at the end of the period	179.93	181.38
Funded status of the plans	154.93	157.85
Funded status amount of liability recognized in the balance sheet	25.00	23.53

<b>Components of net gratuity costs are reflected below</b>	<b>Nine months ended December 31, 2010</b>	<b>Year ended March 31, 2010</b>
Current service cost	11.40	13.44
Interest cost	7.32	13.31
Expected return on plan assets	(9.55)	(14.36)
Recognised net actuarial (gain)/loss	8.93	11.61
Past service cost	6.90	-
Expenses recognised in the statement of profit and loss	25.00	24.00

<b>Financial assumptions as at balance sheet date</b>	<b>Nine months ended December 31, 2010</b>	<b>Year ended March 31, 2010</b>
Salary Escalation	5.00%	5.00%
Expected return on plan assets	8.00%	8.00%
Attrition rate	0.5-2%	1-3%
Discount rate	8.30%	8.00%

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**18. Related Party disclosures**

- a. Related parties where control exists or where significant influence exists and with whom transactions have taken place during the year:

Relationship	Name of related party
Holding company	Lotte Confectionery Company Limited, South Korea
Associates	Lotte Samkang Co.,Ltd. Lotte Pharmaceutical Co., Ltd. Lotte Engineering Construction India Private Ltd. Lotte Engineering and Construction Co., Korea Lotte Foods India Private Limited. (Merged with the company with effect from April 1, 2010)
Key Management Personnel	Mr. Myung Ki Min – Managing Director Mr. Jea Yel Kim – Whole Time Director till July 31, 2009

**b. Related party transactions**

Nature of transaction	Holding Company		Associates		Key Management Personnel	
	Nine months ended December 31,2010	Year ended March,31 2010	Nine months ended December 31,2010	Year ended March,31 2010	Nine months ended December 31,2010	Year ended March,31 2010
Share Capital*	578.87	-	0.01	-	-	-
Purchases of goods	33.23	996.66	13.69	-	-	-
Purchases of capital goods	-	-	3,372.68	-	-	-
Sales	-	22.37	-	-	-	-
Remuneration	-	-	-	-	19.33	27.56
Rent	-	-	-	4.80	-	-
Royalty expenses	43.49	-	-	-	-	-
Closing Balance - Credit	57.73	246.27	-	3,300.00	-	-
Debit	-	-	-	0.80	-	-

\* Refer Note 18(C)(1)

**18. Notes on accounts forming part of financial statements (Contd.)**

(All amounts are in Indian Rupees in Lakhs, except share data and as stated)

**19. Earnings Per Share**

Particulars		Nine months ended December 31, 2010	Year ended March 31, 2010
(Loss)/Profit after taxation as per profit and loss account	A	(617.79)	254.21
Weighted average number of equity shares of Rs.10 each outstanding during the year	B	8,884,037	3,771,289
Add: Dilutive potential equity shares arising due to share application money pending allotment*	C	349,827	-
<b>Total</b>	<b>D</b>	<b>9,233,864</b>	<b>3,771,289</b>
Earnings per share – Basic and diluted in Rs.	(A/B)	(6.95)	6.74

\* The Share are anti-dilutive as the Company has incurred losses during the year

**20. Prior year comparatives**

- (i) Previous year's figures have been regrouped / reclassified wherever necessary to conform to current year's classification.
- (ii) Consequent to the change in financial year, the current year financials are for a period of nine months, whereas the comparable previous year is for twelve months.
- (iii) The previous year financial statements have been audited by a firm other than B S R & Company.

