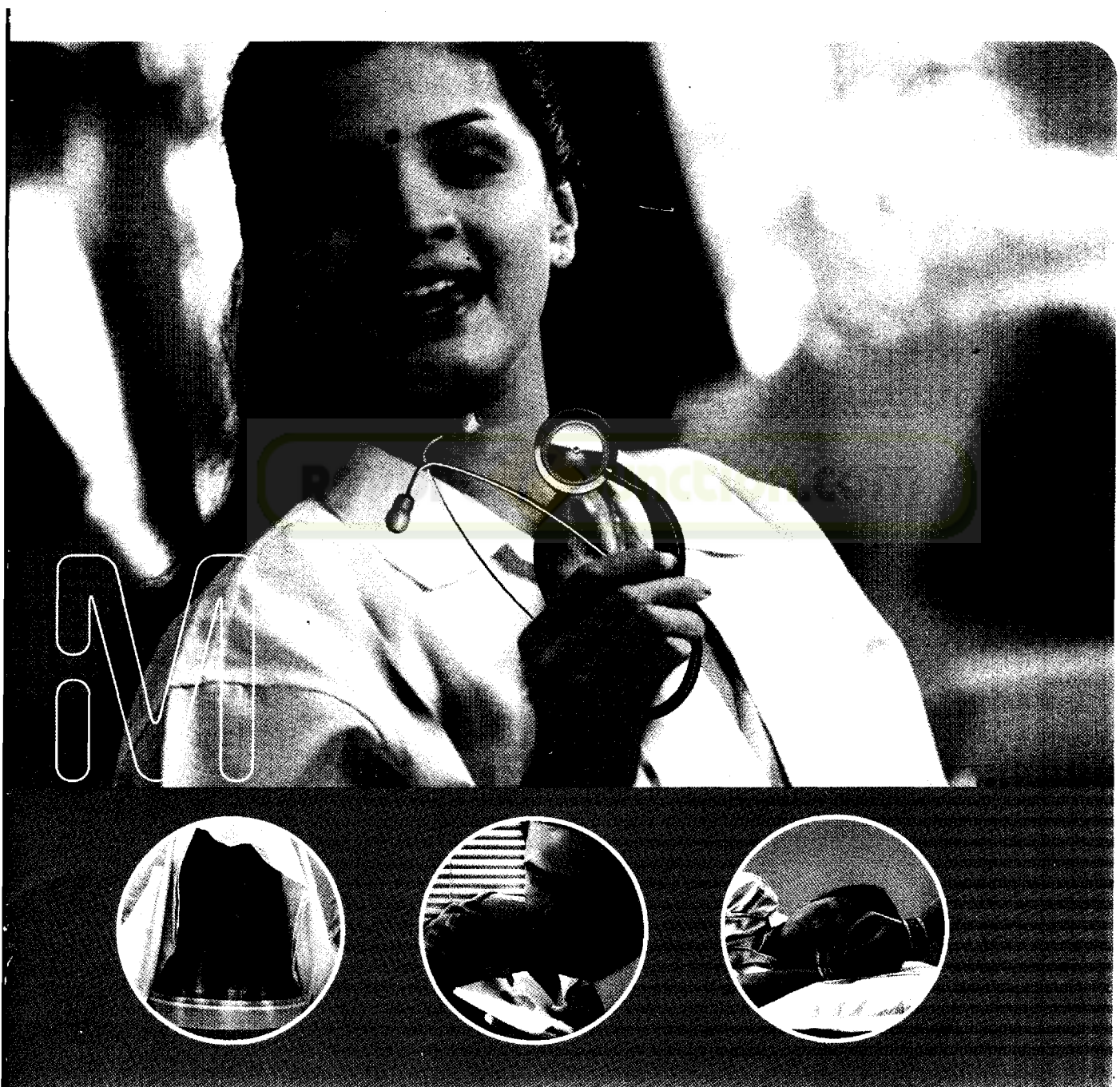




2004 | Annual Report



Four decades of healthcare in India –
now reaching directly to consumers



Visit of Professor Dr. Bernhard Scheuble - Chairman and Chief Executive Officer
Merck KGaA reaffirms Merck's continued support to Indian operations

Newly set-up Consumer Health Care Division of Merck India will focus on marketing medicines for common ailments directly to consumers.
Cover page picture - clipping from T.V. advertisement of new product of this division, Aerway Vapocap - effective, convenient and safe medicine for cold and respiratory congestion.

