

Lotus Chocolate Company Limited

A Subsidiary of



**14th Annual Report
2002**

(A member of The MUI Group)

Lotus Chocolate Company Limited

BOARD OF DIRECTORS

Ms.Cheong Siew Mooi	Director
Mr.Woon See Soon	Director
Mr.Sushil Premchand	Director
Mr.Chan Chong Lum	Director
Dr.Easo John	Director
Ms.T Sarada	Director
Mr.J Harinarayan, IAS	Director
Mr.R Badrinarayanan	Managing Director

AUDITORS

M/s. K.Vijayaraghavan & Associates

**REGISTRAR & SHARE
TRANSFER AGENTS**

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

ASST. COMPANY SECRETARY

Ms Pameela Paruchuri

REGISTERED OFFICE

403, Fourth Floor,
Diamond House,
Panjagutta,
Hyderabad-500 082.

BANKERS

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

WORKS

Doulatabad
Hathnoora Mandal,
Medak District, Andhra Pradesh,
PIN-502 296.

Bank of Baroda
Khairtabad Branch,
Hyderabad-500 004.

Lotus Chocolate Company Limited

NOTICE OF THE FOURTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Fourteenth Annual General Meeting of Lotus Chocolate Company Limited will be held at 9.00 AM on Wednesday, the 30th April, 2003 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 Year ended 31.12.2002 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 Sushil Premchand 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 Woon See Soon who was appointed as a Director to fill casual vacancy caused by resignation of Ms Patricia Goh Siew Mei with effect from 22nd August, 2002 under Section 262 of the Companies Act, 1956 and Articles 98 and 99 of the Articles of Association of the Company and who is to hold the office of Directorship upto the date upon which Ms Patricia Goh Siew Mei would have held the office, 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 Ms Cheong Siew Mooi who was appointed as a Director to fill casual vacancy caused by resignation of Mr Khet

Kok Yin with effect from 29th October, 2002 under Section 262 of the Companies Act, 1956 and Articles 98 and 99 of the Articles of Association of the Company and who is to hold the office of Directorship upto the date upon which Mr Khet Kok Yin would have held the office, be and is hereby appointed as a Director of the Company."

For and on behalf of the Board
Sd/-

R Badrinarayanan
Managing Director

Place : Hyderabad
Date : 18th March, 2003

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 #403, Fourth Floor, Diamond House, Panjagutta, 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 on Wednesday the 30th April, 2003.
5. Members desiring any information on the Accounts are requested to write to the company at least 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

Due to change in the representation of the Holding Company in your Company, there has

Lotus Chocolate Company Limited

been a change in the constitution of the Board of your Company.

Mr Woon See Soon and Ms Cheong Siew Mooi were inducted as Directors to fill casual vacancy on 22.08.2002 and 29.10.2002, respectively on the Board of your Company and their appointment is to be regularised at the ensuing Annual General Meeting.

The appointment of Mr Woon See Soon will be in the vacancy caused by the resignation of Ms Patricia Goh Siew Mei and the appointment of Ms Cheong Siew Mooi will be in the vacancy caused by resignation of Mr Khet Kok Yin.

Your Directors commend the Resolutions for approval.

The Articles of Association 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 Woon See Soon and Ms Cheong Siew Mooi are concerned or interested in the Resolution.

INFORMATION ON DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT AS REQUIRED UNDER CLAUSE 49VI(A) OF THE LISTING AGREEMENT WITH STOCK EXCHANGES.

Dr Easo John

Dr Easo John, 78 years, resident of Chennai, is a Director of LOTUS CHOCOLATE CO. LTD. since 1992. He is also a director in Armour Consultants, Muthoot APT Ceramics and Growth Investment and Property Company Limited. He is also a member of the Audit Committee and the Shareholders/Investors Grievances Committee constituted under Clause 49 of the Listing Agreement.

Mr Sushil Premchand

Mr Sushil Premchand, 59 years, resident of Singapore, is the representative Director of our Holding Company, Network Foods International Limited, Singapore. He is a member of the Audit Committee of the Company constituted under Clause 49 of the Listing Agreement.

Mr Woon See Soon

Mr Woon See Soon, 45 years, resident of Malaysia, is a representative Director of our Holding Company, Network Foods International Limited, Singapore. He is also a director in Network Foods International Limited Group, Pan Malaysia Corporation Berhad Group and Pan Malaysia Holdings Berhad Group all of which are foreign based groups. He is not a member of any Committee constituted under Clause 49 of the Listing Agreement.

Ms Cheong Siew Mooi

Ms Cheong Siew Mooi, 50 years, resident of Malaysia, is a representative Director of our Holding Company, Network Foods International Limited, Singapore. She is not a member of any Committee constituted under Clause 49 of the Listing Agreement.

