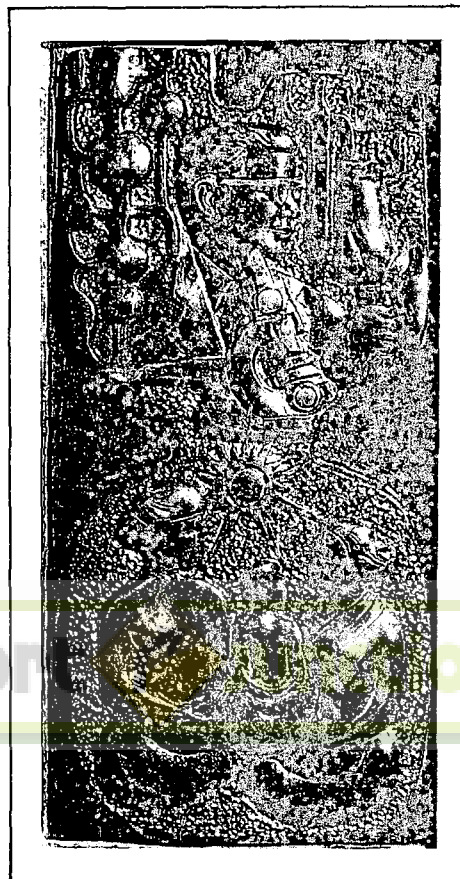


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BASF Pharma

54th Financial Report
1997



The mural on the cover symbolises Knoll's philosophy of service to the medical profession through pharmaceutical research and development.

