



CHOCOLATE COMPANY LIMITED

**21ST ANNUAL REPORT
2009-2010**

BOARD OF DIRECTORS

Shri. P. Prakash Pai	Director
Shri. P. Anantha Pai	Director
Shri. P. Abhijeet Pai	Director
Ms. P. Ashwini Pai	Whole Time Director
Shri. Ganpath Subramonia Ram	Whole Time Director
Shri. Dilip Mangesh Kalelkar	Whole Time Director(Technical)
Smt.T Sarada	Director
Shri. Gottemukkala Venkatapathi Raju	Director

Auditors

M/s. S.R.Mohan & Co.
3rd Floor, North Block,
Raghava Ratna Towers,
Chirag Ali Lane,
Hyderabad-500001.

Registrar & Share Transfer Agents

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

Registered Office

8-2-596 , 1st Floor, 1B,
Sumedha Estates, Avenue - 4,
IVRCL Towers, St.No.1. Rd. No.10
Banjara Hills,
Hyderabad-500 034.

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 TWENTY FIRST ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty First Annual General Meeting of Lotus Chocolate Company Limited will be held at 10.00 A.M. on Thursday, the 30.09.2010 at LIC Bhavan, Lions Bhavan, Paradise, Secunderabad to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Profit and Loss Account for the Year ended 31.03.2010 and the Balance Sheet as at that date together with the Report of Auditors and the Report of the Board of Directors.
2. 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.
3. To appoint a Director in the place of Shri P. Prakash Pai, Director who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in the place of Shri P. Anantha Pai, Director who retires by rotation and being eligible, offers himself for reappointment.

For and on behalf of the Board

Sd/-	Sd/-
P.Anantha Pai	G.S.Ram
Director	Whole Time Director

Place : Hyderabad

Date : 13.08.2010

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 #8-2-596, 1st Floor, 1B, Sumedha Estates, Avenue-4, IVRCL Towers,

St.No.1, Road No.10, Banjara Hills, Hyderabad-500 034 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 Thursday, 23rd day of September, 2010 to Thursday, 30th day of September, 2010 (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.

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

Shri P.Prakash Pai

Shri P. Prakash Pai is an Engineering Graduate. He is the Managing Partner of Puzzolana Machinery Fabricators for the past 28 years and possesses extensive experience and entrepreneurial leadership in the development of a machine building enterprise. He has developed several import substitutions for the Engineering and process industries. He has been awarded with VIKAS RATNA in the year 1990. His global exposure and hands – on experience in design, manufacturing, erection and commissioning of rotating equipment & systems and innovative leadership is a major strength to Puzzolana.

Shri P.Anantha Pai

Shri P. Anantha Pai is as Chartered Accountant by qualification. He is the Joint Managing Partner of M/s Puzzolana Machinery Fabricators and has 23 years of machine manufacturing experience. He has developed special skills in costing, purchasing, optimization methods, finance & accounts. His co-ordination and monitoring skills and project execution experience help the Firm to meet its targets. His dedicated services are responsible for the successful implementation of different projects.

DIRECTORS' REPORT

To the Members,

Your Directors present the 21st Annual Report together with the audited accounts for the year ended 31st March, 2010.

FINANCIAL RESULTS

Rs in lakhs

	Year ended 2010	Year ended 2009
Income	3076.44	2723.04
Gross Profit before Interest & Depreciation	213.32	266.74
Interest	(56.91)	(7.43)
Depreciation	(46.79)	(92.68)
Profit/(loss) for the year	109.61	166.63
Loss brought forward from previous year	(2149.19)	(2315.81)
Loss carried forward to Balance Sheet	(2039.57)	(2149.18)

Loss carried forward to Balance Sheet is Rs 2039.57 lakhs.

PERFORMANCE

Lotus sales turnover at Rs.3076.44 Lakhs was up 12.98 % over last year. The Company continued to follow its policy of offering value to the customers with sales prices just below inflation. The Company's volumes however remain stagnates as the capacity available was just sufficient to meet the existing market presence. The Management is addressing this area of concern as major initiatives are planned during the current fiscal year. Your company's performance has been led through modest investments in our brands , products, innovation initiatives, expansion into new product categories and an upheard task in managing operating costs through cost efficiency measures.

