

LOTUS

CHOCOLATE COMPANY LIMITED

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**17th ANNUAL REPORT
2005-2006**

BOARD OF DIRECTORS

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

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.

Ph.23735952, 23735953

Fax:091-40-23735954

Email: info@lotuschocolate.com

hyd1_lotus@sancharnet.in

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 SEVENTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Seventeenth Annual General Meeting of Lotus Chocolate Company Limited will be held at 10.00 A.M on Friday, the 29.09.2006 at Lions Bhavan Trust, Behind LIC & HDFC Bank, Near Paradise Circle (West), S.D.Road, Secunderabad -500 003 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the Year ended 31.03.2006 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. P Shivaramakrishna who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Shri. K Srinivas 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 pursuant to the provisions of Sections 268 read with the provisions of Section 198, 269, 309, 310, 311, 385, 386, 387, 388, 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. the remuneration paid to Dr. V Vedha Kumar be and is hereby revised with effect from 01.04.2006 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 : 4th September, 2006

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, Nagarjuna Nagar, 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, 2006 to 29th day of September, 2006 (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

Dr. V Vedha Kumar was 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 has revised paying of the remuneration to him as follows with effect from 01.04.2006:

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.

(II) ALLOWANCES

A) SPECIAL ALLOWANCE

He will be entitled to special allowance of Rs.16250/- p.m.

(B) MEDICAL ALLOWANCE

Reimbursement of Medical Expenses to the extent of Rs.3000/- p.m.

(C) DRIVER'S SALARY

He will be entitled to Driver's Salary.

(III) PROVIDENT FUND

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

(IV) CLUB FEES

Nil

(V) 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

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 : 4th September, 2006

Lotus Chocolate Company Limited

DIRECTORS' REPORT

To the Members,

Your Directors present the 17th Annual Report together with the audited accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

Rs in lakhs

	2006 (12 Months)	2005 (15 Months)
Income	1,977.83	1,699.39
Gross Profit before		
Interest & Depreciation	226.36	140.53
Interest	(42.23)	(56.25)
Depreciation	(100.93)	(132.56)
Extra-ordinary items		
Profit / (Loss) for the year	83.20	(48.29)
Loss brought forward		
from previous year	(2,585.09)	(2539.30)
Loss carried forward		
to Balance Sheet	(2,498.76)	(2,585.09)

Loss carried forward to Balance Sheet is (Rs.2498.76).

PERFORMANCE

The Company has started realising the benefits of investments made in the previous financial year on the Cocoa Beans Processing Plant renovations. These improvements as well as various other systems implemented has been further appreciated through the award of HACCP certification from British Retail Consortium.

While keeping up its momentum to increase its market share of consumer as well as industrial products, the company continues with its contract manufacturing operations for Cadbury India Limited which utilised close to 64% of the installed capacity for Chocolate Intermediates and cocoa derivatives.

Processing of cocoa products more than doubled to 2504 MT, while the production of chocolate and Intermediates rose by 36% to 2739 MT.

The Company's efforts in relaunching its Consumer range of products have been very encouraging with sales in the states of Karnataka, Maharashtra & Andhra Pradesh growing by 66% to 264 MT during the last fiscal.

The company continues to garner support of various leading organisations and sales of industrial products to this sector have also grown by 379 MT to 1304 MT. The company managed to keep up its presence in the export sector through the shipment of 2.32 crores of Cocoa Derivatives and Chocolates.

Concentrated efforts have contributed to an increase in revenue by 16.38% (45% on year-on-year basis) to Rs.19.78 Crores and a net profit of Rs.83.20 Lakhs. The company stands proud of this first time achievement after 16 years of its existence.

PLAN

The company will continue on its path to be effective and efficient while maximising capacity and resources utilisation. Efforts to retain existing customer base as well as establishing a greater presence in the market are ongoing.

Further investments are in the pipeline to upgrade the chocolate plant in terms of capacity as well as stage wise improvements in internal environment so as to attract high value customers.

NOTE ON BIFR

In the first hearing of BIFR held on 31.08.2006, the Board has appointed M/S State Bank of India, the lead Bankers to the Company as the Operating Agency.

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. P Shivaramakrishna, Director and Shri. Katuri Srinivas, Director, retire by rotation at the 17th Annual General Meeting and being eligible offer themselves for reappointment.

AUDITORS

M/s S R Mohan & Company, Chartered Accountants, Hyderabad, Statutory Auditors of your Company hold office until the conclusion of the 17th 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

Your 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.

For and on behalf of the Board

Sd/-	Sd/-
D. Durga Prasad	Dr. V. Vedha Kumar
Director	Director

Place : Hyderabad

Date : 4th September, 2006

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 in the previous year. The investment has 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 last 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 31 st March, 2006	Year ended 31 st March, 2005
A.	Power & fuel consumption in respect of		
	1. Electricity		
	a. Purchased : Units (kWh)	20,16,623	17,95,675
	Total (Rs.)	78,62,424	80,82,837
	Rate per unit (Rs.)	3.90	4.50
	b. Own Generation : Through Diesel Generator		
	Units (kWh)	1,18,002	57,667
	Units per Litre of Diesel Oil	2.20	2.05
	Cost per Unit (Rs.)	17.04	13.08
	2. Furnace Oil/LSHS/LDO/HSD		
	Qty (Lts)	3,490	2,02,220
	Total Amount (Rs.)	62,680	41,96,065
	Average (Rs/Ltr)	17.96	20.75

WOOD/COAL		
Qty (kgs)	11,21,980	4,55,893
Total Amount(Rs)	16,38,090	4,87,806
Average(Rs/Kgs)	1.46	1.07

B. Consumption per unit of production

Cocoa & Chocolate products (tonnes)

i. Electricity (KWH/Tonnes)

- Cocoa	428 units/MT	478 units/MT
- Chocolate	378 units/MT	362 units/MT

ii. Furnace Oil/LSHS/LDO/HSD (KL/Tonne)

- Cocoa	(Nil)	101 Lts/MT
- Chocolate	(Nil)	6.6 Lts/MT

iii. Wood/Coal (Kg/MT)

- Cocoa	403.5 Kgs/MT	491.4 Kgs/MT
- Chocolate	43.5 Kgs/MT	52.4 Kgs/MT

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 continued to develop tailor-made recipes exclusively for ice - cream manufacturers and these products are categorised as ice – cream covering concentrates.

In respect of sale of institutional products like couvertures, designed new style of moulds and packaging.

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

The Company could sustain the stiff competition and is able to retain the esteemed customers within its fold.

3. Future Plans & Actions

Constant and concerted efforts will be put in to develop new products and to further improve the existing products.

Lotus Chocolate Company Limited

4. Expenditure on R & D:

	Rs.
a. Capital	-
b. Recurring	44,083
c. Total as % turnover	0.02%

5. Technology Absorption, Adoption and Innovation : Nil

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:

The Company has exported its Cocoa products to London, Belgium, Nigeria, Nepal and U.S.A.

- g. Total foreign exchange used and earned:

	Rs/lacs
i) Foreign Exchange earnings	231.78
ii) Foreign Exchange Outgo(including raw materials, components and spare parts of capital goods and other expenditures in foreign currency including dividends)	131.17

For and on behalf of the Board

Place : Hyderabad

Date : 4th September, 2006

Sd/-
D. Durga Prasad
Director

Sd/-
Dr. V. Vedha Kumar
Director

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

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The Company has adopted adequate control systems and adherence to Corporate Governance to enable its Board of Directors to effectively discharge its responsibilities in the best interest of its stakeholders, customers, employees and the society.

The Company's philosophy on Corporate Governance ensures the fullest commitment of the Management and envisages the attainment of the highest level of transparency, accountability and equity, in all facets of its activities and operations.

2. BOARD OF DIRECTORS

(a) Composition of the Board

The Company's Board presently consists of eight Directors, three being Independent and Non – Executive Directors, four being Non-Independent Non – Executive Directors and one being Executive Director of the Company.

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

Seven Board Meetings were held during the financial year ended 2006:

S. No.	Name of the Director	Category of Directorship	No. of Board Meetings held in the year during the tenure of the Director	No. of Board Meetings attended	Attendance at the last AGM
1.	Devabhuktuni Durga Prasad	Non-Independent, Non-executive Chairman	7	7	Yes
2.	T Sarada	Independent Non-Executive Director	7	Nil	Yes
3.	Paruchuri Shivaramakrishna	Independent Non-executive Director	7	7	Yes
4.	Katuri Srinivas	Non-Independent Non-executive Director	7	7	Yes
5.	Alapati Ramakrishna	Non-Independent Non-executive Director	7	7	Yes
6.	Dr.V Vedha Kumar	Non-Independent executive Director	7	7	NA
7.	D Manohar	Non-Independent Non-executive Director	7	Nil	NA
8.	M Venkateswara Rao	Independent Non-executive Director	7	1	NA