



Lotus Chocolate Company Limited

(A member of The MUI Group)

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CS	<input checked="" type="checkbox"/>		DPY	<input checked="" type="checkbox"/>
RO	<input checked="" type="checkbox"/>		DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
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8th ANNUAL REPORT
1996 - 97



Lotus Chocolate Company Limited

BOARD OF DIRECTORS

Mr. Loy Yet King
Mr. Khet Kok Yin
Mr. Chong Kee Hong
Dato' Choong Kok Min
Mr. Sushil Premchand
Mr. Susantha Gunawardene
Dr. Easo John
Mrs. T. Sarada
Mr. J. Hannarayan, IAS
Mr. R. Badrinarayanan
Managing Director

Company Secretary

Mr. R. Shivakumar

AUDITORS

M/s.K. Vijayaraghavan & Associates
Hyderabad - 500 034

Registrars & Share Transfer Agents

M/s. Sathguru Management Consultants
Private Limited
Plot No.15,Hindi Nagar Colony
Punjagutta, Hyderabad-500 034

REGISTERED OFFICE

6-3-903/A/1/1
Raj Bhavan Road
Somajiguda
HYDERABAD - 500 082

BANKERS

State Bank of India
Industrial Finance Branch
Somajiguda, Hyderabad - 500 082

WORKS

Doulatabad - 502 296
Narsapur Taluk
Medak Dist, Andhra Pradesh

Bank of Baroda
Khairatabad Branch
Hyderabad - 500 004



NOTICE OF THE EIGHTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Eighth Annual General Meeting of Lotus Chocolate Company Limited will be held at 10.30 a.m. on Wednesday, the 24th September, 1997 at Sundarayya Kala Nilayam, Baghlingampally, Hyderabad 500 044 to transact the following business.

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the Financial Year ended 31.03.1997 and the Balance Sheet as at that date together with the Report of Auditors and the Report of the Board of Directors.
2. To appoint a Director in the place of Dr. Easo John who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Mr Susantha Gunawardene who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if deemed fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:
 "RESOLVED THAT Mr Khet Kok Yin who was appointed as an Additional Director of the Company with effect from 7.03.97 under Article 98 of the Articles of Association of the company and who holds office upto the date of this Annual General Meeting be and is hereby appointed as a Director of the Company."
6. To consider and if deemed fit, to pass with or without modification, the following resolution as an Ordinary Resolution:
 "RESOLVED THAT Mr Loy Yet King who was appointed as an Additional Director of the Company with effect from 22.07.1997 under Article 98 of the Articles of Association of the company and who holds office upto the date of this Annual General Meeting be and is hereby appointed as a Director of the Company."
7. To consider and if deemed fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:
 "RESOLVED THAT pursuant to Section 94 and other applicable provisions, if any, of the Companies Act, 1956 and Clause V of the Memorandum of Association of the Company, the Authorised Share Capital of the Company be and is hereby increased from Rs 14,00,00,000 (Rupees Fourteen Crores) divided into 1,40,00,000 (One Crore Forty Lacs) Equity Shares of Rs 10 (Rupees Ten) each to Rs 22,00,00,000 (Rupees Twenty Two Crores) divided into 1,40,00,000 (One Crore Forty Lacs) Equity Shares of Rs 10 (Rupees Ten) each and 80,00,000 (Eighty Lacs) Preference Shares of Rs 10 (Rupees Ten) each by creation of 80,00,000 (Eighty

Lacs) Preference Shares of Rs10 (Rupees Ten) each and THAT accordingly the first sentence of the Clause V of the Memorandum of Association be amended to read as follows:-

"The Authorised Share Capital of the Company is Rs 22,00,00,000 (Rupees Twenty Two Crores only) divided into 1,40,00,000 (One Crore Forty Lacs) Equity Shares of Rs 10 (Rupees Ten) each and 80,00,000 (Eighty Lacs) Preference Shares of Rs 10 (Rupees Ten) each"

8. To consider and if deemed fit, to pass, with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, existing Article 3 of the Articles of Association of the Company be substituted by the following Article:

3. The Authorised Share Capital of the Company is Rs 22,00,00,000 (Rupees Twenty Two Crores only) divided into 1,40,00,000 (One Crore Forty Lacs) Equity Shares of Rs 10 (Rupees Ten) each and 80,00,000 (Eighty Lacs) Preference Shares of Rs 10 (Rupees Ten) each."