Knoll Pharmaceuticals Ltd

Corporate Management

D M GAVASKAR

Managing Director & President

DR J S BAKSHI

Vice President – Medical Sciences

K K CHODHARY

Vice President – Human Resources & Administration

A J GOKHALE

Vice President – Manufacturing & Logistics

S JAIN

Vice President – Marketing

U C KIRTIKAR

Vice President – Finance

DR A V PRABHU

Vice President – Quality Control & Development

D M RAJA

Vice President & Company Secretary

Registrars & Transfer Agents

IIT Corporate Services Limited

IIT House, Near Vazir Glass Works

Off M V Road, J B Nagar

Andheri (East), Mumbai 400 059

Board of Directors

T SCHÄTZLE

Chairman

D M GAVASKAR

Managing Director & President

P TONNE

R A SHAH

V D NARKAR

Vice President & Company Secretary

D M RAJA

Registered Office

17 R Kamani Marg, Mumbai 400 001

Bankers

ANZ Grindlays Bank Ltd

United Bank of India

Canara Bank

Banque Nationale de Paris

Auditors

Deloitte Haskins & Sells

Solicitors

Crawford Bayley & Co

Factories

107 Sion East, Mumbai 400 022

E-1 MIDC Industrial Area, Jejuri 412 303

L-18/19, Verna Industrial Estate, Goa

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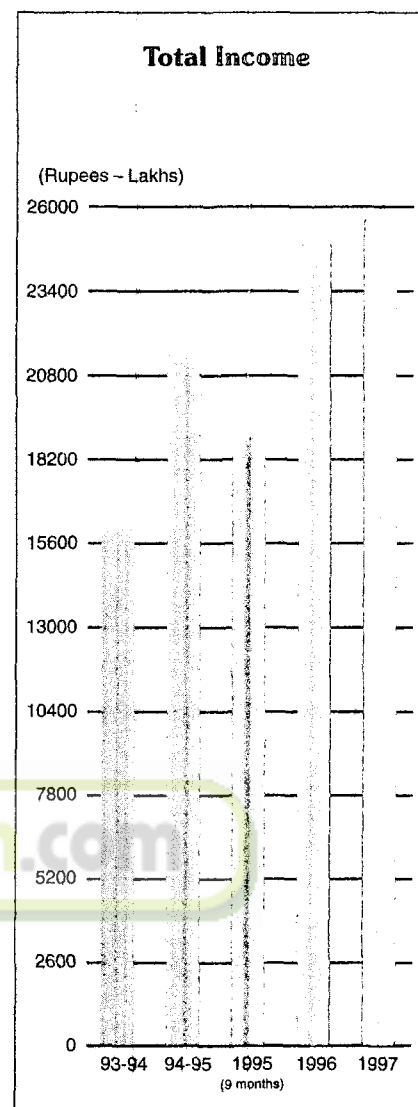
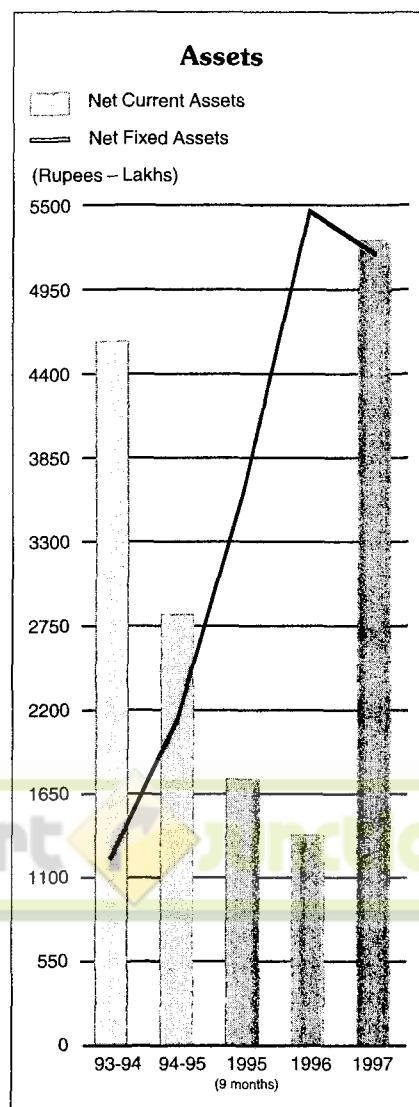
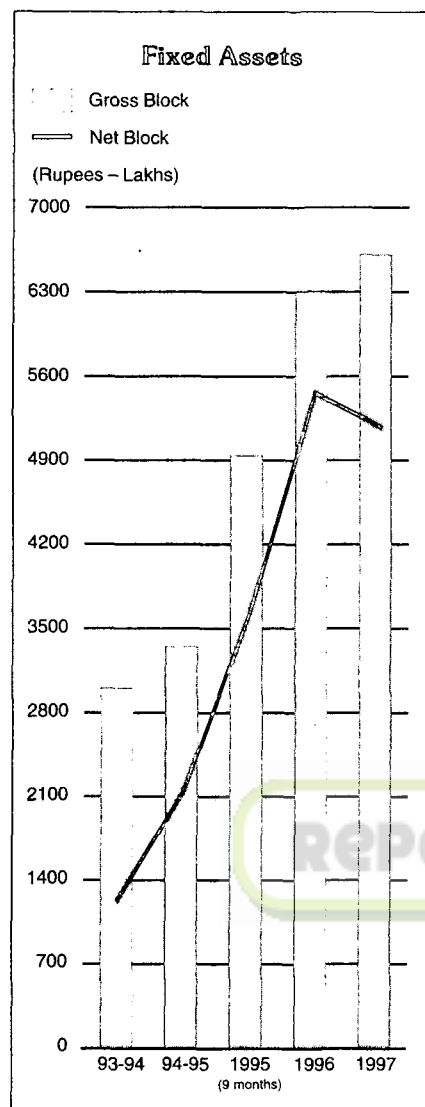
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Highlights

(Rupees in lakhs)