In the current year the actual production was 5885.66 MT as against 6988.06 MT during the previous year giving a moderate dip of 18.73%.

Concerted efforts have contributed to increase in revenue by 12.98% over previous year to Rs.3076.44 lakhs and record a net profit of Rs.109.61 lakhs.

Your company has achieved these results despite significant increase in input costs, particularly cocoa beans, sugar, oils and fats coupled with aggressive pricing in the trade and industry.

Despite stiff competition your company stabilized and held its market share, even though 2009 was a challenging year, your company continues to operate with minimum trade pipelines selling as per the market demands and maintaining a very efficient supply chain.

BUSINESS PLAN

The promoters who acquired the business in the year 2008 has acknowledged for their understanding of common needs and robust business model. During the year the company sustained focus on generating consumer insights, innovation and renovation while continuing it on going efforts to strengthen capabilities, augment equipment capacities that continue to delight the consumers and help it to leverage its trusted brands.

Further new chocolate products will be introduced later this year.

We envisage a pan India performance by the end of this fiscal, towards this, have opened up all the markets of North India. Further we have concluded an agreement with the reputed Oil Company i.e Bharat Petroleum Corporation Limited(BPCL) for distribution of our consumer brand chocolates through their strong network.

ISO CERTIFICATION

Your company's manufacturing factory located at Narsapur, Medak District has been certified to the latest version of IS 22000 (FSMS- Standard for Food Safety Management System) by Llyods, a leading International Certification Company.

This certification indicates our commitment in meeting in a sustainable manner, global quality, environment, health and safety standards. This is a milestone in our quest for quality.

Our Company has been rated by CRISIL as SME III.

RESEARCH AND DEVELOPMENT

The research and development (R & D) function has led a significant role to play in supporting the

performance of the Company this year. Their major area of contribution lay in fuelling innovation through a number of new product development, culminating in the launch of various new products during the year.

The management intends to create the function of Innovation by engaging best leveraging external expertise to value add to our R&D programme with a view to building the medium and long term pipelines.

BIFR

A reference in terms of Section 15(1) of the Sick Industrial Companies(Special Provisions) Act, 1985 has been done and registered with the Board of Industrial and Financial Reconstruction (BIFR) for determination of the measures which shall be adopted with respect to the Company, further the company is awaiting for the hearing of the same.

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 Prakash Pai and Shri Anantha Pai, Directors retires by rotation at the 21st 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

21st 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/-

**P.Anantha Pai
Director**

Sd/-

**G.S.Ram
Whole Time Director**

Place : Hyderabad

Date : 13.08.2010

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:

The Company has installed the following energy saving devices:

- CFL Lamps
- Power Capacitors
- Steam Condensate Recovery
- Street Lighting Timer
- Water Level Controller

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.

The Company achieved a modest savings to the tune of 3% on energy units.

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

	Year ended 31 st March, 2010	Year ended 31 st March, 2009
A. Power & fuel consumption in respect of		
1. Electricity		
a. Purchased :		
Units (Kwh)	19,50,987	21,11,454
Total (Rs.)	75,11,300	83,78,612
Rate per unit (Rs.)	3.85	3.74
b. Own Generation : Through Diesel Generator		
Units (Kwh)	1,85,242	1,38,528
Units per Litre of Diesel Oil	2.45	2.04
Cost per Unit (Rs.)	15.06	15.06
2. Furnace Oil/LSHS/LDO/HSD		
Qty (Lts)	—	Nil
Total Amount (Rs.)	—	Nil
Average (Rs/Ltr)	—	Nil
3. Wood/Coal		
Qty (Kgs.)	7,85,950	7,31,055
Total Amount (Rs.)	28,92,296	26,78,857
Average (Rs/Kgs.)	3.68	3.6
B. Consumption per unit of production		
Cocoa & Chocolate products (tones)		
i. Electricity (KWH/Tonnes)		
- Cocoa	408 units/MT	485 units/MT
- Chocolate	321 units/MT	260 units/MT
ii. Furnace Oil/LSHS/LDO HSD (KL/Tonne)		
- Cocoa	—	Nil
- Chocolate	—	Nil
iii. Wood/coal (KG/MT)		
- Cocoa	226 Kgs/MT	235 Kgs/MT
- Chocolate	59 kgs/MT	24.6 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:

