

MERCURY

26th Annual Report 2006-2007

MERCURY LABORATORIES LIMITED



MERCURY

WHERE YOUR WELL - BEING MATTERS

An ISO 9002 Company

**BOARD OF DIRECTORS**

Rajendra R. Shah
 Dilip R. Shah
 Dr. Dinesh Shah
 Dr. Tushar Shah
 Suryakant B. Parikh

Chairman & Managing Director
 Executive Director
 Independent Director
 Independent Director
 Independent Director

BANKERS

State Bank of India,

AUDITORS

Naresh & Company,
 Chartered Accountants
 Vadodara.

REGISTERED OFFICE

Shreeji Bhuvan,
 51, Mangaldas Road,
 Princess Street,
 Mumbai - 400 002
 Telephone : 22197268
 Fax : 22015441
 E-mail : mlbom@hathway.com

HEAD OFFICE & UNITS**UNIT NO. 1**

2/13, 2/14, Industrial Estate,
 Gorwa Road, Vadodara - 390 016
 Telephone : 2280180, 2280181
 Fax : 2280027
 P. Box No. : 3001
 Telegram : ERGACAP
 E-mail : mlbrd@mercurylabs.com

UNIT No. 2

Jarod, Ta. Waghodia,
 Vadodara - Halol Road,
 Dist : VADODARA

C O N T E N T S

| CONTENTS | PAGE |
|---------------------------------|------|
| 1. NOTICE OF AGM | 01 |
| 2. DIRECTORS' REPORT | 05 |
| 3. AUDITORS' REPORT | 18 |
| 4. BALANCE SHEET | 22 |
| 5. PROFIT & LOSS ACCOUNTS | 23 |
| 6. CASH FLOW STATEMENT | 24 |
| 7. NOTES TO ACCOUNTS | 31 |
| 8. BALANCE SHEET ABSTRACT | 39 |



NOTICE

Notice is hereby given that the 26th Annual General Meeting of Mercury Laboratories Limited will be held on Saturday, the 29th September, 2007 at 3.30 p.m. at its Registered Office at First floor, 18, Shreeji Bhuvan, 51, Mangaldas Road, Princess Street, Mumbai, to transact the following business.

Ordinary business:

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March 2007 and Balance Sheet as of that date together with the reports of the Directors and the Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri Suryakant B. Parikh who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and fix their remuneration.

Special Business :

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 09, 310, 314 and other applicable provisions, if any, of the Companies Act, 1956, including Schedule XIII to the said Act, as amended up to date, consent be and is hereby accorded to the re-appointment of and the, remuneration and perquisites being paid or provided to Shri Rajendra R. Shah as the Managing Director of the Company, for a period of 5 years from 1-4-2007 to 31-3-2012 on the terms and conditions as set out in the Agreement entered into between the Company and Shri Rajendra R. Shah and which is hereby specifically approved."

"RESOLVED FURTHER THAT the Board of Directors of the Company, be and is hereby authorised to vary or increase the said remuneration as specified in the said Agreement to the extent the Board of Directors may consider appropriate and as may be permitted or authorised in accordance with any provision under the Act for the time being in force provided, however, that the remuneration payable to Shri Rajendra R. Shah shall be within the limits set out in the said Act including the said Schedule XIII to the Act or any amendment (s) thereof and / or any rules or regulations framed there under and the terms of the aforesaid Agreement between the Company and Shri Rajendra R. Shah, be suitably modified to give effect to such variations or increase as the case may be."

"RESOLVED FURTHER THAT in the event of loss or Inadequacy of profits in any financial year of the Company during the term of office of Shri Rajendra R Shah, the Managing Director, the remuneration, perquisites set out in the aforesaid Agreement, be paid or granted to Shri Rajendra R. Shah as minimum remuneration, provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Section II of part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII and as may be amended from time to time or any equivalent statutory re-enactment(s) thereof for the time being in force ."