9. To consider and if deemed fit, to pass, with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, after existing Article 5 of the Articles of Association of the Company, the following new Article 5A be inserted:

5A. Subject to provisions of Sections 80 and 80A and other applicable provisions, if any, of the Companies Act, 1956, the Company shall have the power to issue 80,00,000 (Eighty Lacs) Cumulative Redeemable Preference Shares of Rs 10 (Rupees Ten) each.

The rights, privileges and conditions attached to the 80,00,000 (Eighty Lacs) Cumulative Redeemable Preference Shares of Rs 10 (Rupees Ten) each shall be as follows:

- 1) The Cumulative Redeemable Preference Shares shall confer on the holders thereof, the right to a cumulative preferential dividend (subject to deduction of tax, if required) from the date of allotment on the capital for the time being paid up or credited as paid up thereon.
- 2) The Cumulative Redeemable Preference Shares shall rank for capital and dividend (including all dividends undistributed upto the commencement of winding up) and for repayment of capital in a winding up, pari passu inter se and in priority to the Equity Shares of the Company, but shall not confer any further or other right to participate either in profits or assets.
- 3) The Cumulative Redeemable Preference shareholders shall have the right to receive all notices



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of General Meetings of the Company but shall not confer on the holders thereof the right to vote at any Meeting of the Company save to the extent and in the manner provided in the Companies Act, 1956.

4) The Cumulative Redeemable Preference Shares shall not confer any right to participate in any offer or invitation by way of right or otherwise to subscribe for additional shares in the company; nor shall the Cumulative Redeemable Preference Shares confer on the holders thereof any right to participate in any issue of Bonus Shares or Shares issued by way of capitalisation of reserves.

5) All or any of the conditions, rights and terms attached to the Cumulative Redeemable Preference Shares may be modified or dealt with by the Directors in accordance with the provisions of the Articles of Association of the Company."

10. To consider and if deemed fit, to pass, with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to the provisions of the Companies Act, 1956 and other applicable provisions, if any, of the Companies Act, 1956, the opening sentence of the Article 8 be amended to read:

8. On the issue of Redeemable Preference Shares under provisions of Article 5 and 5A hereof, the following provisions shall take effect."

11. To consider and if deemed fit, to pass, with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT in accordance with the provision of Sections 80,81 (1A) and other applicable provision, if any, of the Companies Act, 1956 and the Articles of Association of the Company, and subject to such consents and approvals as may be required and also subject to such terms, conditions and modifications, as may be considered necessary by the Board or as may be prescribed in granting such approvals and which may be agreed to by the Board of Directors of the Company, the consent of the Company be and is hereby accorded to the Board to issue at par Cumulative Redeemable Preference Shares of Rs.10 (Rupees Ten) each, not exceeding 75 lacs in number, carrying dividend at a rate to be determined by the Board compatible with the market rate but not exceeding 14% p.a. to the Company's holding Company viz., Pengkalen Investments Limited, Singapore on preferential allotment basis and on such terms and conditions as the Board may in its absolute discretion consider fit, including the period within which such Preference Shares are to be redeemed which period shall not exceed 10 years from the date of allotment or such shorter period as may be agreed upon between the Company and PIL, all such terms and conditions to be subject always to the Articles of Association of the Company, the provisions of the

Companies Act, 1956, and regulations or guidelines, if any, issued by the Securities and Exchange Board of India."

By Order of the Board
R. Shivakumar
Company Secretary

Date : 22nd July, 1997

Registered Office :

6-3-903/A/1/1, Raj Bhavan Road,
Somajiguda, Hyderabad - 500 082.

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the company.
2. Instrument of proxies in order to be effective must be deposited at the Company's registered office at 6-3-903/A/1/1, Rajbhavan Road, Somajiguda, Hyderabad - 500 082 not less than 48 hours before the meeting.
3. Members/Proxies should bring the attendance slip duly filled-in for attending the meeting.
4. The Register of Members and Share Transfer books of the Company will remain closed from Tuesday the 16th September, 1997 to Wednesday 24th September, 1997 (both days inclusive).
5. Members desiring any information on the Accounts are requested to write to the company atleast seven days before the meeting so as to enable the management to keep the information ready.