for B S R & Company  
Chartered Accountants

Firm Registration No.128032W

**Vikas R Kasat**

Partner

Membership No. 105317

Chennai

February 25, 2011

For and on behalf of the Board of Directors

**MYUNG KI MIN**  
Managing Director

**D. G. RAJAN**  
Director

**S. MURALIKRISHNA**  
Company Secretary

**KYO HEE KIM**  
Vice President and CFO



**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

<b>I. Registration Details</b>		
Registration No	U15419TN1954PLC001987	
State Code		18
Balance Sheet date		31.12.2010
<b>II. Capital Raised during the Period (Rupees in Thousands)</b>		
Public Issue		NIL
Rights Issue		NIL
Bonus Issue		NIL
Private Placement		57,887
<b>III. Position of Mobilisation and Deployment of Funds (Rupees in Thousands)</b>		
Total Liabilities		4,797,846
Total Assets		4,797,846
<b>SOURCE OF FUNDS</b>		
Paid-up Capital		95,600
Reserves and Surplus		4,308,746
Secured Loans		-
Unsecured Loans		-
<b>APPLICATION OF FUNDS</b>		
Net Fixed Assets		4,015,150
Net Current Assets		(389,196)
Deferred Tax Asset		-
<b>IV. Performance of Company (Rupees in Thousands)</b>		
Turnover (including Other Income)		1,668,354
Total Expenditure		1,662,725
Profit before Tax		5,629
Loss after tax		61,779
Earnings Per Share in Rs.		(6.95)
Diluted Earnings Per Share in Rs.		(6.95)
Dividend Rate %		NIL
<b>V. Generic Names of Three Principal Products/Service of Company (as per monetary terms)</b>		
(ITC Code)		1704
Product Description	SUGAR CONFECTIONERY WITHOUT COCOA	
(ITC Code)		180690-01
Product Description	CHOCOLATE CONFECTIONERY	

**TEN YEARS AT A GLANCE**

Rs. Lakh

	2001-02	2002-03	2003-04*	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010 @ (9 Months Apr-Dec)
<b>OPERATING RESULTS</b>										
GROSS INCOME	9963.15	9512.85	10138.13	12070.14	14607.59	16217.48	16815.48	18341.68	19703.19	17386.01
PROFIT/(LOSS) BEF DEPN.,INTEREST&TAX	918.55	427.16	800.97	773.91	831.71	867.55	83.25	611.55	982.75	1020.33
PROFIT/(LOSS) BEF INTEREST & TAX	309.20	(109.17)	297.13	278.12	300.01	351.54	(445.68)	81.44	518.87	67.58
PROFIT/(LOSS) BEFORE TAX (PBT)	70.20	(286.90)	219.40	270.81	306.03	281.48	(769.62)	(272.19)	501.21	56.29
PROFIT/(LOSS) AFTER TAX (PAT)	47.67	(118.03)	77.99	116.94	140.98	120.55	(579.33)	(214.13)	254.21	(617.79)
DIVIDENDS	-	-	-	-	-	-	-	-	-	-
DIVIDEND TAX	-	-	-	-	-	-	-	-	-	-
RETAINED PROFITS	47.67	(118.03)	77.99	116.94	140.98	120.55	(579.33)	(214.13)	254.21	(617.79)
<b>SOURCES AND APPLICATION OF FUNDS:</b>										
<b>SOURCES OF FUNDS</b>										
SHARE CAPITAL	377.13	377.13	377.13	377.13	377.13	377.13	377.13	377.13	377.13	956.00
RESERVES AND SURPLUS	4503.07	3892.99	4048.30	4165.24	4306.22	4426.77	3847.44	3633.31	3887.52	43087.46
TOTAL SHAREHOLDERS' FUNDS	4880.20	4270.12	4425.43	4542.37	4683.35	4803.90	4224.57	4010.44	4264.65	44043.46
BORROWINGS	1155.86	1288.34	517.98	224.52	38.53	3000.00	3543.07	34.10	-	-
DEFERRED TAX LIABILITY	47.19	-	-	-	-	-	-	-	-	-
FUNDS EMPLOYED	6083.25	5558.46	4943.41	4766.89	4721.88	7803.90	7767.64	4044.54	4264.65	44043.46
<b>APPLICATION OF FUNDS</b>										
GROSS FIXED ASSETS	8931.02	8242.32	8684.49	9000.63	9103.34	9233.27	12615.94	12746.43	12766.84	48390.21
DEPRECIATION	3843.89	4326.84	4694.04	5156.84	5674.88	6092.48	6473.24	6968.48	7314.69	8265.38
NET FIXED ASSETS	5087.13	3915.48	3990.45	3843.79	3428.46	3140.79	6142.71	5777.95	5452.15	40124.83
CAPITAL WORK-IN-PROGRESS	4.27	4.27	4.27	4.27	4.30	3098.82	85.09	77.03	0.50	26.67
INVESTMENTS	713.87	686.76	5.80	-	-	-	-	-	-	-
DEFERRED TAX ASSET	-	355.59	848.44	716.07	616.02	520.59	738.52	823.58	662.58	-
GROSS CURRENT ASSETS	1722.56	1952.07	1402.01	2013.22	2533.08	3367.23	3319.12	3501.39	4469.67	7826.96
CURRENT LIABILITIES & PROVISIONS	1526.03	1355.71	1307.56	1810.46	1859.98	2323.53	2517.80	6135.41	6320.25	3935.00
NET CURRENT ASSETS	196.53	596.36	94.45	202.76	673.10	1043.70	801.32	(2634.02)	(1850.58)	3891.96
DEFERRED REVENUE EXPENDITURE	81.45	-	-	-	-	-	-	-	-	-
DEBIT BALANCE IN P & L Account	-	-	-	-	-	-	-	-	-	-
<b>NET ASSETS EMPLOYED</b>	6083.25	5558.46	4943.41	4766.89	4721.88	7803.90	7767.64	4044.54	4264.65	44043.46
<b>RATIOS</b>										
ROCE (%)	4.71	-1.88	5.66	5.73	6.32	5.61	-5.72	1.38	12.49	0.28
PBDIT TO GROSS INCOME(%)	9.22	4.49	7.90	6.41	5.69	5.35	0.50	3.33	4.99	5.87
PAT ON SHAREHOLDERS' FUNDS(%)	0.98	-2.76	1.76	2.57	3.01	2.51	-13.71	-5.34	5.96	-1.40
EARNINGS PER EQUITY SHARE(Rs)	1.26	-3.13	2.07	3.10	3.74	3.20	-15.36	-5.68	6.74	-6.95
DIVIDEND PER EQUITY SHARE(Rs)	-	-	-	-	-	-	-	-	-	-
NET WORTH PER EQUITY SHARE(Rs)	129.40	113.23	117.35	120.45	124.18	127.38	112.02	106.34	113.08	495.76
DEBT: EQUITY RATIO	0.24	0.30	0.12	0.05	0.01	0.62	0.84	0.01	-	-