For and on behalf of the Board
Sd/-

R Badrinarayanan
Managing Director

Place : Hyderabad

Date : 18th March, 2003

Lotus Chocolate Company Limited

DIRECTORS' REPORT

To the Members,

Your Directors present the 14th Annual Report together with the audited accounts for the year ended 31st December, 2002.

FINANCIAL RESULTS

Rs in lakhs

	2002	2001
Income	730.43	1057.15
Gross Profit before Interest & Depreciation	3.95	(470.68)
Interest	50.55	62.87
Depreciation	105.12	99.70
Extra-ordinary items	16.86	(6.94)
Loss for the year	(168.59)	(626.31)
Loss brought forward from previous year	(2168.11)	(1541.80)
Loss carried forward to Balance Sheet	(2336.70)	(2168.11)

PERFORMANCE

The Company recorded a Gross Profit of Rs. 3.95 Lacs before interest and depreciation inspite of drop in turnover.

Competitive and difficult market conditions resulted in lower consumer offtake of Chocotreats distribution of which was confined to limited markets mainly in Southern States. The Company successfully exported the repeat order to Middle East.

The market for Industrial Products could not be fully exploited due to inadequate resources.

The Company has successfully concluded a strategic manufacturing alliance with a major FMCG player leading to utilisation of its manufacturing capacity and this has resulted in generating much needed revenue.

PLAN

The Company proposes to improve its capacity utilisation by manufacturing larger quantity for its strategic partner and thereby increase the

revenue. In addition to this activity production and sales of its own Consumer and Industrial products is expected to be optimised.

PARTICULARS OF EMPLOYEES

During the year under review, none of the employees of the Company have drawn remuneration as specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

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 deposit during the year.

BOARD OF DIRECTORS

Mr Sushil Premchand and Dr Easo John retire by rotation in the 14th Annual General Meeting and they being eligible offer themselves for reappointment.

Ms Patricia Goh Siew Mei and Mr Khet Kok Yin has resigned from the Board effective from 22nd August, 2002 and 16th September, 2002, respectively.

Mr Woon See Soon is appointed to fill casual vacancy caused by resignation of Ms Patricia Goh Siew Mei with effect from 22nd August, 2002. Similarly, Ms Cheong Siew Mool is appointed in place of Mr Khet Kok Yin with effect from 29th October, 2002.

AUDITORS

M/s K Vijayaraghavan & Associates, Chartered Accountants, Statutory Auditors of your Company hold office until the conclusion of the 14th Annual General Meeting and are recommended for reappointment. The Company has received a certificate from them to the effect that their reappointment if made would be within the limits prescribed under Section 224(1) of the Companies Act, 1956.

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DIRECTORS RESPONSIBILITY STATEMENT

The Board submits as under :

- that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- that the directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

Yours 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 their gratitude to the shareholders of the Company for the confidence reposed in the management.

for and on behalf of the board

R Badrinarayanan
Managing Director

Dr.Easo John
Director

Place : Hyderabad
Date : 18th March, 2003

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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:

Due to steep increase in the cost of HSD, steam generator was modified to operate with LDO which is less expensive resulting in savings of Re 0.70 per kg of processing.

b. Additional investment and proposals, if any, being implemented for reduction of consumption of energy:

Auto steam cut off system has been provided to reduce steam consumption.

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

As the fuel prices are very erratic, it is decided to install steam generator using the fuel furnace oil which will further reduce the processing cost.

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

	Year ended 31.12.2002	Year ended 31.12.2001
A. Power & fuel consumption in respect of		
1. Electricity		
a. Purchased :		
Units (kWh)	15,47,813	10,31,760
Total (Rs.)	73,14,928	48,01,761
Rate per unit (Rs.)	4.73	4.65
b. Own Generation :		
Through Diesel Generator		
Units (kWh)	1,48,780	1,15,997
Units per Litre of Diesel Oil	2.53	2.20
Cost per Unit (Rs.)	7.49	8.29
2. Furnace Oil/LSHS/LDO/HSD		
Qty (Lts)	1,54,680	70,180
Total Amount (Rs.)	27,67,225	12,83,592
Average (Rs/Ltr)	17.89	18.29
B. Consumption per unit of production		
Cocoa & Chocolate products (tonnes)		
i. Electricity (KWH/Tonnes)		871
- Cocoa	451 units/MT	
- Chocolate	531 units/MT	
ii. Furnace Oil/LSHS/LDO/HSD (KL/Tonne)		0.053
- Cocoa	123 Lts/MT	
- Chocolate	4.5 Lts/MT	

B Technology Absorption

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

Lotus Chocolate Company Limited

Research & Development

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

R & D work has been continued to develop consumer products as well as industrial products. In consumer range the development activities mainly focussed on melt resistant Chocopaste and study of Moulded chocolate products to improve the taste and flavour.

In Industrial range development work continued on compound coating for enrobing and other applications.

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

Products launched in consumer range Kandos Kajoos.

3. Future Plans & Actions

R & D work will be continued on an ongoing basis to develop new products in the range of Chocolate enrobed products, Moulded products, and Crumbed Chocolate.