ANNEXURE TO NOTICE EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956)
Item no. 5 & 6

Mr Khet Kok Yin and Mr. Loy Yet King were inducted as Additional Directors on the Board of your company on 7.03.1997 and 22.07.97 respectively representing the holding company viz. Pengkalen Investments Limited, Singapore, ('PIL') and they hold office upto the date of the ensuing Annual General Meeting.

Notices as required under Section 257 of the Companies Act, 1956 together with the requisite deposits have been received from members proposing the appointment of Mr Khet Kok Yin and Mr. Loy Yet King as Directors of your Company.

Your Directors commend the Resolutions for approval.

The Articles of Association and the notices received under section 257 and other related documents will be available for inspection at the Registered office of the Company between 11.00 A.M. to 1.00 P.M. on any working day.

None of the Directors of the Company except Mr Khet Kok Yin and Mr. Loy Yet King is concerned or interested in the resolutions.



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Item nos. 7 & 8

The Authorised Share Capital of the Company at present is Rs 14.00 Crores divided into 1,40,00,000 Equity Shares of Rs 10/- each. As Cumulative Redeemable Preference Shares are proposed to be issued to PIL (proposed in Resolution No.11 of the accompanying Notice), it is necessary to increase the Authorised Share Capital to Rs.22.00 Crores. Accordingly, the Memorandum and Articles of Association of the Company need to be amended as stated in the resolutions proposed as items 7 and 8 of the Notice. Item No. 8 of the Notice meant to amend the Articles of Association is required to be adopted as a Special Resolution.

Your Directors commend the resolutions for approval.

The Memorandum and Articles of Association of the Company and other related documents/correspondence will be available for inspection at the Registered office of the company between 11.00 a.m to 1.00 p.m. on any working day.

None of the Directors of the Company is concerned or interested in the resolutions.

Item nos. 9 & 10

The issue of Cumulative Redeemable Preference Shares to the holding Company, PIL, needs necessary changes in the Articles of Association of the Company in respect of rights, privileges and conditions attached to the issue of Preference Shares. Accordingly, amendments have been proposed to Articles of Association of the Company by inserting a new Article 5A and consequently amending existing Article 8, as stated in the resolutions set out at item No. 9 & 10 of the Notice.

Item No.9 & 10 of the Notice meant to amend the Articles of Associations are required to be adopted as Special Resolutions.

Your Directors commend the Resolutions for approval.

The existing Memorandum and Articles of Association will be available for inspection at the Registered Office of the Company between 11.00 a.m to 1.00 p.m. on any working day.

None of the Directors of the Company is interested or concerned in this resolution.

Item no. 11

Your company is planning to issue Cumulative Redeemable Preference Shares of Rs 10 each at par to the holding company M/s Pengkalen Investments Limited, Singapore ('PIL') for a total value not exceeding Rs 7.5 Crores, on preferential allotment basis. The primary purpose of the issue is to finance the working capital requirement of the company which was eroded in the past two years on account of cash losses. The company has been incurring losses primarily on account of export sales which had to be undertaken to discharge the obligation imposed under Government regulations.

Despite the cash losses, the Company has been continuing with its operations with the timely financial assistance

provided by PIL in the form of material supplies on extended credit basis. The company has put up a proposal to PIL that the liability of Rs 7.4 crores payable towards material supplies be converted into investment in the form of Redeemable Preference Shares to be issued for consideration other than cash and this has been accepted by PIL. Redeemable Preference Shares for the balance amount of Rs10 lacs will be paid for by the collaborator as a fresh remittance towards share subscription. In the event the aforesaid mode of payment is not accepted by the authorities concerned, PIL will remit the full value of the Preference Shares to be issued to them and your Company will have to remit to PIL the amount due to it.

The company is confident that it will be able to turnaround the operations within the next 2 to 3 years whereafter it will be in a position to redeem the Preference Shares proposed to be issued as aforesaid.

The resolution proposes to authorise the Board of your Company to determine the actual number of Preference Shares to be issued (not to exceed 75 lacs), the rate of dividend (not to exceed 14% p.a) and the period within which the Preference Shares are to be redeemed (not to exceed 10 years).

