

LOTUS

CHOCOLATE COMPANY LIMITED

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**16th ANNUAL REPORT
2004-2005**

BOARD OF DIRECTORS

Dr. V Vedha Kumar
Smt. T Sarada
Shri. P Shivaramakrishna
Shri. K Srinivas
Shri. Alapati Ramakrishna
Shri. Devabhaktuni Durga Prasad
Shri. D Manohar
Shri. M Venkateshwara Rao

Chief Executive Officer
Director
Director
Director
Director
Director
Director
Nominee Director (APIDC)

Auditors

M/s. S.R. Mohan & Co.

Registrar & Share Transfer Agents

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

Registered Office

#8-3-966/13, Gr.Floor,
Nagarjuna Nagar,
Srinagar Colony,
Hyderabad-500 073.

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.

NOTICE OF THE SIXTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Sixteenth Annual General Meeting of Lotus Chocolate Company Limited will be held at 9.00 A.M on Friday, the 30.09.2005 at Function Hall, Jubilee Hills International Centre, Jubilee Hills, Hyderabad 500 033 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the Year ended 31.03.2005 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 Shri. Devabhaktuni Durga Prasad who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Alapati Ramakrishna who retires by rotation and being eligible, offers himself for reappointment.
4. To re-appoint M/s.S.R.Mohan & Co., Chartered Accountants, Hyderabad as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration as may be mutually agreed upon between the said S.R. Mohan & Co., and the Board of Directors of the Company.

SPECIAL BUSINESS

5. To consider and, if deemed fit, to pass, with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri. D Manohar, who was appointed as an Additional Director of the Company with effect from 22.08.2005 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 Dr.V Vedha Kumar, who was appointed as Additional Director of the Company with effect from 01.06.2005 under Article 98 of the Article 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 the provisions of Sections 198, 269, 309, 310, 311, 385, 386, 387, 388 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 including any statutory modifications or re-enactment thereof for the time being in force, Dr. V Vedha Kumar be and is hereby appointed as the Chief Executive Officer of the Company

upto a period of three years with effect from 01.06.2005 on such salary and perquisites as set out in the Explanatory Statement attached to the notice convening this meeting."

For and on behalf of the Board
Sd/-

D. Durga Prasad
Director

Place : Hyderabad

Date : 24.08.2005

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 #8-3-966/13, Ground Floor, Panjagutta, Srinagar Colony, Hyderabad - 500 073 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 26th day of September, 2005 to 30th day of September, 2005 (both days inclusive).
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

Shri. D Manohar is inducted as Additional Director with effect from 22.08.2005 on the Board of your Company and his appointment is to be regularized at the ensuing Annual General Meeting.

Your Directors recommend the Resolution for approval.

None of the Directors of the Company except Shri. D Manohar and Shri. D Durga Prasad is concerned or interested in the Resolution.

ITEM NO. 6 & 7

Dr. V Vedha Kumar is appointed as a Director and further as the Chief Executive Officer of the Company with effect from 01.06.2005, and the Board of Directors of your Company on the recommendation of the Remuneration Committee, fixed the following terms of remuneration paid or payable to the Chief Executive Officer, Dr. V Vedha Kumar, with effect from 01.06.2005:

1. SALARY :

Rs. 35,000 /- (Rupees Thirty Five thousand) per month.

2. PERQUISITES :

The following perquisites will be allowed in addition to salary aforesaid above :

CATEGORY - A

(I) HOUSING

He will be entitled to a House Rent Allowance subject to a ceiling of 50% of the salary.

Lotus Chocolate Company Limited**(II) MEDICAL ALLOWANCE**

Reimbursement of Medical Expenses incurred by the Chief Executive Officer for self and family subject to a ceiling of one month's salary in a year.

(III) LEAVE TRAVEL ALLOWANCE

Reimbursement of leave travel expenses incurred by the Chief Executive Officer for self and family subject to a ceiling of two month's salary in a year.

(IV) FURNISHING ALLOWANCE

Furnishing Allowance subject to a ceiling of one month's salary in a year.

(V) CONVEYANCE ALLOWANCE

Reimbursement of Conveyance Expenses incurred by the Chief Executive Officer subject to a ceiling of Rs. 3,200/- (Rupees Three Thousand Two Hundred) per month.

(VI) ENTERTAINMENT ALLOWANCE

Reimbursement of Entertainment Expenses incurred by the Chief Executive Officer subject to a ceiling of Rs 2,500/- (Rupees Two Thousand Five Hundred) per month.