6. **To consider and, if thought fit, to pass with or without modification the following Resolution as an Ordinary Resolution.**

"RESOLVED THAT subject to the approval of the Central Government, pursuant to the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, of the Companies Act, 1956, including Schedule XIII to the said Act, as amended up to date, consent be and is hereby accorded to the re-appointment of and the payment of remuneration being paid or provided to Shri Dilip R. Shah as an Executive Director of the Company, for a period of 5 years from 1-8-2007 to 31-7-2012 on the terms and conditions as set out in the Agreement entered into between the Company and Shri Dilip R. Shah and which is hereby specifically approved."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary or increase the said remuneration and perquisites including the monetary value thereof as specified in the said Agreement to the extent the Board of Directors may consider appropriate and as may be permitted or authorised



in accordance with any provision under the Act for the time being in force provided, however, that the remuneration payable to Shri Dilip R. Shah shall be within the limits set out in the said Act including the said Schedule XIII to the Act or any amendment (s) thereof and/or any rules or regulations framed there under and the terms of the aforesaid Agreement between the Company and Shri Dilip R. Shah, be suitably modified to give effect to such variations or increase as the case may be."

"RESOLVED FURTHER THAT in the event of loss or inadequacy of profits in any financial year of the Company during the term of office of Shri Dilip R. Shah, the Executive Director, the remuneration, as set out in the aforesaid Agreement, be paid or granted to Shri Dilip R. Shah as minimum remuneration, provided that the total remuneration by way of salary, perquisites and other allowances shall not exceed the ceiling provided in Section II of part II of Schedule XIII to the said Act or such other amount and perquisites as may be provided in the said Schedule XIII and as may be amended from time to time or any equivalent statutory re-enactment(s) thereof for the time being in force"

7. To consider and, if thought fit, to pass with or without modification the following Resolution as an Ordinary Resolution.

"RESOLVED THAT consent of the Company, be and is hereby given for appointment of Shri Jayesh Vyas of M/s. Jayesh Vyas & Associates, the Practising Company Secretary, Baroda, to issue compliance certificate, pursuant to Companies (Compliance Certificate) Rules, 2001 framed under Section 383A of the Companies Act, 1956, to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting on the fees as may be decided by the Chairman & Managing Director in consultation with him plus out of pocket expenses."

For and on behalf of the Board,

Date : 31.07.2007
Place: Vadodara

Rajendra R. Shah
Chairman & Managing Director

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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 THE PROXY NEED NOT TO BE A MEMBER.
2. The Proxy Form duly completed and signed should be lodged with the Company 48 hours before the commencement of the meeting, in order to be effective.
3. Explanatory statement, pursuant to Section 173 of the Companies Act, 1956 in respect of Special Business enumerated at Item Nos. 5 to 7, is annexed.
4. The Register of members and share transfer books of the Company will remain closed from Monday, the 24th September, 2007 to Saturday 29th September, 2007 (both days inclusive).
5. MEMBER DESIROUS OF OBTAINING INFORMATION WITH RESPECT OF THE ACCOUNTS OF THE COMPANY ARE REQUESTED TO SEND QUERIES IN WRITING TO THE COMPANY AT IT'S REGISTERED OFFICE SO AS TO REACH AT LEAST SEVEN DAYS BEFORE THE DATE OF THE MEETING.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item Nos. 5 & 6 :

Shri Rajendra R. Shah is a qualified Pharmacist having obtained a B. Pham. Degree from the Gujarat university of Ahmedabad and having experience of production, quality control, Materials management and marketing during tenure of his office, was appointed Managing Director of the Company since 31st March, 1992, and has since then, been acting as Managing Director of the Company, whose last tenure as the Managing Director for a period of 5 (Five) Years, expired on 31-03-2007.



Whereas Shri Dilip R. Shah is a qualified Pharmacist having obtained a B. Pham. Degree from the Gujarat University of Ahmedabad and M.B.A from North Illinois University having extensive experience in the field of marketing, finance and administration of Pharmaceutical Industry, was appointed as an Executive Director of the Company from 1st August, 1992, and has since then been acting as Executive Director of the Company, whose last tenure as the Executive Director for a period of 5 (Five) Years, expired on 31-07-2007.

During their tenure as Whole time Directors, the Company, not only successfully withstand various operational, economical, managerial and business challenges but showed upsurge in its Turnover and Profitability.