Coated with Iriodin[®] pearl lustre pigments manufactured by Merck

Merck Limited

Thirty Eighth Annual Report and Statement of Accounts 2004

Board of Directors

S. N. Talwar

Chairman

H. Mauer

Managing Director

T. Schreckenbach

J. Sombroek

H. C. H. Bhabha

S. M. Gupte

V. D. Narkar

G. V. S. Rayudu

R. L. Shenoy

Auditors

BSR & Co.

(formerly Bharat S Raut & Co.)

Bankers

Canara Bank

Union Bank of India

Deutsche Bank AG

Citibank N.A.

Standard Chartered Bank

ICICI Bank Limited

HDFC Bank Limited

Legal Advisors

Crawford Bayley & Co.

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Company Secretary

H. U. Shenoy

Registered Office

Shiv Sagar Estate 'A'

Dr. Annie Besant Road

Worli, Mumbai 400 018

Plant Location

Plot No. 11/1

Usgaon, Ponda 403 407

Goa

R & T Agents

Sharepro Services

912, Raheja Centre

Free Press Journal Marg

Nariman Point

Mumbai 400 021

Notice of Annual General Meeting

NOTICE is hereby given that the Thirty Eighth Annual General Meeting of the Members of Merck Limited will be held at Patkar Hall, S.N.D.T. University, 1, Nathibai Thackersey Road, Mumbai 400 020 on Monday, 21st February, 2005 at 10.30 a.m. to transact the following business:

1. To receive and adopt the audited Profit and Loss Account for the year ended 31st December, 2004, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To declare a dividend for the year 2004.
3. To appoint a Director in place of Mr. S. N. Talwar who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. G. V. S. Rayudu who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

AS SPECIAL BUSINESS:

6. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION, the following:

"RESOLVED THAT pursuant to the provisions of Sections 198, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the Companies Act, 1956, the Company hereby approves the revision in terms of remuneration payable to Mr. R. L. Shenoy, the Whole-time Director of the Company, from 1st April, 2004 for the residual term of office till 26th December, 2008 as per the terms and conditions set out in the draft supplementary agreement to be entered into by the Company with him, submitted to the Meeting and initialled for the purpose of identification by the Company Secretary."

7. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION, the following:

"RESOLVED THAT pursuant to the provisions of Sections 198, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the Companies Act, 1956, the Company hereby approves the revision in terms of remuneration payable to Mr. G. V. S. Rayudu, the Whole-time Director of the Company, from 1st April, 2004 for the residual term of office till 21st November, 2007 as per the terms and conditions set out in the draft supplementary agreement to be entered into by the Company with him, submitted to the Meeting, and initialled for the purpose of identification by the Company Secretary."

8. To consider and, if thought fit, to pass, with or without modification, as an ORDINARY RESOLUTION, the following:

"RESOLVED THAT pursuant to the provisions of Sections 198, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the Companies Act, 1956, the Company hereby approves the revision in terms of remuneration payable to Dr. S. M. Gupte, the Whole-time Director of the Company, from 1st April, 2004 for the residual term of office till 11th December, 2007 as per the terms and conditions set out in the draft supplementary agreement to be entered into by the Company with him, submitted to the Meeting, and initialled for the purpose of identification by the Company Secretary."

By Order of the Board of Directors

H. U. Shenoy
Company Secretary

Mumbai, 18th January, 2005

Registered Office:

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai 400 018

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES, TO ATTEND AND VOTE INSTEAD OF HIMSELF, ONLY ON A POLL, AND A PROXY NEED NOT BE A MEMBER.

Proxies in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the Meeting.