Research and Development work has been continued to develop tailor-made recipes. Improved the packing mode of consumer products 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 its capacity.

3. Future Plans & Actions

Further new Chocolate products will be introduced later this year. To achieve this the Company is making special efforts to development management skills, raising performance, Leadership capabilities sharpening the customers at all levels within the company.

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 and Europe.

g. Total foreign exchange used and earned (CIF Value):

	Rs/lacs
i) Foreign Exchange earnings	320.91
ii) Foreign Exchange Outgo(including raw materials, components and spare parts of capital goods and other expenditures in foreign currency including dividends)	164.33

For and on behalf of the Board

Place : Hyderabad
Date : 13.08.2010

Sd/-
P.Anantha Pai
Director

Sd/-
G.S.Ram
Whole Time 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, out of which five are Non-Executive Directors and three are Executive Directors of the Company.

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

Eight .8. Board Meetings were held during the financial year ended 2010:

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.	T Sarada	Independent Promoter Director	8	—	No
2.	D Manohar	Independent Non-executive Director	1	—	No
3.	P.Anantha Pai	Independent Non-executive Director	8	8	Yes
4.	P.Prakash Pai	Independent Non-executive Director	8	8	Yes
5.	G.S.Ram	Independent Executive Director	8	8	Yes
6.	G.V.Raju	Independent Non-executive Director	8	7	Yes
7.	Dilip Mangesh Kalekar	Independent Executive Director	8	2	Yes
8.	P.Ashwini Pai	Independent Executive Director	8	7	Yes
9.	P.Abhijeet Pai	Independent Non-executive Director	8	6	Yes

Date of last Annual General Meeting (AGM) – 30.09.2009.

(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.Prakash Pai	3	Nil
3.	P.Anantha Pai	3	Nil
4.	P.Ashwini Pai	Nil	Nil
5.	P.Abhijeet Pai	2	Nil
6.	G.V.Raju	Nil	Nil
7.	G.S.Ram	Nil	Nil
8.	Dilip Mangesh Kalelkar	Nil	Nil

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

Eight(8) Board Meetings were held during the financial year 2010. 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	-	01.04.2009
2 nd Board Meeting	-	30.04.2009
3 rd Board Meeting	-	01.05.2009
4 th Board Meeting	-	15.06.2009
5 th Board Meeting	-	29.07.2009
6 th Board Meeting	-	17.08.2009
7 th Board Meeting	-	29.10.2009
8 th Board Meeting	-	29.01.2010

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 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 25th, 2001. The Committee was reconstituted again on 30.01.2009. The Committee was reconstituted with the following members:

The Committee consists of:

1. Shri.P.Prakash Pai, Director
2. Shri. P.Anantha Pai ,Director
3. Shri. G S Ram, Whole Time Director
4. Shri G V Raju, Director

(C) Meetings during the year

Three meetings of the Audit Committee were held.

4. Remuneration Committee

The Board of Directors re-constituted Remuneration Committee on 30.01.2009 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 Directors :

1. Shri.P.Prakash Pai- Director
2. Shri. P.Anantha Pai -Director
3. Shri G V Raju – Director
4. Shri. G S Ram- Whole Time Director

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.

(b) Remuneration to Executive Director

The details of remuneration paid to the Whole Time Directors – Shri G S Ram, Ms. Ashwini Pai and Shri Dilip Mangesh Kalelkar :

Shri.Ganpath Subramonia Ram - Whole-Time Director - Salary including perquisites: Rs.66,362.p.m.(INCLUDING GPF).