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995 (9 months)	1996	1997
OPERATING RESULTS										
SALES AND OTHER INCOME	6274.76	7427.53	8851.43	10844.34	13435.37	16034.14	21437.71	18858.66	24843.70	25598.41
MATERIALS	2336.17	2982.61	3548.08	4589.99	6236.99	6852.41	9989.37	9746.78	13789.73	13348.71
SALARIES, BONUS AND STAFF WELFARE	1143.06	1216.06	1372.04	1595.90	1830.32	1746.78	2386.47	1040.22	1279.03	1524.93
MANUFACTURING, ADMINISTRATIVE AND SELLING EXPENSES	1858.35	2157.20	2588.33	3095.45	3857.93	4839.35	5456.52	5070.10	5319.15	5637.42
DEPRECIATION	113.94	113.13	170.19	212.86	198.63	185.74	160.95	137.71	378.83	598.51
INTEREST	88.17	137.89	183.78	271.63	223.82	272.61	256.40	246.66	349.01	46.75
PROFIT BEFORE TAX AND EXTRAORDINARY ITEM	735.07	820.64	989.01	1078.51	1087.68	2137.25	3188.00	2617.19	3727.95	4442.09
NET CONSIDERATION FOR MARKETING KNOWHOW FOR FORMULATIONS	-	-	-	-	-	-	-	-	-	2447.93
EXPENDITURE UNDER VOLUNTARY RETIREMENT SCHEME	-	-	-	-	-	727.25	2462.54	1133.33	730.22	-
PROVISION FOR TAXATION	348.98	347.34	409.49	485.25	495.00	603.41	3.37	473.63	950.00	1895.35
PROFIT AFTER TAX AND EXTRAORDINARY ITEM	386.09	473.30	579.52	593.26	592.68	806.59	722.09	1010.23	2047.73	4994.67
RETAINED EARNINGS	199.79	230.30	320.32	317.86	301.08	498.79	381.89	726.73	1521.23	4229.22
EARNINGS PER SHARE (Rs.)	4.8	5.8	7.2	7.3	7.3	10.0	8.9	12.5	25.3	61.7
DIVIDEND %	23	30	32	34	36	38	42	35	65	80
FINANCIAL SUMMARY										
ASSETS EMPLOYED										
FIXED ASSETS (At Cost)	1771.66	2146.22	2677.54	2848.63	2824.49	3011.93	3352.58	4944.95	6301.57	6613.11
FIXED ASSETS (Net)	716.01	983.47	1353.87	1323.99	1178.67	1235.17	2143.49	3621.43	5459.84	5181.57
ASSETS HELD FOR DISPOSAL (Net)	-	-	-	-	-	-	196.04	174.27	71.81	65.67
CURRENT ASSETS (Net)	1622.09	2195.78	2342.44	2646.15	3112.70	4616.73	2828.30	1749.19	1383.68	5274.47
TOTAL ASSETS	2338.10	3179.25	3696.31	3970.14	4291.37	5851.90	5167.83	5544.89	6915.33	10521.71
FINANCED BY										
SHARE CAPITAL	810.00	810.00	810.00	810.00	810.00	810.00	810.00	810.00	810.00	810.00
RESERVES AND SURPLUS	875.67	1105.97	1426.29	1744.15	2045.23	2544.02	1694.64	3134.94	5173.87	9403.09
TOTAL SHAREHOLDERS' FUNDS	1685.67	1915.97	2236.29	2554.15	2855.23	3354.02	2504.64	3944.94	5983.87	10213.09
BORROWINGS	652.43	1263.28	1460.02	1415.99	1436.14	2497.88	2663.19	1599.95	931.46	308.62
DEBT : EQUITY	0.4	0.7	0.7	0.6	0.5	0.7	1.1	0.4	0.2	-
NUMBER OF SHAREHOLDERS	11804	11135	11570	12230	12960	13229	14155	14594	13341	11263

Knoll Pharmaceuticals Ltd



Shareholding Pattern		
Number of Equity Shares held	Number of Shareholders	Total Number of Shares
1 to 50	5377	198535
51 to 100	2106	194161
101 to 500	2799	688432
501 to 1000	538	380301
1001 & above	443	6638571
Total	11263	8100000