2. A brief profile of the Directors retiring by rotation and eligible for re-appointment as required by Clause 49 VI A of the Listing Agreements signed by the Company with the Stock Exchanges is given in the Report on Corporate Governance.
3. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business at item Nos. 6 to 8 of the Notice is annexed.
4. In terms of Sections 205A and 205C of the Companies Act, 1956, the amount of dividend remaining unpaid or unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account is required to be transferred to the Investor Education and Protection Fund. Members who have not encashed the dividend warrants for the year ended 31st December, 1997 or any subsequent years, are requested to send their claim directly to the Registrar and Share Transfer Agents (R&T Agents), Sharepro Services, Mumbai. Unclaimed dividend for the year prior to 1997 has

Notice of Annual General Meeting

already been transferred to the Investor Education and Protection Fund of the Central Government.

5. Members are requested to notify immediately any change of address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Secretarial Department at the Registered Office of the Company or to the R&T Agents in respect of their holdings in physical form.
6. In order to provide protection against fraudulent encashment of dividend warrants, Members are requested to furnish, if not provided earlier, their Bank Account number, name and address of the Bank Branch, quoting their folio number to the Secretarial Department at the Registered Office or to the R&T Agents.
7. In respect of Members who have given mandate for payment of dividend through Electronic Clearing Service (ECS), the dividend will be paid through ECS and their Bank Account details will be printed on their dividend warrants.
8. The mandate given, if any, by the Members in respect of shares held in physical form will not be applicable to the dividend payable on shares held by them in demat mode and vice versa. Members holding shares in demat mode must, therefore give instructions to their DPs regarding the Bank Account in which they wish to receive dividend.
9. Members are informed that in case of joint-holders attending the Meeting, only such joint-holder who is higher in the order of names will be entitled to vote.

10. In terms of Section 109A of the Companies Act, 1956, Members are entitled to make nominations in respect of shares held by them in physical form. Members desirous of making nominations are requested to send their requests in Form No. 2B, in duplicate to the Secretarial Department at the Registered Office of the Company or to the R&T Agents.

REQUEST TO THE MEMBERS:

1. Members desiring any relevant information on the Accounts at the Annual General Meeting are requested to write to the Company Secretary at least seven days in advance, so as to enable the Company to keep the information ready.
2. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report to the Meeting.
3. Members who hold shares in demat mode are requested to bring their Client ID and DP ID numbers for easy identification of membership at the Meeting.
4. For the convenience of Members, an Attendance Slip is annexed to the Proxy Form. Members are requested to fill in and affix their signatures at the space provided therein and hand over the Attendance Slip at the entrance of the place of Meeting. Proxy/Representative of a Member should mark on the Attendance Slip as "Proxy" or "Representative", as the case may be.

Notice of Annual General Meeting

Explanatory Statement

Pursuant to Section 173(2) of the Companies Act, 1956

Item Nos. 6, 7 and 8:

In view of the changing trend in compensation of managerial personnel, the Company had undertaken a detailed study of the compensation policy in various comparable companies. The remuneration now proposed is fairly in line with the general pattern for comparable responsibility/job profile.

The Board at its Meeting held on 31st July, 2004 revised the limits on overall remuneration payable to the Whole-time Directors. The following table shows the overall existing and proposed limits on remuneration and perquisites, payable to the Whole-time Directors.

(Amount in Rupees)

Sr. No.	Name of the Whole-time Director	Date of General Meeting approving the appointment	Period of existing agreement	Existing limits		Proposed new limits effective 1st April, 2004	
				Remuneration	Perquisites	Remuneration	Perquisites
1.	Mr. R. L. Shenoy	20.3.2004	27.12.2003 to 26.12.2008	45,00,000	15,00,000	60,00,000	No change
2.	Mr. G. V. S. Rayudu	9.6.2003	22.11.2002 to 21.11.2007	30,00,000	15,00,000	60,00,000	No change
3.	Dr. S. M. Gupte	9.6.2003	12.12.2002 to 11.12.2007	30,00,000	15,00,000	60,00,000	No change

For the above purpose,

- (i) 'remuneration' includes salary, commission and incentives.
- (ii) 'perquisites' include furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings, domestic assistance, use of car with driver, telephone at residence, children's education allowance, medical reimbursement and leave travel concession for self and family, club fees and personal accident insurance etc. in accordance with the rules of the Company. The aforesaid remuneration and perquisites shall be restricted to the above referred limits and overall limits laid down in Sections 198 and 309 of the Companies Act, 1956 read with Schedule XIII to the said Act.