Considering their educational qualifications, vast and varied business experiences, proven abilities and business acumen and past contributions and their contributions required for future anticipated growth, at the recommendation of the Remuneration Committee, Subject to the approval of the Shareholders, the Board of Directors, at their meeting held on 30th March, 2007, have reappointed Shri Rajendra R. Shah as the Managing Director for a further period of 5 years with effect from 1st April, 2007 subject to the approval of the Shareholders and at their meeting held on 31st July, 2007, have reappointed Shri Dilip R. Shah as the Executive Director of the Company, for a further period of 5 years with effect from 1st August, 2007 subject to the approval of the Shareholders and the Central Government., since he now being a Non-Resident residing abroad.

Draft Agreements between the Company and Shri Rajendra R. Shah and another with Shri Dilip R. Shah embody following main terms and conditions:

1. Tenure: 5 years from the date of reappointment.
2. Remuneration: Gross Salary of Rs. 70,000/- per month with Rs. 2,500 as Medical Allowance and Rs.2,500/- as LT Allowance, total of Rs.75,000/- p.m., making Rs. 9,00,000/- per annum in aggregate inclusive of all perquisites.
- II Other permissible Allowances:
 - a. Provision for use of the Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.
 - b. Company's contribution to Provident Fund and Superannuation or Annuity Fund, to the extent these either singly or together are not taxable under the Income Tax Act, gratuity payable as per the rules of the Company and encashment of leave at the end of the tenure, shall not be included in the computation of limits for the remuneration or perquisites aforesaid.
3. Minimum Remuneration: Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of the tenure of the Managing Director and the Executive Director, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary and perquisites and allowances as specified above.
4. The terms and conditions of the said reappointment and/or Agreement may be altered and varied from time to time by the Board as it may, in its discretion, deem fit, within the maximum amount payable to Managing Director and Executive Director in accordance with Schedule XIII to the Act or any amendments made thereafter in this regard.
5. The Agreement may be terminated by either party giving the other party three months' notice or the Company paying three months' salary in lieu thereof.
6. If at any time the Managing Director or Executive Director, as the case may be, ceases to be a Director of the Company for any cause whatsoever, he shall cease to be the Managing Director or Executive Director of the Company. If at any time the Managing Director or Executive Director ceases to be in the employment of the Company for any cause whatsoever, he shall cease to be a Director of the Company. The Managing Director or Executive Director, as the case may be, are appointed by virtue of their employment in the Company and their appointments are subject to the provisions of Section 283 (1) (I) of the Companies Act, 1956.
7. The Managing Director or Executive Director as the case may be shall not be entitled to supplement their earnings under the Agreement with any buying or selling commission. They shall not also become interested or otherwise concerned directly or through their wives and/or minor children in any selling agency of the Company, without the prior approval of the Central Government.



8. The Managing Director or Executive Director during their tenure of office will not be liable to retire by rotation.

In compliance with the provisions of Sections 309 and 310 of the Companies Act, 1956, the terms of remuneration specified above, are now being placed before the members in General Meeting for their approval.

The draft Agreements between the Company and Shri Rajendra R. Shah and Shri Dilip R. Shah are available for inspection by the members of the Company at its Registered Office between 3.00 p.m. and 5.00 p.m. on any working day of the Company.

Shri Rajendra R. Shah and Shri Dilip R. Shah are concerned or interested in Item Nos. 5 & 6 of the Notice.

This may be treated as abstracts of the drafts Agreements between the Company and Shri Rajendra R. Shah and Shri Dilip R. Shah, pursuant to Section 302 of the Act.

None of the other Directors except Shri Rajendra Shah and Shri Dilip R. Shah, are deemed to be concerned or interested in the said resolution.

The Board recommends the resolutions for adoption.

Item No. 7

Shri Jayesh Vyas, the Practising Company Secretary, who is M.Com, M.S.W, LL.B.(Sp), F.C.S holding Certificate of Practice from the Institute of Company Secretaries of India, New Delhi, has been assigned the work of issue of Compliance Certificate as required by the Companies (Compliance Certificate) Rules, 2001 framed under Section 383A(1) of the Companies Act, 1956 and holds office until the conclusion of the ensuing Annual General Meeting. He being eligible, offers himself for reappointment. Members are requested to consider his reappointment.