How our Income was spent				
	1997 (Rupees in Lakhs) %		1996 (Rupees in Lakhs) %	
1. Materials	13348.71	52.1	13789.73	55.5
2. Salaries	1524.93	6.0	1279.03	5.2
3. Depreciation	598.51	2.3	378.83	1.5
4. Other Expenses	5684.17	22.2	5668.16	22.8
5. Extraordinary item	(2447.93)	(9.6)	730.22	3.0
6. Tax	1895.35	7.4	950.00	3.8
7. Dividend (Includes Corporate Dividend Tax)	765.45	3.1	526.50	2.1
8. Retained Earnings	4229.22	16.5	1521.23	6.1

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Notice

NOTICE is hereby given that the Fifty-fourth Annual General Meeting of Knoll Pharmaceuticals Ltd will be held at Y B Chavan Auditorium, General Jagannath Bhosle Marg, Next to Sachivalaya Gymkhana, Mumbai 400 021 on Wednesday, 6 May 1998 at 3.00 p.m. to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Balance Sheet as at 31 December 1997 and the Profit and Loss Account for the financial year ended on that date and the Reports of the Directors and Auditors.
2. To declare a dividend.
3. To appoint a Director in place of Mr R A Shah who retires by rotation and, being eligible offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration.

Special Business

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

RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said Act, the Company hereby accords its approval to the re-appointment of Mr D M Gavaskar as Managing Director & President for a period of five (5) years from 1 April 1998 on the terms and conditions, including remuneration, as are set out in the draft Agreement placed before this meeting and initialled by the Chairman for the purpose of identification and which the Directors of the Company be and are hereby authorised to enter on behalf of the Company.

By Order of the Board

D M Raja

Vice President & Company Secretary

Mumbai,
30 March 1998

Registered Office:

17 R Kamani Marg
Ballard Estate
Mumbai 400 001

NOTES:

- i. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxies, in order to be effective, should be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than 48 hours before the meeting.
- ii. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 relating to the special business to be transacted at the meeting is appended hereto.
- iii. The Register of Members and Share Transfer Books of the Company will remain closed from 16 April 1998 to 6 May 1998 (both days inclusive).
- iv. Dividend recommended by the Directors and approved by the members at the Annual General Meeting will be paid on or after 12 June 1998 to those members whose names appear on the Register of Members on 6 May 1998. Members who have not sent in their bank details are requested to send the same in order to ensure against misappropriation of the warrants to be mailed to them.
- v. Members are requested to intimate to the Company not later than 6 May 1998 changes, if any, in their registered addresses alongwith the pincode number.
- vi. Pursuant to Section 205A of the Companies Act, 1956 all unclaimed dividends upto the final dividend for the financial year 1993-94 paid by the Company on 1 August 1994 have been transferred to the General Revenue Account of the Central Government. Members who have not encashed dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Maharashtra, Mumbai.

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956

Item No. 5

At the Fiftieth Annual General Meeting of the Company held on 1 July 1994, shareholders had approved the appointment of Mr D M Gavaskar as Managing Director & President of the Company for a period of 5 years from 1 April 1994. Under the leadership of Mr D M Gavaskar the Company has recorded all round growth in its business.

Subject to the approval of the shareholders, the Board of Directors has, at its meeting held on 30 March 1998, re-appointed Mr D M Gavaskar as Managing Director & President for a period of five (5) years from 1 April 1998. The main terms and conditions of Mr Gavaskar's appointment are as under:

1. Mr Gavaskar to perform such duties and exercise such powers as are entrusted to him by the Board.
2. Mr Gavaskar to devote sufficient time to enable him to discharge his duties to the Company diligently.
3. Mr Gavaskar to undertake travel in India and elsewhere as directed by the Board during his period of employment.
4. In consideration of the performance of his duties, Mr Gavaskar to be entitled to the following remuneration:
 - (a) *Salary*: Rs. 1,70,000 per month with such increments as may be decided by the Board from time to time, subject to a ceiling of Rs. 3,50,000 per month.
 - (b) *Commission/Performance Linked Incentive or Bonus*: Such sums as may be approved by the Board, subject to a minimum of 50% of his annual salary.
5. In addition to the above, Mr Gavaskar to be entitled to furnished/non-furnished residential accommodation, gas, electricity, company maintained car, medical reimbursement, leave travel assistance, club fees, telephone and such other perquisites/benefits in accordance with the Company's Rules, such as provident fund, superannuation, pension, group insurance and gratuity. The monetary value of such perquisites/benefits determined in accordance with the Income Tax Rules 1962 to which Mr Gavaskar is entitled shall be subject to a ceiling of Rs. 1,00,000 per month.
6. The Company's contribution to provident fund, superannuation/pension scheme(s), annuity fund and gratuity as per the Rules of the Funds/ Schemes and encashment of leave at the end of Mr Gavaskar's tenure under this Agreement shall not be included in the computation of the above ceiling on remuneration and perquisites/benefits.
7. The use of car while on business of the Company and telephone at residence will not be considered as perquisites. However, personal long distance calls and use of a car for private purposes shall be charged to Mr Gavaskar at the perquisite value thereof.
8. Within the overall ceiling on managerial remuneration prescribed under the Companies Act, 1956, the Board is entitled to add to, alter or vary any of the foregoing terms of remuneration, perquisites or benefits.
9. Where in any financial year during the tenure of Mr Gavaskar, the Company has no profits or its profits are inadequate, the remuneration payable to Mr Gavaskar shall be subject to the provisions of Section II of Part II of Schedule XIII to the Companies Act, 1956 or any other law or enactment for the time being or from time to time in force.
10. Mr Gavaskar not to directly or indirectly, engage himself in any other business or occupation or employment whatsoever without the approval of the Board.
11. So long as he functions as Managing Director & President, Mr Gavaskar not to become interested or otherwise concerned directly or through his wife, sons or unmarried daughters, if any, in any selling agency of the Company, without the prior approval of the Board.
12. Mr Gavaskar not to divulge or disclose to any person whomsoever or make any use whatsoever of any information or knowledge obtained by him during his employment as to the business or affairs of the Company or its methods or as to

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any trade secrets or secret processes of the Company and also use his best endeavours to prevent any other person from so doing.

13. The employment of Mr Gavaskar to forthwith determine if he shall become insolvent or make any composition or arrangement with his creditors or be guilty of misconduct.
14. In case of the demise of Mr Gavaskar during the course of his employment, Company to pay to his legal personal representatives the salary and other emoluments payable for the then current month and other dues together with such further sum as the Board may in its sole and uncontrolled discretion determine.
15. Either party entitled to determine the Agreement by not less than six months' notice in writing to the other party without the necessity of showing any cause.
16. In the event of employment of Mr Gavaskar being determined/terminated by the Company, Company to pay to Mr Gavaskar as compensation for the loss of office, remuneration, including the benefits/perquisites which he would have earned if he had been in office, for the unexpired residue of his term as Managing Director & President. In such event, Mr Gavaskar to cease to be a director as provided in Section 283(1)(l) of the Companies Act, 1956.

In compliance with the provisions of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, the remuneration payable to Mr Gavaskar

is placed before the members, in general meeting, for their approval.

The terms and conditions of Mr Gavaskar's appointment as set out above may also be treated as an abstract of the terms of the draft Agreement between Mr D M Gavaskar and the Company under Section 302 of the Companies Act, 1956.

Mr Gavaskar is concerned or interested in the resolution at Item No. 5 of the Notice since it relates to his own re-appointment and remuneration.