In addition, the above managerial personnel shall be entitled to Company's contribution to Provident Fund, Superannuation Fund upto tax exemption limit and Gratuity payment in accordance with the rules of the Company.

The above modification in remuneration requires Members' approval.

Each of Mr. R. L. Shenoy, Mr. G. V. S. Rayudu and Dr. S. M. Gupte is interested in the modification concerning his remuneration.

Copy of the draft supplementary agreement to be entered into by the Company with each of Mr. R. L. Shenoy, Mr. G. V. S. Rayudu and Dr. S. M. Gupte is open to inspection by the Members at the Registered Office of the Company on any working day between 10 a.m. and 12 noon (excluding Saturdays, Sundays and public holidays) upto and including the day of the Annual General Meeting.

By Order of the Board of Directors

H. U. Shenoy
Company Secretary

Mumbai, 18th January, 2005

Registered Office:
Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai 400 018

Directors' Report

at 31st December, 2004, and the Profit for the year ended on that date;

- (c) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 has been taken including that for safeguarding the assets of the Company and for detecting and preventing fraud and other irregularities; and
- (d) the annual accounts have been prepared on a going-concern basis.

EXPORTS:

The exports (including to Nepal) of the Company amounted to Rs. 152.5 mio as against the exports achieved last year of Rs. 192.5 mio. Efforts are being made to improve the export performance.

SALE OF TALOJA UNDERTAKING:

During the year, Company sold its Taloja undertaking to Biochem Pharmaceutical Industries Ltd. for a consideration of Rs. 100 mio. The Company has received the entire consideration on 9th December, 2004, on signing the Deed of Assignment.

FORMATION OF A PUBLIC CHARITABLE TRUST:

During the year under review, your Company formed a Public Charitable Trust known as 'MERCK INDIA CHARITABLE TRUST' with the main object of rendering financial assistance to children from the poorer section of society, to pursue primary and secondary education. The Registration under the Bombay Public Trust Act, 1950, has been obtained. The Company has also obtained a certificate to claim deduction under Section 80G from the Income Tax Authorities.

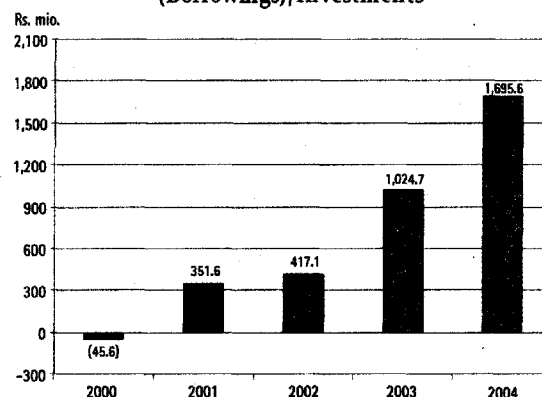
DIRECTORS:

Mr. S.N. Talwar and Mr. G.V.S. Rayudu will retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

FIXED DEPOSITS:

During the year, the Company has not accepted any deposits. The fixed deposit holders have not claimed

(Borrowings)/Investments*



* Investments include Debt Funds, Bonds and Bank Deposits.

deposits aggregating Rs. 0.2 mio due for repayment as on the date of this Report. Barring these, the Company has refunded all the deposits claimed by the deposit holders as on 31st December, 2004, and as on the date of this Report.