None of the Directors is concerned or interested in the said Resolution.

The Directors recommend the resolution for adoption.

For and on behalf of the Board,

Date : 31.07.2007
Place: Vadodara

Rajendra R. Shah
Chairman & Managing Director

ANNEXURE TO THE NOTICE OF ANNUAL GENERAL MEETING.

Information pursuant to Clause 49 of the Listing Agreement regarding reappointment of Director.

| | | |
|---|---|--|
| Name of the Director | : | Shri Suryakant B. Parikh |
| Date of Birth | : | 26-10-1936 |
| Date of Appointment | : | 16-01-2005 |
| Specialised Expertise | : | Costing, Accounts and Finance |
| Qualifications | : | B.Com.; F.I.C.W.A. |
| Directorships of others | | |
| Companies as on 31 st March, 2007 | : | Nil |
| Chairman/ Member of Committees of Other Companies | : | Chairman of Audit Committee, and Member of Shareholders' Grievance Committee and Remuneration Committee of Mercury Laboratories Limited. |



DIRECTORS' REPORT

To,
The Members,
Mercury Laboratories Limited

Your Directors have pleasure in presenting the 26th Annual Report together with Audited Statements of Accounts for the Year ended 31.3.2007. Following figures summarise the financial performance of the Company during the year under review.

1. FINANCIAL RESULTS :

(Rs. in Lacs)

| | 2006-07 | 2005-06 |
|---|----------------|---------|
| Gross Income | 1952.86 | 1760.82 |
| Gross Profit before Depreciation, Interest & Tax | 162.10 | 123.73 |
| Less: Interest | 39.16 | 39.95 |
| Less: Depreciation | 22.13 | 19.43 |
| Prior period Adjustment (Net) | — | 7.84 |
| Provision for Tax | 38.46 | 24.42 |
| Net Profit | 62.35 | 32.09 |
| Balance as per last P&L A/c. | 0.25 | 0.29 |
| Profit available for appropriation | 62.60 | 32.38 |
| This profit has been appropriated as under | | |
| (i) Proposed Dividend | 14.40 | 14.40 |
| (ii) Income Tax on proposed Dividend | 2.45 | 1.98 |
| (iii) Transfer to General Reserve | 45.50 | 15.75 |
| (iv) Balance carried to next Year | 0.25 | 0.25 |
| TOTAL | 62.60 | 32.38 |

2. Dividend :

Your Directors are pleased to recommend dividend of 12 % (Re. 1.2 per Share) on the Equity Share Capital of Rs. 1,20,00,000 for the year 2006-2007 absorbing Rs.16.85 lacs including Tax on Dividend, which will be, if approved, paid to the Shareholders holding shares as on 29.09.2007, after business hours.

3. Operations in Retrospect:

During the year under review, the Company yielded Gross Income of Rs. 1952.86 lacs and earned Gross Profit before depreciation, interest and tax of Rs. 162.10 lacs with Net Profit of Rs. 62.35 lacs as against Gross Income of Rs. 1760.82 lacs, Gross Profit before depreciation and Interest and tax of Rs. 123.73 lacs with Net Profit of Rs. 32.09 lacs of previous year. Registering increase of 11% in the Gross income and 94% in the Net Profit, respectively.

The Company continued to implement its tri partite action plan, focusing on deriving maximum mileage on Domestic market by concentrating on higher Volume and surplus generating Drugs Viz. Ergacape, , putting sincere thrust on Exports to other newer countries such as U.S.A., China, Bangladesh etc. and exploiting contract manufacturing facilities available to the cost advantage of the Company which resulted into anticipated budgeted growth in the business income and with the effective exercise of stringent controls over the operative cost ,the Company could register significant growth in the profitability.

The Company continues to put its endeavours to cover lager segments of market by introduction of new drugs and putting thrust to strengthen its marketing channels so as to effectively penetrate the market and thereby to register better performance in coming years.