The draft of the Agreement to be entered into with Mr D M Gavaskar is available for inspection by any member of the Company at the Registered Office of the Company between 2.00 pm and 4.00 pm on any working day of the Company.

By Order of the Board

D M Raja

Vice President & Company Secretary

Mumbai,
30 March 1998

Registered Office:

17 R Kamani Marg
Ballard Estate
Mumbai 400 001

Consequent upon the change in the name of the Company, intimation letters were sent to all shareholders for surrender of their old certificates in exchange for certificates bearing the new name of the Company. Shareholders who have so far not sent their certificates for exchange are requested to send the same to the Registered Office of the Company immediately.

Report of the Directors

TO THE MEMBERS

Your Directors have pleasure in presenting their Fifty-fourth Financial Report of the Company and Audited Accounts for the year ended 31 December 1997.

Financial Results

	(Rupees in lakhs)	
	Year ended 31-12-1997	Year ended 31-12-1996
Sales	24383.97	23341.83
Profit before tax and Extraordinary Item	4442.09	3727.95
Extraordinary item:		
(a) One-time net consideration for marketing knowhow for formulations	2447.93	—
(b) Voluntary retirement charge	—	(730.22)
Profit before tax	6890.02	2997.73
Profit after tax	4994.67	2047.73
Balance brought forward	2669.63	1353.18
Profit available for appropriation	7664.30	3400.91
Appropriations:		
Proposed dividend	648.00	526.50
Corporate Dividend Tax	117.45	—
Transfer to reserve	499.65	204.78
Balance carried forward	6399.20	2669.63

Dividend

Your Directors recommend a dividend of Rs. 8.00 per share (80 per cent) on 81,00,000 fully paid-up equity shares of Rs. 10 each of the Company. The proposed dividend, if approved at the Annual General Meeting will absorb a sum of Rs. 648.00 lakhs (*Previous year: Rs. 526.50 lakhs*).

Reserves

The total Reserves as on 31 December 1997 amounted to Rs. 9403.09 lakhs comprising of Revenue Reserve amounting to Rs. 3003.89 lakhs and the surplus profit amounting to Rs. 6399.20 lakhs.

Operations

Sales (including other income) for the financial year ended 31 December 1997 amounted to Rs. 25598.41 lakhs as compared to Rs. 24843.70 lakhs for the year ended 31 December 1996.

In a highly competitive market, all the major products namely Insulins, Brufen, Digene, Prothiaden and Cremaffin performed satisfactorily during the year. Clivarine, an anticoagulant low molecular weight heparin preparation used for the prophylaxis of deep vein thrombosis was launched during the year and has received encouraging response.

The Company continued its efforts to improve productivity and contain costs. The profit before taxation and extraordinary item amounted to Rs. 4442.09 lakhs as compared to Rs. 3727.95 lakhs for the year ended 31 December 1996. The extraordinary item for the year ended 31 December 1997 represents one-time net consideration amounting to Rs. 2447.93 lakhs for providing marketing knowhow for formulations as against an extraordinary charge on account of expenditure under voluntary retirement scheme amounting to Rs. 730.22 lakhs in the previous year. This has resulted in the profit before tax after extraordinary item of Rs. 6890.02 lakhs compared to Rs. 2997.73 lakhs for the year ended 31 December 1996. The profit after tax and extraordinary item for the year amounted to Rs. 4994.67 lakhs as compared to Rs. 2047.73 lakhs for the previous year.

The Company's Plant at Jejuri performed well during the year and continues to enjoy concessional tax benefits under the Income Tax Act, 1961 and sales tax deferral under the Package Scheme of Incentives announced by the Government of Maharashtra. The Company's Plant at Verna, Goa also performed well during the year. The said undertaking is also eligible for tax holiday pursuant to Section 80-IA of the Income Tax Act, 1961.

Brand Acquisition

In order to increase its presence in the prescription product business, the Company has acquired the product Epilex for a total consideration of Rs. 9.90 crores. The product is used in the treatment of epilepsy.