(VII) DRIVERS SALARY

He will be entitled to Driver's Salary subject to a ceiling of Rs.3,400/- p.m.

(VIII) PROVIDENT FUND

He will be entitled to Provident Fund subject to a ceiling of 12% on the Annual Remuneration.

(IX) CLUB FEES

Nil

(X) PERSONAL ACCIDENT INSURANCE

He will be covered by the Group Personal

Accident Insurance provided by the Company.

For the purpose of Category - A, 'Family' means the spouse, dependent children and dependent parents.

CATEGORY - B

Contribution to Provident Fund, Superannuation Fund or Annuity Fund will be as per the rules of the company. The same will not be included in the computation of the ceiling on perquisites to the extent these either singly or but together are not taxable under the Income-tax Act. The Chief Executive Officer shall be entitled to Gratuity at half a month's salary for each completed year of service.

CATEGORY - C

Nil

The resolution provides that the appointment of Chief Executive Officer shall be upto a period of three years from 01.06.2005.

The above terms may be treated as abstract of terms under Section 302 of the Companies Act, 1956.

Your Directors recommend the Resolution for approval.

None of the Directors of the Company except Dr. V Vedha Kumar is concerned or interested in the Resolution.

For and on behalf of the Board
Sd/-

D. Durga Prasad
Director

Place : Hyderabad
Date : 24.08.2005

Information on Directors seeking appointment / re-appointment as required under clause 49 VI(a) of the listing agreement with Stock Exchanges.

Shri. Devabhaktuni Durga Prasad

Shri. Devabhaktuni Durga Prasad is a Chartered Accountant. He is a partner in M/s.Durga Prasad & Co., a Stock Broking Firm, who are trading members on The National Stock Exchange of India Limited. He is one of the acquirers of Lotus Chocolate Company Limited under the SEBI(Substantial Acquisition of Shares and Takeover) Regulations, 1997.

Shri. Alapati Ramakrishna

Shri. Alapati Ramakrishna is a Graduate in Engineering. He is the Managing Director of Neeharika Polymers Private Limited and is one of the acquirers of Lotus Chocolate Company Limited under the SEBI(Substantial Acquisition of Shares and Takeover) Regulations, 1997.

Dr. V Vedha Kumar

Dr. Vedhakumar Valliappan holds a Ph.D. in Industrial Microbiology and has had his education in several renowned Universities in India and in the United Kingdom.

He started his career as a lecturer in Universiti ITM., Malaysia for a period of 17 years.

He took up the challenging post of Group Research & Development Manager in Network Food Industries, Malaysia, in 1989 and was associated with Lotus which was then a NFIL subsidiary from 1993 to 1996. He joined Premium Vegetable Oils, Malaysia in 1996 as Senior Vice President, R & D.

In 2002, Dr Kumar left PVO and from his base at Pune, helped set up the first Speciality Fat operations at Mumbai for Kamani Oil Industries and also made valuable inputs to the Winery Industry in Maharashtra.

Before Joining LCCL as the CEO, he spent some time as a process consultant for LCCL and in this way, his association with the Company is all the way from 1993.

D. Manohar

Shri D. Manohar is a Graduate in Computer Science from a Canadian University.

For and on behalf of the Board
Sd/-

D. Durga Prasad
Director

Place : Hyderabad

Date : 24.08.2005

Lotus Chocolate Company Limited

DIRECTORS' REPORT

To the Members,

Your Directors present the 16th Annual Report together with the audited accounts for the 15 months period ended 31st March, 2005.

FINANCIAL RESULTS

Rs in lakhs

	2005 15 months	2003 12 months
Income	1707.07	494.34
Gross Profit before Interest & Depreciation	140.52	(59.82)
Interest	(56.25)	(37.49)
Depreciation	(132.56)	(105.14)
Loss for the year	(48.29)	(202.61)
Loss brought forward from previous year	(2539.3)	(2336.69)

Loss carried forward to Balance Sheet is (2585.09 lacs) after adjusting extraordinary item of Rs. 2.5 lacs.

PERFORMANCE

During the period under review, Cocoa beans processing plant was fully renovated to comply with International standards and Chocolate plant was partially renovated only in critical location. This really has enabled us to produce quality products acceptable to leading organizations.

The company relaunched its Consumer range of Products under direct marketing in Andhra Pradesh, Karnataka and Maharashtra states. Market response is quite encouraging. In the

Industrial segment the company regained customer confidence and roll back all its multinational clients and started penetrating into new markets.