AUDITORS:

Messrs BSR & Co., Chartered Accountants retire as Statutory Auditors at the conclusion of ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee of the Board recommends the re-appointment of Messrs BSR & Co., as Auditors for the year 2005. The Company has received a letter from the retiring Auditors to the effect that their appointment as Statutory Auditors, if made, would be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

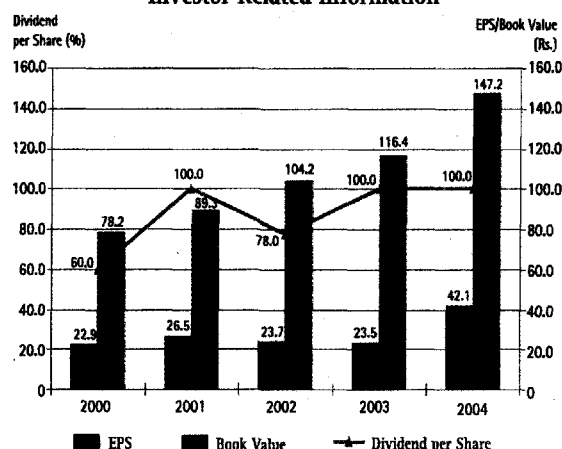
COST AUDIT:

Messrs S.S. Mani & Co., have been re-appointed to conduct the cost audit of the accounts maintained by the Company in respect of bulk drugs and formulations, for the year ended 31st December, 2005.

PERSONNEL:

As on the date of Report, the total number of employees on the payroll was 927. Industrial relations

Investor Related Information



Market Capitalisation and Price Earning Ratio



Directors' Report

with employees at various levels continue to be cordial. Negotiations are continuing with the Union at the Goa Plant in respect of the Charter of Demands. The Company is hopeful of arriving at an amicable settlement soon.

The information required to be included as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is set out in the annexure forming part of this Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo required to be disclosed as per Section 217 (1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure forming part of this Report.

CORPORATE GOVERNANCE:

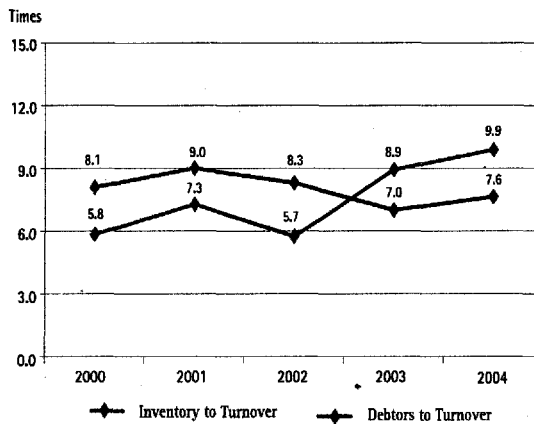
A Report on the Corporate Governance Code along with a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements, as also the Management Discussion and Analysis Report, are annexed to this Report.