4. Expenditure on R & D:

	Rs.
a. Capital	-
b. Recurring	45,158
c. Total as % turnover	-

5. Technology Absorption, Adoption and Innovation :

Under Technical know-how and Trademark agreement, support is being extended by the foreign collaborator for development of packaging material and new raw materials.

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:

Exports have recommenced during the year to Kuwait and Nepal.

g. Total foreign exchange used and earned:

	Rs/lacs
i) Foreign Exchange earnings	9.10
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

Place : Hyderabad
Date : 18th March, 2003

R Badrinarayanan
Managing Director

Dr. Easo John
Director

Lotus Chocolate Company Limited

COMPLIANCE REPORT ON CORPORATE GOVERNANCE AS PER CLAUSE 49 OF THE LISTING AGREEMENT

1. Company's Philosophy on Corporate Governance

Your Company is committed to good Corporate Governance and has benchmarked itself against the prescribed standards. The fundamental objective of Corporate Governance is the enhancement of shareholder value and protecting the interests of the stakeholders. Your Company's philosophy of Corporate Governance is aimed at assisting the management in the efficient conduct of the business of the Company and in meeting its obligations to shareholders and others.

2. Board of Directors

(a) Composition of the Board

The Company's Board consists of eight Directors including the Promoter Director and an Executive Director. The Executive Director receives only the remuneration payable to him and does not have any material pecuniary relationship or transactions with the Company, its Promoter, Management or Subsidiaries. Even if the number of independent Directors is reckoned by excluding the said Executive Director (besides the Promoter Director), the Company has as many as six independent Directors including the non-executive Chairman.

(b) Attendance of each Director at Board Meetings and the last Annual General Meeting (AGM)

Five Board Meetings were held during the financial year 2002 :

S. No.	Name of the Director	Category of Directorship	No. of Board Meetings held during the tenure of the Director in last year	No. of Board Meetings Attended	Attendance at the last AGM
1.	Dr.Easo John	Independent, Non-executive Chairman	5	5	Yes
2.	T Sarada	Independent Promoter Director	5	2	No
3.	R Badrinarayanan	Managing Director	5	5	Yes
4.	J Harinarayan	Independent Non-executive Director	5	NII	No
5.	Sushil Premchand	Independent Non-executive Director	5	5	Yes
6.	Goh Siew Mei	Independent Non-executive Director	4	NII	No
7.	Khet Khok Yin	Independent Non-executive Director	4	NII	No
8.	Chan Chong Lum	Independent Non-executive Director	5	NII	No
9.	Woon See Soon	Independent Non-executive Director	2	1	No
10.	Cheong Siew Mool	Independent Non-executive Director	1	NII	No

Notes: Date of last Annual General Meeting (AGM) – 26.06.2002.

(c) Pecuniary relationship or transactions of the non-executive Directors vis-à-vis the Company.

The Company's non-executive Directors do not have any pecuniary relationship or transactions with the Company.

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(d) Number of other Boards/Board Committees each Director (being a Director of the Company as at the end of the financial year) is a Director/Chairman of :

Sl.No.	Name of the Director	No. of other Companies in which Director	No. of Committees (other than those constituted by the Company) in which Member/Chairman
1.	Dr.Easo John	5	2
2.	T Sarada	Nil	Nil
3.	R Badrinarayanan	Nil	Nil
4.	J Harinarayan	Nil	Nil
5.	Sushil Premchand	14	Nil
6.	Goh Siew Mei	1	Nil
7.	Khet Khok Yin	40	Nil
8.	Chan Chong Lum	9	Nil
9.	Woon See Soon	20	Nil
10.	Cheong Siew Mooi	11	Nil

(e) Number of Board Meetings held during the financial year and the dates of the Board Meetings

Five Board Meetings were held during the financial year 2002. The time gap between any two Board Meetings did not exceed by more than four months.

The dates on which the said Board Meetings were held are as follows:

1 st Board Meeting	-	28 th March, 2002
2 nd Board Meeting	-	30 th April, 2002
3 rd Board Meeting	-	26 th June, 2002
4 th Board Meeting	-	22 nd August, 2002
5 th Board Meeting	-	29 th October, 2002

3. Audit Committee

(a) Brief description of terms of reference

The terms of reference of the Audit Committee are comprehensive and covers the matters specified for Audit Committees under the Listing Agreement with Stock Exchanges.

(b) Composition, Names of members and Chairperson

A qualified and an independent Audit Committee consisting of three members, all being independent Directors, was constituted on April 25th, 2001.

The Committee consists of:

1. Mr. Sushil Premchand
2. Dr. Easo John
3. Ms. T Sarada

(c) Meetings and attendance during the year

Three meetings of the Audit Committee were held on 28th March, 2002 , 30th April, 2002 and 22nd August, 2002 and all members of the Committee attended the meeting but for one member who did not attend any meeting.