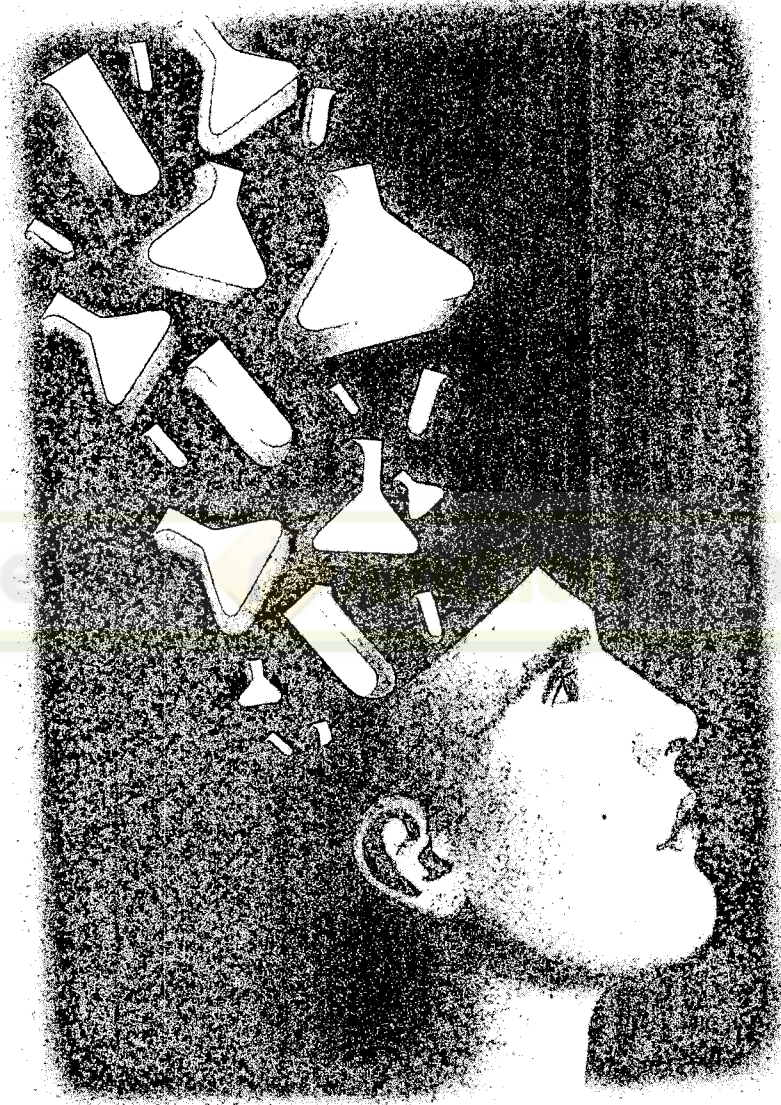


MD	✓		800	✓
CS	✓		100	✓
RO	✓		100	✓
TRA	✓		100	✓
AGM	✓	✓	100	✓
SE	✓	✓	100	✓

Faith in the Power of Knowledge



The story of how Cheminor has invested aggressively in enhancing its knowledge capital. To fight the downturn and competition and emerge successful over the coming years.



Cheminor Drugs Limited
Annual Report for 1997-98



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**‘The ultimate
value of life
depends upon
awareness and
the power of contemplation
rather than upon mere
survival.’ – Aristotle**

Faith in the Power of Knowledge

Theme of the annual report

The power of knowledge is the big difference between companies as we enter the Information Age. Over the coming years, companies that have invested in their knowledge capital more aggressively and effectively than they have done earlier will be the ones that will grow - in turnover and their bottomline. Cheminor recognises the power of knowledge as a way to the future. Even though profits are currently low, the investment in knowledge capital has, if anything, accelerated during the last couple of years. We are confident that this investment will pay off handsomely over the coming years as Cheminor leverages its considerable knowledge capital to sell the broad gamut of products - intermediates to bulk-actives to finished dosages - in the regulated markets. This knowledge capital is the critical ingredient that will deliver shareholder value in the coming years. The theme of this year's annual report - faith in knowledge capital - is a re-affirmation of the philosophy that investment in the intangibles that govern our business is our road to the new world.

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What is Cheminor ?

Cheminor is a part of the Dr Reddy's group, headquartered in Hyderabad. The group has established a strong reputation as innovators in the Indian pharmaceutical industry.