Foreign Equity

Pursuant to the open offer made by Lupharma GmbH, it has acquired 8,91,000 equity shares from the shareholders, thereby increasing its stake in the Company to 51%.

Fixed Deposits

As on 31 December 1997 the Company was holding an aggregate sum of Rs. 34.12 lakhs on account of deposits received from the public, employees and shareholders. Deposits of an aggregate amount of Rs. 3.75 lakhs matured during the year and were paid before 31 December 1997.

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Subsidiary Companies

Knoll AG has sold its rights in respect of Burnol and Coldarin. Beem Healthcare Ltd has therefore discontinued the marketing of these products with effect from 1 January 1998. The Boots Company plc, UK, has terminated the licence granted to Knoll AG, to use their trade marks, Strepsils and Sweetex. Accordingly Beem Healthcare Ltd has discontinued the marketing of these brands with effect from 1 March 1998. Beem Healthcare Ltd continues to market the products, Aciguard tablets, Cherana cough lozenges and other OTC brands.

Lenbrook Pharmaceuticals Ltd which is engaged in export development activities performed well during the year.

Valencia Pharmaceuticals Ltd has not commenced any operations so far.

Information pursuant to Section 217 of the Companies Act, 1956

The information required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in Annexure I and forms part of this Report.

The information required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 is given in Annexure II and forms part of this Report. As per the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts is being sent to the shareholders of the Company, excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

Directors

Under Article 124 of the Articles of Association, Mr R A Shah retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

The Company has recorded all round growth in its business under the leadership of Mr D M Gavaskar. Your Directors have re-appointed Mr D M Gavaskar as Managing Director & President for a period of 5 years effective 1 April 1998 on revised terms and conditions.

Auditors

Messrs Deloitte Haskins & Sells, Chartered Accountants retire at this Annual General Meeting and are eligible for re-appointment as Auditors.

Health, Safety and Environment

The Company continues to accord utmost priority to the areas of health, safety and environment. Compliance with safety norms and regular monitoring of effluents are an integral part of the Company's operating systems.

Technology Absorption and Development

Development of new formulations and dosage forms and modification of existing ones for cost containment and improved productivity is an ongoing process and the Company is constantly engaged in activities of development and clinical research. The R&D Centre of the Company located at Goa has made significant contributions towards its assigned goals of product development and clinical research.

The Company has from time to time received valuable knowhow, guidance and support from the parent company which has resulted in manufacturing process upgradation, improved packaging and cost containment and the Company is indeed grateful to them.

Employees

Relations between the employees and the management continued to be cordial during the year.

For and on behalf of the Board

D M GAVASKAR *Managing Director
& President*

Mumbai
30 March 1998

R A SHAH
Director

Annexure I

Information pursuant to the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

1. Conservation of Energy

(I) Energy conservation measures taken:

Fully automatic package type boilers having fuel efficiency in excess of 80% are in operation at all the manufacturing locations. Steam condensate is being recovered for re-use in the boilers. By closely monitoring the efficiency of these boilers which are recognised by the Energy Conservation Cell and use of additives to furnace oil used in these boilers consistently high efficiency has been achieved throughout the year.

Insulation of fuel line header/boiler at Jejuri works has resulted in lower consumption of furnace oil. Separation of dust extraction units for tablet compression and blister

packing area has resulted in the reduction in running of one of the dust extraction units by 50%.

By providing siphon pipe connection between two underground water storages at Jejuri works, the utilisation of the transfer pump is reduced by 80%. Incorporation of vacuum generation in the air line resulted in elimination of use of vacuum pump. Installation of microprocessor based unit in LT room has helped in selecting required capacitors to maintain power factor.

(II) Additional investments and proposals, if any, being implemented for reduction in consumption of energy:

Nil

(III) Impact of the measures at (I) and (II) above for reduction of energy consumption and consequent impact on the cost of production of goods: