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**19TH ANNUAL REPORT  
2007-2008**

**BOARD OF DIRECTORS**

Smt.T Sarada	Director
Shri. P Shivaramakrishna	Director
Shri. K Srinivas	Director
Shri. Alapati Ramakrishna	Director
Shri. Devabhaktuni Durga Prasad	Director
Shri. D Manahor	Director
Shri. G.S.Ram	Manager

**Auditors**

M/s. S.R.Mohan &amp; 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 NINETEENTH ANNUAL GENERAL MEETING**

NOTICE is hereby given that the Nineteenth Annual General Meeting of Lotus Chocolate Company Limited will be held at 10.00 A.M. on Tuesday, the 30<sup>th</sup> day of September, 2008 at J.C. Bhavan, Lions Bhavan, Paradise business:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the audited Profit and Loss Account for the Year ended 31.03.2008 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, Director who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Shri K Srinvas, Director 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.
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. ~~Members of the Company, who remain absent from Tuesday, 23<sup>rd</sup> day of September, 2008 to Tuesday, 30<sup>th</sup> day of September, 2008 (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.

For and on behalf of the Board of Directors

Sd/-	Sd/-
<b>A.Ramakrishna</b>	<b>D Durga Prasad</b>
<b>Director</b>	<b>Director</b>

Place : Hyderabad

Date : 26.08.2008

**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.

## Lotus Chocolate Company Limited

**DIRECTORS' REPORT**

To the Members,

Your Directors present the 19<sup>th</sup> Annual Report together with the audited accounts for the year ended 31<sup>st</sup> March, 2008.

**FINANCIAL RESULTS**

Rs in lakhs

	Year ended 31 <sup>st</sup> March 2008	Year ended 31 <sup>st</sup> March 2007
Income	2,414.62	2,250.74
Gross Profit before Interest & Depreciation	205.99	244.52
Interest	(17.30)	(30.16)
Depreciation Extra- ordinary items	(113.44)	(106.66)
Profit/(loss) for the year	75.25	107.70
Loss brought forward from previous year	(2,391.07)	(2,498.76)
Loss carried forward To Balance Sheet	(2,315.81)	(2,391.07)

Loss carried forward to Balance Sheet is  
(Rs.2,315.81) Lakhs.

**PERFORMANCE**

The Company registered a Gross profit of Rs.205.99 lakhs before interest and depreciation in spite of stiff competitions and difficult market conditions.

Against this scenario, it has resulted lower consumer off take of chocotreats distribution of which was confined only to limited markets mainly in southern states. The company continued to export Cocoa Butter to Europe and US and earned Foreign exchange.

The market for Industrial products could not be fully exploited due to inadequate reasons, coupled with entry of numerous small players.

The Company continued on its northbound movement both in terms of processing as well as in profitability during the financial year 2007-2008.

In the current year, actual production was 7595

MT as against 6129 MT during the earlier period giving a modest improvement of 23.92 %.

Contract manufacturing operations for Cadbury India Limited continues to be the main contributor of the Company's revenue. In terms of volume, 67.87% of the total production during this period was attributed to Cadbury.

Continued efforts have contributed to an increase in revenue by 7.28% over the previous year, to Rs.22.51 Crores and a net profit of Rs.75.25 Lakhs. This the 3rd year in continuity that the Company is able to achieve this.

**PLAN**

The Company is quite aggressive to improve its Capacity for the manufacturing of consumer products and product extensions and plans to enter other neighbouring states are all in the anvil. The Company is planning to increase Export of Cocoa Butter to Europe/US.

The Company while utilizing its current resources at maximum efficiency and effectiveness, the Company is also in the process of upgrading the Chocolate Plant facility and thereby increase the revenues.

**STATUS OF BIFR-(BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION) APPLICATION**

The company, being sick company within the meaning of clause (o) of sub section (1) of section 3 of Sick Industrial Companies (special provisions) Act 1985, was referred to Board for Industrial Finance and rehabilitation (BIFR). BIFR has declared the company as sick company and appointed State Bank of India as operating agency. State Bank of India has commissioned APITCO for viability study. APITCO has submitted its study to SBI wherein the study says that the company's operations are viable on the basis assumptions made by them. The State Bank of India filled the rehabilitation scheme before the BIFR during the year .

In the proposal submitted by State Bank of India to BIFR, it is envisaged that the Capital of the company has to be reduced as a sacrifices from Shareholders and Promoters. The Board will come to the shareholders for their approval in reduction of capital after the Judgment of BIFR.