It may be stated here that your Company has the approval of the Secretariat of Industrial Approvals, Govt. of India, for foreign equity investment upto 74%. The present foreign equity is 52.2% and if, 75 lacs Cumulative Redeemable Preference Shares are issued, the total foreign holding (including both equity and preference) will only be 69.8% of the Company's post-issue, paid-up capital. The Company has already applied to the Secretariat of Industrial Approvals for amending the said existing approval to issue Redeemable Cumulative Preference Shares within the overall limit of 74% earlier sanctioned by the Secretariat of Industrial Approvals.

As the Preference Shares will be issued only to PIL, a Special Resolution under Section 81 (1A) of the Companies Act is necessary and your Directors commend the Resolution for approval.

The Articles of Association and the notices received under Section 257 and other related documents will be available for inspection at the Registered office of the Company between 11.00 A.M. to 1.00 P.M. on any working day.

The Memorandum and Articles of Association of the Company and other related documents/correspondence will be available for inspection at the Registered Office of the Company between 11.00 A.M. to 1.00 P.M. on any working day.

None of the Directors of the Company is interested or concerned in this resolution except Mr Khet Kok Yin, Mr Loy Yet King, Mr Chong Kee Hong, Dato' Choong Kok Min, Mr Sushil Premchand and Mr Susantha Gunawardene who are Directors representing PIL.

Date : 22nd July, 1997

Registered Office :

6-3-903/A/1/1, Raj Bhavan Road,
Somajiguda, Hyderabad - 500 082.

By Order of the Board

R.Shivakumar

Company Secretary



Lotus Chocolate Company Limited

DIRECTORS' REPORT

To the Members,

Your Directors present the 8th Annual Report together with the audited accounts for the year ended 31st March, 1997.

FINANCIAL RESULTS

	(Rupees in lakhs)	
	1996 - 97 (12 months)	1995 - 96 (15 months)
Income	2,037.95	1,383.53
Gross Profit before Interest & Depreciation	(38.86)	(52.59)
Interest	113.85	136.14
Depreciation	65.48	79.35
Loss of the year	218.19	268.08
Prior period adjustment	7.72	6.38
Extra-ordinary items	58.41	37.08
Loss brought forward from previous year	757.06	445.51
Loss carried forward to Balance Sheet	1,041.38	757.06

PERFORMANCE

There has been a growth in sales by 83% compared to previous year, on an annualised basis. The company has launched 4 new products in the consumer range and the distribution network was expanded to cover more towns in the Southern States and Maharashtra. There was also a limited advertisement support through electronic media in the second half of the year. Export sales was stepped up to complete the export obligation within the stipulated period.

Despite strong sales growth, the company was unable to achieve the overall sales objectives primarily due to the lower off take by one of the major buyers of the industrial chocolates and shortfall in production of a consumer product which was being produced by a third party who discontinued manufacturing the

company's product. Higher losses was mainly attributable to export sales compulsorily undertaken to complete the obligation imposed under Government regulations. Comparative statement pursuant to clause 43 of the listing agreement is enclosed as annexure to this report.

PLAN

Your company expects to achieve improvement in profitability with the anticipated growth in consumer product volume during the current financial year. Advertisement campaign started last year is planned to be further activated to improve the brand awareness.

Export sales which was the main reason for higher loss in the past will no longer be undertaken as the obligations have already been completed.

PARTICULARS OF EMPLOYEES

The information required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed hereto and the same forms an integral part of this report.

PARTICULARS REGARDING ENERGY CONSERVATION, ETC.

The particulars required under Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are annexed to this Report.

DEPOSITS

The Company has not accepted any deposits during the year under review.

BOARD OF DIRECTORS

Dr Easo John and Mr Susantha Gunawardene retires by rotation in the ensuing Annual General Meeting and they being eligible offer themselves for re-appointment.

Mr Choo Teow Meng has resigned from the Board effective 2nd June, 1997.



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Mr Khet Kok Yin and Mr Loy Yet King joined the Board as Additional Directors effective 07.03.97 and 22.07.97 respectively, representing the holding company. They will hold office upto the ensuing Annual General Meeting and resolutions appointing them as Directors are proposed for consideration of the members.