The Company continues to undertake tolling operations for Cadburys India Ltd., and underwrites close to 60% of its installed capacity by manufacturing Cocoa Derivatives and Chocolate Intermediaries.

The volume of Chocolate production has increased in multifold resulting in considerable increase in sales.

Processing of Cocoa Products during the period was 1555 MT (1234 Mt) and Chocolate production was 3283 Mt (2015 Mt)

The Company exported Cocoa derivatives and Chocolate products to US, Europe and Nepal to the tune of Rs.2.76 Crores (0.44 Crores). The entire focus was to achieve marked improvement and this really has contributed in increasing the total revenue by 325% ie., from Rs.4.94 crores to Rs. 13.66 Crores (annualised). Even though the progress was remarkable, the company suffered a small net loss of Rs. 46.45 lakhs and ensured a cash profit of Rs. 86.78 lakhs besides renovation of Cocoa and Chocolate plants.

During the first quarter of the current fiscal year the company made a net profit Rs.31 lakhs and a cash profit of Rs. 56.13 lakhs. This is the first time that the company has ever made a net profit in 15 years of its existence.

PLAN

The Company is in the process of removing production bottlenecks by adding the balancing equipments wherever necessary in order to achieve maximum utilization of Plant and Machinery to its rated capacity.

Efforts are on to retain the existing customers and establishing the presence of our Products at National level.

Keeping in view of the above the top priority of the company is to productively use all its production facilities to the maximum extent possible and retaining and adding new customers by supplying quality products / customized products and making the company financially viable.

Reference to BIFR : As informed in the last AGM the company became sick and reference had been made to Board of Industrial and Financial Reconstruction. The company's reference application was accepted by the BIFR.

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 under review.

BOARD OF DIRECTORS

Shri. Devabhaktuni Durgā Prasad , Director and Shri. Alapati Ramakrishan, Director, retires by rotation at the 16th Annual General Meeting and being eligible offers themselves for reappointment.

Dr.V Vedha Kumar was appointed as Director and subsequently as Chief Executive Officer of the Company with effect from 01.06.2005 with the responsibility of management of affairs of the Company.

Shri. D Manohar is appointed as Additional Director of the Company with effect from 22.08.2004 and his appointment is to be regularized at the ensuing Annual General Meeting.

Shri. M Venkateswara Rao was appointed as Nominee Director on the Board of Directors of the Company with effect from 22.08.2005 in place of Shri.JHarinarayanan, who has resigned as Nominee Director of the Company with effect from 28.10.2004.

Lotus Chocolate Company Limited

Ms.B.S.Radhika, who was appointed as Alternate Director to Mr.Woon See Soon on 29.10.2003 has vacated the office automatically on resignation given by Mr.Woon See Soon with effect from 01.07.2004.

AUDITORS

M/s S R Mohan & Company, Chartered Accountants, Hyderabad, Statutory Auditors of your Company hold office until the conclusion of the 16th Annual General Meeting and are being proposed for re-appointment. The Company has received a certificate from them to the effect that their appointment if made would be within the limits prescribed under Section 224(1) of the Companies Act, 1956.

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, if any;
- 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 hard work put in by the employees of the Company in its operations. The Directors acknowledge the support and co-operation received from Banks and other Governmental Agencies.

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

K Srinivas
Director

For and on behalf of the Board
D. Durga Prasad
Director

Place : Hyderabad

Date : 24.08.2005

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:**

During the above period the overall productivity improved considerably resulting in reduction of power consumption by unit rate. This has been achieved by judicious planning.

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

The Company installed a multi solid fuel Boiler of One Tonne capacity at an investment of Rs. 10 lacs. This investment has immensely helped to bring down cost of production when the fuel prices are very erratic.

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

The multi fuel Boiler installed during the year has resulted in substantial savings resulting in reducing cost of production.

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

	Year ended 31st March, 2005	Year ended 31st December, 2003
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A. Power & fuel consumption in respect of**1. Electricity****a. Purchased :**

Units (kWh)	17,95,675	14,33,418
Total (Rs.)	80,82,837	62,74,994
Rate per unit (Rs.)	4.50	4.38

b. Own Generation :**Through Diesel Generator**

Units (kWh)	57,667	38,261
Units per Litre of Diesel Oil	2.05	2.40
Cost per Unit (Rs.)	13.08	9.29