## Lotus Chocolate Company Limited

**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 durga Prasad, Director and Shri. K Srinivas, Director, retires by rotation at the 19th 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 19th 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/-

D. Durga Prasad

Director

Sd/-

A.Ramakrishna

Director

Place : Hyderabad

Date : 26.08.2008

**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 &amp; energy consumption per unit of production in prescribed Form 'A'

	Year ended 31 <sup>st</sup> March, 2008	Year ended 31 <sup>st</sup> March, 2007
<b>A. Power &amp; fuel consumption in respect of</b>		
1. Electricity		
a. Purchased :	22,64,729	23,76,363
Units (kwh)		
Total (Rs.)	84,80,818	93,08,108
Rate per unit (Rs.)	3.74	3.92
b. Own Generation :		
Through Diesel Generator		
Units (kWh)	97,332	1,01,005
Units per Litre of Diesel Oil	2.35	2.5
Cost per Unit (Rs.)	14.36	14
2. Furnace Oil/LSHS/LDO/HSD		
Qty (Lts)	Nil	Nil
Total Amount (Rs.)	Nil	Nil
Average (Rs/Ltr)	Nil	Nil
3. Wood/Coal		
Qty in kgs	6,51,655	7,79,668
Total Amount (Rs.)	26,06,620	20,08,533
Average (Kgs.)	4.00	2.57
<b>B. Consumption per unit of production</b>		
Cocoa & Chocolate products (tonnes)		
i. Electricity (KWH/Tonnes)		
- Cocoa	481.79 units/MT	443 units/MT
- Chocolate	259.70 units/MT	355 units/MT
ii. Furnace Oil/LSHS/LDO		
HSD (KL/Tonne)		
- Cocoa	Nil	Nil
- Chocolate	Nil	Nil
iii. Wood/Coal (KG/MT)		
- Cocoa	232 Kgs/MT	273.6 Kgs/MT
- Chocolate	26.52 Kgs/MT	28.1 Kgs/MT

## 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 continued to develop tailor-made recipes exclusively for centre for the manufacturing of Eclairs.

Improved the packing mode of consumer products (Super Car) with better appeal and product protection.

Improvements in Cocoa process carried out to improve product safety and quality. Cocoa plant is being certified for HACCP (Food Safety systems) and successfully undergone through surveillance audits.

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 expand the existing products range/product extensions.

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	142.04
ii) Foreign Exchange Outgo	1202.26
(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 : 26.08.2008

Sd/-  
D. Durga Prasad  
Director

Sd/-  
A. Ramakrishna  
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**

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 facts of its activities and operations.

**2. Board of Directors****(a) Composition of the Board**

The Company's Board presently consists of Six (6) Directors, all being Independent and Non – Executive Directors of the Company.

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

Seven (7) Board Meetings were held during the financial year ended 2008:

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

\* Dr.V.Vedha Kumar resigned as the Chief Executive Officer with effect from 28.08.2007

\*\* Shri M Venkateswara Rao resigned as Nominee Director with effect from 01.12.2007

Date of last Annual General Meeting (AGM) – 29.09.2007.

## Lotus Chocolate Company Limited

**(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	Nil	1
4.	Alapati Ramakrishna	1	Nil
5.	Devabhaktuni Durga Prasad	1	Nil
6.	Dr.V Vedha Kumar	Nil	Nil
7.	M Venkateswara Rao	Nil	Nil
8.	D Manohar	Nil	Nil

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

Seven (7) Board Meetings were held during the financial year 2008. 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 <sup>st</sup> Board Meeting	-	30.04.2007
2 <sup>nd</sup> Board Meeting	-	30.07.2007
3 <sup>rd</sup> Board Meeting	-	28.08.2007
4 <sup>th</sup> Board Meeting	-	30.10.2007
5 <sup>th</sup> Board Meeting	-	01.12.2007
6 <sup>th</sup> Board Meeting	-	29.01.2008
7 <sup>th</sup> Board Meeting	-	28.03.2008

**3. 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

**Lotus Chocolate Company Limited**

purpose, shall have full access to information contained in the records of the Company and external professional advice, if any.

- 2) To seek information from any employee and obtain outside legal or professional advice.
- 3) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- 4) Reviewing with the management the annual financial statements before submission to the Board, internal and external auditors and the adequacy of the internal control systems.
- 5) Reviewing the Company's financial and risk management policies and compliance with internal control systems.

**(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 25<sup>th</sup>, 2001. The Committee was reconstituted on 01.07.2004. The Committee was reconstituted with the following members:

The Committee consists of:

1. Shri. P Sivaramakrishna
2. Shri. K Srinivas
3. Ms. T Sarada

**(c) Meetings during the year**

Three meetings of the Audit Committee were held.

**4. Remuneration Committee**

The Board of Directors constituted Remuneration Committee on 1<sup>st</sup> January, 2004 with the objective to evaluate compensation and other benefits for Executive Directors and the Manager subject to the approval of the Board of Directors and Members.

The Committee consists of the following Independent and Non – Executive Directors :

- |    |                       |            |
|----|-----------------------|------------|
| 1. | Mr P Shivaramakrishna | - Chairman |
| 2. | Mr K Srinivas         | - Member   |
| 3. | Ms T Sarada           | - Member   |

**5. Remuneration of Directors**

**(a) Remuneration to Non-Executive Directors**

Presently, the non-executive Directors do not receive any remuneration from the Company and are paid sitting fees for attending the meetings of the Board and Committees thereof.