Cheminor went public in 1990 and concentrated on the manufacture of intermediates and bulk-actives. Its strengths in organic synthetic chemistry resulted in the company emerging as the pioneer for a number of products within India. As the company built up vast skills in the areas of research and development, quality systems as well as matters relating to regulatory compliance, Cheminor began establishing a presence in the highly regulated markets of the world.

Over time, Cheminor has emerged as a respectable and dependable supplier of intermediates and bulk-actives in more than 50 countries. Not only are the company's plants inspected by the USFDA, the company employs current Good Manufacturing Practices (cGMP) which are recognised and accepted in the stringent regulated markets. This includes a responsible commitment to the environment.

To leverage its quality commitment, the company has drawn out a long-term strategy of emerging as a powerful force in the regulated markets as the patent status is withdrawn from a number of products over the coming decade. Two specific initiatives which the company has exercised over the last couple of years include the setting up of a modern Rs 500 million finished dosages factory on the outskirts of Hyderabad. The other initiative has involved forging a marketing relationship with Schein Pharmaceutical, Inc., one of the largest generics manufacturers in the US. The latter now holds a 12.79 per cent stake in Cheminor's equity.

Cheminor reported an income of Rs 1,604 million and a profit after tax of Rs 48.1 million in 1997-98. The company's shares are listed on the Mumbai, Hyderabad, Calcutta and Chennai stock exchanges. At the close of 1997-98, the company's market capitalisation stood at around Rs 2,478 million.

Our VISION

The *vision* of Cheminor Drugs Limited is to become a vertically-integrated global pharmaceutical company engaged in the efficient production and marketing of generics, bulk-actives and value-added organic intermediates with a direct marketing presence in the First World countries.

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What do we want to achieve ?

We want to achieve global leadership as a manufacturer of quality bulk-active substances, high value-added organic intermediates and generic finished dosages. The company expects to achieve this by :

- Adhering to the highest standards of current Good Manufacturing Practices.
- Timing the development efforts and production programmes to coincide with the market opportunities; by being the first company to provide the products required by our customers when they need them.
- Providing value to our customers by means of high quality technical support, analytical data, technical documentation and regulatory compliance.
- Achieving a low cost position by process innovation, efficiency in the usage of inputs and innovative engineering.
- Achieving sustainable production by minimising waste generation, implementing effective methods of waste treatment, environmental protection and the enrichment of our natural environs.

What values does Cheminor live by ?

● Customer satisfaction

We shall constantly strive to achieve customer satisfaction. We will anticipate the needs of customers and be responsive in meeting them. To achieve customer satisfaction, we need to be efficient, innovative, responsive and quality-minded in all our activities.

● Excellence

We will promote excellence in manufacturing technologies, designing and building facilities / equipment, work systems and processes and research capabilities.

● Integrity

We will be fair and honest in our dealings. We will develop mutually beneficial and honest relationships with our associates and partners.

● Employees

We will respect all our employees irrespective of their position as individuals, treat them with dignity and recognise their merit. We will provide opportunities to all employees to grow and develop to their full potential. We shall provide a working environment which not only

fosters excellence and innovation but is also enjoyable and fulfilling. We shall encourage the empowerment of employees at all levels. We will be transparent and open in our dealings and knowledge except for scientific and commercial secrets which shall be shared only on a need-to-know basis. We shall encourage teamwork with co-operative and open communication.

● Environmental concern

We will develop and adapt technologies to minimise waste generation and ensure effective methods for its treatment. We shall operate our plants with a high degree of safety for our employees and the general public.

● Profits for a purpose

Our final responsibility is to provide lasting values to our shareholders and a fair compensation to our employees. We will generate adequate returns to fund research and development and to create new facilities to ensure continued growth. We shall operate in ways which ensure that adequate reserves are created for facing adversity.

How did 1997-98 go for Cheminor ?

- Sales increased by 20 per cent but profits after tax fell by 39 per cent mainly due to a high interest burden as well as a fall in the selling prices of most of the bulk drugs.
- The company signed a strategic alliance agreement with Schein Pharmaceutical, Inc., USA and allotted two million equity shares to the company.
- Cheminor was awarded the ISO 9001 certification for Design, Manufacture and Supply of Bulk Actives and Finished Dosages for all its plants and the corporate office.
- The company successfully implemented the Enterprise Resource Planning Package - Oracle Financials to unleash the power of information within the organisation and quicken the company's response to the international business community.