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

@ Includes merger of Lotte foods India Private Ltd (Subsidiary of Lotte confectionery Company Ltd, Korea)

Note : Current year figures is only for 9 months (Apr-Dec) consequent to change in financial year. Hence figures are not comparable.

# LOTTE INDIA CORPORATION LIMITED

Attendance Slip

Registered Office : 4/111, Mount Poonamallee Road,  
Manapakkam, Chennai -600 089, INDIA

Sl.No.

PLEASE COMPLETE THIS ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE HALL,  
ONLY MEMBERS OR THEIR PROXIES ARE ENTITLED TO BE PRESENT AT THE MEETING.

R.F NO./ CLIENT ID :  
NAME AND ADDRESS

I hereby record my presence at the 56<sup>th</sup> ANNUAL GENERAL MEETING held at the Head Office of the Company at Murugesan Complex, Second Floor, No.84, Greams Road, Thousand Lights, Chennai - 600 006 , at 11.00 a.m . on Wednesday, the 15<sup>th</sup> June, 2011.

NAME OF PROXY IN BLOCK LETTERS

SIGNATURE OF THE SHAREHOLDERS / PROXY\*

\* Strike out whichever is not applicable



# LOTTE INDIA CORPORATION LIMITED

Proxy

Registered Office : 4/111, Mount Poonamallee Road,  
Manapakkam, Chennai -600 089, INDIA

R.F. NO. /CLIENT ID :

I / We ..... of .....  
being a Member / Members of LOTTE INDIA CORPORATION LIMITED hereby appoint .....  
..... of ..... failing him  
..... of ..... failing him  
..... of ..... failing him as my / our proxy to  
attend and vote for me/ us in the manner indicated below\* and or my / our behalf at the 56<sup>th</sup> ANNUAL GENERAL MEETING of the Company to be held on Wednesday, the 15<sup>th</sup> June, 2011 at 11.00 a.m. and any adjustment thereof .

\* 'For ' Item Nos. : \_\_\_\_\_

\* 'Against' Item Nos. : \_\_\_\_\_

Dated this ..... day of .....2011

Signed by the said .....

Affix  
Re. 1/-  
Revenue  
Stamp

1. In the case of a Corporation, this Proxy shall be either given under the authority of a Board resolution or signed on its behalf by an Attorney or Officer of the Corporation.
2. Proxies to be valid must be deposited at the Registered Office of the Company at 4/111, Mount Poonamallee Road, Manapakkam, Chennai -600 089, not later than 48 hours before the time for the meeting.
- \*3. This is only optional. Please fill up the Item Nos, as appending in the notice of the AGM. If you leave the Item Nos. blank, your proxy will be entitled to vote in the manner as he / she thinks appropriate.