AUDITORS

M/s K.Vijayaraghavan & Associates, Chartered Accountants, Statutory Auditors of your Company hold office until the conclusion of the 8th Annual General Meeting and are recommended for reappointment. The Company has received a certificate from them to the effect that their re-appointment if made would be within the limits prescribed under Section 224(1) of the Companies Act, 1956.

ACKNOWLEDGEMENT

Your Directors place on record the appreciation for the sincere efforts and active involvement of employees at various levels of the Company in its operations. The Directors also place on record the appreciation for the support received from Banks, Mutual Funds and other Government Agencies.

The Directors express gratitude to the shareholders of the Company for the confidence reposed in the management.

For and on behalf of the Board
Susantha Gunawardene
Director

R.Badrinarayanan
Managing Director

Place : Hyderabad
Date : 22nd July, 1997

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Lotus Chocolate Company Limited

ANNEXURE TO THE DIRECTORS' REPORT

Additional information as required under the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988:

A. Conservation of Energy

a. Energy Conservation measures taken :

The company has undertaken various measures such as introduction of power capacitors in the load centres to improve power factor, operating the generator at a minimum of 70 % load for achieving better fuel efficiency etc.

b. Additional investment and proposals, if any, being implemented for reduction of consumption of energy:
The company plans to introduce frequency controlled drives.

c. Impact of measures at (a) & (b) above for reduction of energy consumption & consequent impact on the cost of production of goods.

- Electricity consumption per ton of production has come down.
- Unit generated per litre of diesel has increased.

d. Total energy consumption and energy consumption per unit of production in prescribed Form 'A'

	Year ended 31st March, 1997	Period ended 31st March, 1996
A. Power & fuel consumption in respect of		
1. Electricity		
a. Purchased :		
Units (KWH)	9,23,562	9,12,887
Total (Rs.)	30,56,767	26,23,946
Rate per unit (Rs.)	3.31	2.87
b. Own Generation :		
Through Diesel Generator		
Units (KWH)	5,34,167	3,58,195
Units per Litre of Diesel Oil	2.89	2.42
Cost per Unit (Rs.)	2.70	2.96
2. Furnace Oil/LSHS/LDO/HSD		
Qty (K.Lts)	2,00,689	1,93,398
Total Amount (Rs.)	15,69,115	13,81,166
Average (Rs.Ltr)	7.82	7.14
B. Consumption per unit of production		
Chocolate products (tons)		
i. Electricity (KWH/Tons)	677	773
ii. Furnace Oil/LSHS/LDO/HSD (KL/Ton)	0.179	0.118



Lotus Chocolate Company Limited

B. Technology Absorption

e. Efforts made in technology absorption in Form 'B'

Research & Development

1. Specific areas in which R & D was carried out by the Company:

R& D work has been carried out to develop a new range of Eclair products and Moulded chocolates.

2. Benefits derived as a result of the above R & D :

Company launched 4 new products in the consumer range under the brand names Tango Fruit & Nut, Tango Treats, Crispy and On & On (35gms).

3. Future Plans & Actions:

A number of new products are planned to be launched in the current year and these are in various stages of development.

4. Expenditure on R & D :

	Rs.
a. Capital	Nil
b. Recurring	58,729
c. Total as % turnover	0.03%

5. Technology Absorption, Adoption and Innovation :

Under Technical Know-how and Trademark agreement, support is being extended by the Foreign Collaborator on an ongoing basis in the development of new products and towards quality improvement measures.

C. Foreign Exchange Earnings & Outgo :

f. Activities relating to exports, initiatives taken to increase the exports, development of new export markets for products and services and export plans:

Export production was stepped up during the year with primary purpose of completing the obligation imposed under Govt. regulations, within the stipulated period.

g. Total foreign exchange used and earned:

	Rs. Lacs
i) Foreign Exchange earnings	527.06
ii) Foreign Exchange Outgo (including raw materials, components and spare parts of capital goods and other expenditures in foreign currency including dividends)	Nil

For and on behalf of the Board

Susantha Gunawardene
Director

R. Badrinarayanan
Managing Director

Place : Hyderabad

Date : 22nd July, 1997