Post-balance sheet development

Cheminor reported a 270 per cent growth in its bottomline in the first quarter of 1998-99. The unaudited results which were made public in July 1998 showed that the export income rose from Rs 160.69 million in the first quarter of 1997-98 to Rs 291.44 million in the first quarter of 1998-99. Income from domestic sales dropped from Rs 167.52 million to Rs 128 million during the period. However, total income showed a 28 per cent rise from Rs 328.22 million to Rs 419.45 million. Profit after tax increased from 3.39 million in the first quarter of 1997-98 to Rs 12.61 million in the first quarter of 1998-99. The post-interest margin on total income increased from 7 per cent to nearly 9.90 per cent, reflecting an improving business scenario.

Results schedule for 1998-99

Quarter ended September, 1998 : Before 31st October, 1998 (unaudited)
 Quarter ended December, 1998 : Before 31st January, 1999 (unaudited)
 Quarter/Year ended March, 1999 : Before 31st May, 1999 (audited)

How are Cheminor's products relieving pain ?

Dextromethorphan

Nature of drug

Anti-tussive

Brief history

Cough is a useful physiological mechanism that serves to clear the respiratory passages of foreign material and excess secretions. It should not be suppressed indiscriminately. There are, however, many situations in which cough does not serve any useful purpose but may, instead, only annoy the patient or prevent rest and sleep. Chronic cough can contribute to fatigue, especially in elderly patients. In such situations the physician will use a drug that will reduce the frequency or intensity of the coughing. Dextromethorphan is one such drug that suppresses cough.

Drug characteristics

Cough suppressant, as opposed to expectorants,

which increase phlegm generation and induce the patient to cough.

Mechanism of action

The drug cuts off the circuit (cough reflex arc) between the central nervous system and the throat muscle, thereby reducing the cough.

Dextromethorphan acts



centrally to elevate the threshold for coughing.

Indications for use

For relief of cough and upper respiratory symptoms associated with common cold or allergy.

Side effects

Sleepiness and dizziness,

nausea.

General impact

Its effectiveness in patients with pathological cough has been demonstrated in controlled studies; its potency is nearly equal to that of codeine. Compared with codeine, Dextromethorphan produces fewer subjective and gastrointestinal side effects. It has no analgesic or addictive properties.

Patent status

Expired.

Overview

Cheminor is one of the few manufacturers of this product in India. Cheminor has achieved a quality level which matches that of the world leader in this product.

How are Cheminor's products relieving pain ?

Ibuprofen and Naproxen

Nature of drugs

Non-steroidal anti-inflammatory drugs (NSAID).

Brief History

Ibuprofen was one of the first to be introduced in this category worldwide, hence the experience with this drug is greater. Naproxen is chemically different from Ibuprofen and has an edge in terms of efficacy over the former.

Drug characteristics

Analgesic: Used as a painkiller.

Anti-inflammatory: Corrects redness and swelling.

Anti-pyretic: Reduces fever.

Mechanism of action

Ibuprofen & Naproxen are both rapidly absorbed into the system and exert their action by their ability to inhibit the enzyme cyclooxygenase, thus blocking the production of

prostaglandins.

Indications for use

Arthritis (osteoarthritis and rheumatoid arthritis). Ibuprofen/Naproxen are also used in musculo-skeletal injuries (as in sport), dysmenorrhoea and certain cases of lumbago, acute gout and ankylosing spondylitis.



Side effects

Both Ibuprofen and Naproxen are well tolerated compared to other NSAIDs. Gastric toxicity is seen only in a few cases depending on the medical profile of the individual.

General impact

Arthritis is an inflammation of the joints which makes them painful, swollen and stiff. There are two major kinds of arthritis: osteoarthritis and rheumatoid arthritis.

Osteoarthritis occurs primarily in the elderly and is characterised by joint pain, tenderness, limitation of movement and variable degree of local inflammation.

Rheumatoid arthritis starts in middle age, affecting many joints and causing general morning stiffness; there is increasing damage to the cartilage between the bones.

Patent status

Expired.

Overview

Cheminor supplies Ibuprofen mostly to US market.

Cheminor is one of the largest manufacturers of Naproxen and is likely to emerge as a major source of supply to the developed markets.