



LOTUS

CHOCOLATE COMPANY LIMITED

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18th ANNUAL REPORT 2006-2007

BOARD OF DIRECTORS

Dr. V Vedha Kumar	Chief Executive Officer
Shri. G S Ram	Manager
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.

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 EIGHTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Eighteenth Annual General Meeting of Lotus Chocolate Company Limited will be held at 10.00 A.M on Saturday, the 29.09.2007 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 31.03.2007 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 198, 269, 309, 310, 311, 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, Shri G S Ram be and is hereby appointed as the Manager of the Company upto a period of five years with effect from 28th August, 2007 on a salary of Rs. 59,000/- p.m inclusive of all the perquisites."

For and on behalf of the Board

Sd/-

D Durga Prasad
Director

Place : Hyderabad

Date : 28.8.2007

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 Wednesday 26th day of September, 2007 to Saturday 29th day of September, 2007 (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 G S Ram is appointed as the Manager of the Company with effect from 28th August, 2007. The Board of Directors of your Company at its meeting held on 28.08.2007 and on the recommendation of Remuneration Committee fixed a salary of Rs.59,000/- p.m inclusive of all the perquisites.

Information on Directors seeking appointment/re-appointment as required under Clause 49VI(A) of the Listing Agreement with Stock Exchanges.

Mr Paruchuri Shivaramakrishna

Mr Paruchuri Shivaramakrishna is a Bachelor of Law and holds a Fellow Membership of The Institute of Company Secretaries of India. He started his career with Andhra Pradesh State Police Housing Corporation and left the

Company as General Manager in 1992. He is a prominent member of The Hyderabad Stock Exchange Limited, since 1995.

He is a member of the Audit Committee, Remuneration Committee and the Shareholders Investors Grievance Committee of the Company constituted under Clause 49 of the Listing Agreement.

Mr Katuri Srinivas

Mr Katuri Srinivas is a post - graduate in Arts and Business Administration. He was associated with VBC Ferro Alloys as an Assistant Marketing Manager and subsequently engaged in Stock Broking. Since 1995 he has been a partner in M/s Durga Prasad & Co., Stock Brokers, who are trading members in The National Stock Exchange of India Limited.

He is a member of the Audit Committee, Remuneration Committee and the Shareholders Investors Grievance Committee of the Company constituted under Clause 49 of the Listing Agreement.

Lotus Chocolate Company Limited

DIRECTORS' REPORT

To the Members,

Your Directors present the 18th Annual Report together with the audited accounts for the year ended 31st March, 2007.

FINANCIAL RESULTS

Rs in lakhs

	Year ended 2007	Year ended 2006
Income	2,250.74	1,997.83
Gross Profit before Interest & Depreciation	244.52	226.36
Interest	(30.16)	(42.23)
Depreciation	(106.66)	(100.93)
Extra-ordinary items Profit/(loss) for the year	107.70	83.20
Loss brought forward from previous year	(2,498.76)	(2,585.09)
Loss carried forward To Balance Sheet	(2,391.07)	(2,498.76)

Loss carried forward to Balance Sheet is (Rs.2,391.07) Lakhs.

PERFORMANCE

The Company continues on its northbound movement both in terms of processing as well as in profitability during the financial year 2006-2007.

In the current year, actual production was 6129 MT as against 5243 MT during the earlier period giving an improvement of 16.9 %.

Contract manufacturing operations for Cadbury India Limited continues to be the main contributor of the Company's revenue. In terms of volume, 55.2% of the total production during this period was attributed to Cadbury.

Notwithstanding the stiff competition from numerous small players from the unorganised sector, the consumer range of products managed to log 299.07 MT representing a growth of 8.83 % over the earlier fiscal. We continue our presence in the 3 states i.e. Andhra Pradesh, Maharashtra & Karnataka.

Continued efforts have contributed to an increase in revenue by 13.80% over the previous year, to Rs.2.73 Crores and a net profit of Rs.107.70 Lakhs. This the 2nd year in continuity that the Company is able to achieve this.

PLAN

The Company while utilising its current resources at maximum efficiency and effectiveness, is also in the process of upgrading the Chocolate Plant capacity.

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. K Srinivas, Director, retires by rotation at the 18th Annual General Meeting and being eligible offers 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 18th 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;
- 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.

For and on behalf of the Board

Sd/-

Sd/-

D. Durga Prasad A.Ramakrishna

Director

Director

Place : Hyderabad

Date : 28.08.2007

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:

We have done repairs and maintenance which have resulted in improvement of efficiency of diesel generator. This has resulted in increase in Electrical Output per litre of Diesel Oil.

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

Energy saving devices are being installed to reduce consumption of electrical energy.

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

Reduce the processing cost through savings in Electrical Consumption.

Lotus Chocolate Company Limited

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

	Year ended 31 st March, 2007	Year ended 31 st March, 2006
A. Power & fuel consumption in respect of		
1. Electricity		
a. Purchased :		
Units (kwh)	23,76,363	20,16,623
Total (Rs.)	93,08,108	78,62,424
Rate per unit (Rs.)	3.92	3.90
b. Own Generation :		
Through Diesel Generator		
Units (kWh)	1,01,005	1,18,002
Units per Litre of Diesel Oil	2.5	2.2
Cost per Unit (Rs.)	14	17.04
2. Furnace Oil/LSHS/LDO/HSD		
Qty (Lts)	Nil	3,490
Total Amount (Rs.)	Nil	62,680
Average (Rs/Ltr)	Nil	17.96
3. Wood/Coal		
Qty in kgs	7,79,668	11,21,980
Total Amount (Rs.)	20,08,533	16,38,090
Average (Kgs.)	2.57	1.46
B. Consumption per unit of production		
Cocoa & Chocolate products (tonnes)		
i. Electricity (KWH/Tonnes)		
- Cocoa	443 units/MT	428 units/MT
- Chocolate	355 units/MT	378 units/MT
ii. Furnace Oil/LSHS/LDOHSD (KL/Tonne)		
- Cocoa	Nil	Nil
- Chocolate	Nil	Nil
iii. Wood/Coal (KG/MT)		
- Cocoa	273.6 Kgs/MT	403.5 Kgs/MT
- Chocolate	28.1 Kgs/MT	43.5 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 specific to customer requirements which provides an edge over other suppliers.

Processed Recipes are being modified to increase output.

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 and also increase the capacity.

3. Future Plans & Actions

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

4. Expenditure on R & D:

Rs.

- | | |
|------------------------|---|
| a. Capital | - |
| b. Recurring | - |
| c. Total as % turnover | - |

5. Technology Absorption, Adoption and Innovation : —

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 and Chocolate products to Nepal , Europe and U.S.A.

- g. Total foreign exchange used and earned:

Rs/lacs

- | | |
|-----|---|
| i) | Foreign Exchange earnings |
| ii) | Foreign Exchange Outgo(including raw materials, components and spare parts of capital goods and other expenditures in foreign currency including dividends) |

For and on behalf of the Board

Place : Hyderabad

Date : 28.08.2007

Sd/-
D. Durga Prasad
Director

Sd/-
A.Ramakrishna
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, seven being Non-Executive Directors and one being Executive Director of the Company. The Company has appointed Shri G S Ram, as a Manager under Section 269 of the Companies Act, 1956, who is an employee of the Company and is working under the direct supervision and control of the Board of Directors.

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

Five Board Meetings were held during the financial year ended 2007:

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	Promoter, Non-executive Director	5	5	Yes
2.	T Sarada	Independent Non-executive Director	5	—	—
3.	Paruchuri Shivaramakrishna	Independent Non-executive Director	5	4	Yes
4.	Katuri Srinivas	Independent Non-executive Director	5	4	Yes
5.	Alapati Ramakrishna	Promoter Non-executive Director	5	5	Yes
6.	Dr.V Vedha Kumar	Independent Executive Director	5	5	Yes
7.	D Manohar	Independent Non-executive Director	5	—	—
8.	M Venkateswara Rao	Independent Non-executive Nominee Director	5	1	—

Date of last Annual General Meeting (AGM) – 29.09.2006.

(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.

(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 :

S. 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.	T Sarada	Nil	Nil
2.	P Shivaramakrishna	Nil	Nil
3.	K Srinivas	1	Nil
4.	Alapati Ramakrishna	1	Nil
5.	Devabhaktuni Durga Prasad	1	Nil
6.	Dr.V Vedha Kumar	Nil	Nil
7.	M Venkateswara Rao	7	Nil
8.	D Manohar	Nil	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 2007. 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	28.04.2006
2 nd Board Meeting	29.07.2006
3 rd Board Meeting -	30.10.2006
4 th Board Meeting -	29.01.2007
5 th Board Meeting -	30.03.2007

1. Audit Committee

(a) Brief description of terms of reference

- 1) It shall have authority to investigate into any matter in relation to the items specified in Section 292A of the Companies Act, 1956 or referred to it by the Board and for this purpose, shall have