On behalf of the Board of Directors

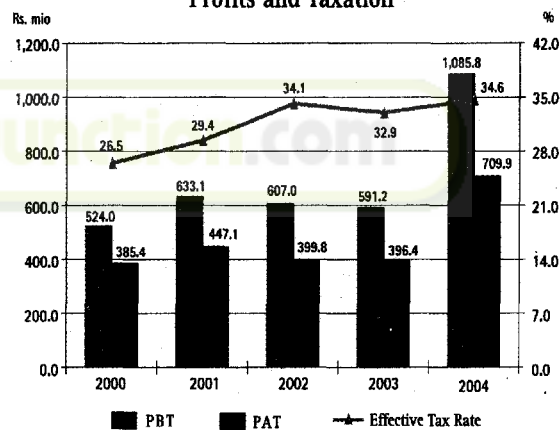
S.N. Talwar
Chairman

Mumbai, 18th January, 2005

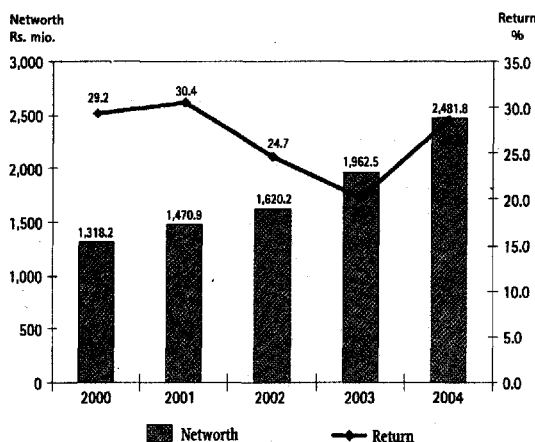
Turnover Ratios



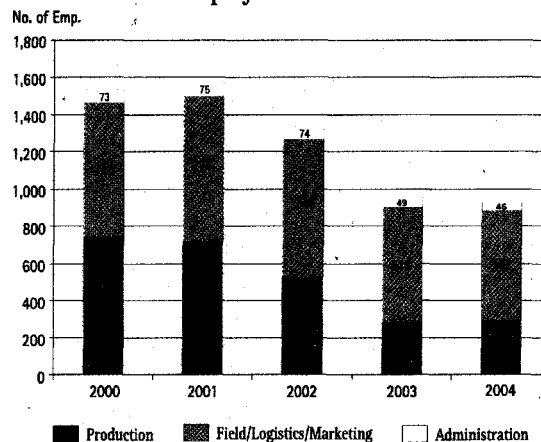
Profits and Taxation



Return on Network



Employee Information



Annexure to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

(A) CONSERVATION OF ENERGY:

GOA FACTORY

(a) Energy Conservation measures taken:

1. The Power factor improved from 0.95 to 0.99 by keeping one capacitor bank on manual mode.
2. DM water from the injectable washing machine is being recycled to the boiler

feed water tank resulting in water and furnace oil conservation.

3. By providing air receivers at sectional levels, air compressor load is balanced, resulting in a reduction in power consumption.
4. The Guaiazulene plant cooling tower is automated resulting in a reduction in power consumption.

(b) Impact of measures taken:

There has been a reduction in the consumption of power, furnace oil and water at Goa factory.

FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Power and Fuel consumption at Goa Plant

Sr. No.	Description	Year 2004	Year 2003
1.	ELECTRICITY		
(a)	Purchased		
	Units (in '000 kwh)	5,509.32	5,472.09
	Total Amount (Rs. mio)	18.66	18.61
	Rate/Unit (Rs.)	3.39	3.40
(b)	Own Generation		
	Through Diesel Generator		
	Units (in '000 kwh)	569.21	303.43
	Units/Ltr. of Diesel Oil	2.55	2.59
	Cost/Unit (Rs.)	9.17	8.02
2.	FURNACE OIL		
	Quantity (K. Ltr.)	440.43	411.11
	Total Amount (Rs. mio)	6.56	5.77
	Average Rate (Rs./K. Ltr.)	14,894	14,035

Consumption per unit of production

	Standards (if any)	Current year (1)	Previous year (2)
Products (with details)			
Unit			
Electricity	In view of the multi-product and multi-facilities production systems, the Company is not in a position to give the information required as per this format for the current year as well as for the previous year from the records maintained by the Company in accordance with the provisions of the Companies Act, 1956.		
Furnace oil			
Coal			
Others			

(B) TECHNOLOGY ABSORPTION:

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT

A. RESEARCH & DEVELOPMENT (R & D) :

1. SPECIFIC AREAS IN WHICH R&D HAS BEEN CARRIED OUT BY THE COMPANY:

Pharma

The Pharma R & D centre at Navi Mumbai, is recognized by Department of Scientific and Industrial Research. R & D activities are carried out in several areas like pharmaceuticals, vitamin premixes, cosmetics and packaging development. The Research Centre is privileged to have access to the latest technologies developed by Merck KGaA, Germany.

2. BENEFITS DERIVED AS A RESULT OF THE ABOVE R & D:

Reduction in lead time with better utilization of resources has been achieved by an integrated approach in development of new processes and packing materials. It continues to provide valuable support to the existing production development area and processes for better productivity and improvement in quality.

Formulation Department

Following products were launched in the year 2004:

1. Harpoon 200 tablets - Ofloxacin tablets 200 mg.
2. Cosome syrup - Phenylephrine Hcl, Dextromethorphan HBr., Chlorpheniramine Maleate syrup.