4. MANAGEMENT DISCUSSION & ANALYSIS :

a. Industry Structure and Developments:

The Company like other Indian pharmaceutical Industry had reasonably good year, in terms of the profit and growth for the year ended 31st March, 2007. Sincere attempt is being made to introduce necessary changes on continual basis, in the various areas of operations so as to optimize the operating results.

b. Opportunities and Threats :

Your Company operates in an area where a large market exists and offers ample opportunities for growth. Your Company's products are well-received in the market. However, the Company faces tremendous competitions from the organized and also unorganized sectors.

c. Outlook :

In view of slow down in the market, your Directors feel the performance of the Company has been reasonably good. Your Directors are also aware of the fact that Indian Pharmaceutical industry is highly competitive and fragmented.

The management is conscious about the changing scenario in pharmaceutical industry and review take place regularly.

d. Risks and concerns :

The external factors such as slow down in the market, natural calamities, and competition are common to all the industrial sectors. It is therefore necessary to address urgently to the effect of those risks on the business of the Company. Risks which are internal on which the Directors and management would have control, are being taken care of. Diversified portfolio of products, focus on financial disbursement, introduction of new products, achieving optimum usage of available infrastructure and deriving maximum possible returns, cost reduction in its operations etc. are some of the inbuilt strategies which are implemented by the Company to manage business risk.

e. Internal Control System and their adequacy :

The internal control systems are continuously being fine tuned in line with the changing requirements in the industry. The management regularly reviews the internal control systems in the areas of finance procurement, sales and distribution and marketing and new product launches. Thus emphasis on internal control system is spread over across all major functions and processes.

f. Financial Performance :

Financial performance of the Company has been indicated hereinabove.

g. Human Resources/Industrial Relations :

Your Directors believe that employees are the most valued assets of the organization. Thus, all the human resources practices are directed towards enhancing the value of these assets. The focus of the management is on the organizational development and to imbibe new organization values-entrepreneurship, team work achievement and commitment.

5. Directors' Responsibility Statement :

In terms of Section 217(2AA) of the Companies Act, 1956, the Directors would like to state that:-

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed.
- ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit of the Company for the year under review.
- iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) the Directors have prepared the Annual Accounts on a going concern basis.

6. Directorate :

Shri Suryakant B. Parikh who retires by rotation and being eligible, offers himself for reappointment. Members are requested to consider his re-appointment.

**7. Statutory Disclosures :**

- I. Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosures of particulars in the Report of Board of Directors) Rules, 1988 are given in the Annexure 'A' to this report.
- II. As required under the provisions of Section 217(1)(e) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 information is not furnished as no employee is covered there under.
- III. In compliance of Section 383A(1) of the Companies Act, 1956 Compliance Certificate as issued by Shri Jayesh Vyas of M/s. Jayesh Vyas and Associates, the Practicing Company Secretary, is annexed as Annexure "C" to this report.

8. Corporate Governance :

Pursuant to Clause 49 of the Listing Agreements with the Over the Counter Exchange of India (OTCEI), Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report as Annexure "B", whereas the Management Discussion and Analysis is given hereinabove.

9. Dematerialisation of Shares :

Shares of the Company bears ISIN No. INE947GO1011 as allotted by the National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL), for dematerialization and as of the date, 9,41,300 Equity shares (78.44 %) have been dematerialized. Shareholders are recommended to demat their Shares.

10. Auditors :

M/s. Naresh & Co., Chartered Accountants, Baroda, the Auditors of the Company retire at the ensuing Annual General Meeting, being eligible, offer themselves for reappointment. Members are requested to consider their re-appointment for the current year and fix their remuneration.

11. Deposits :

The Company has no unpaid and / or unclaimed deposit. The Company has complied with all requisite applicable provisions of the Companies Act relating thereto.

12. Insurance :

All the properties and insurable interests of the Company including buildings, plants & machineries and stocks, have been adequately insured.

13. Appreciation :

Your Directors have pleasure to place on record their appreciation of the service rendered by the Workmen and Staff of the Company and thank State Bank of India, Government of Gujarat and Central Government for their valuable cooperation in furthering interest of the Company.

For and on behalf of the Board,

Rajendra R. Shah
Chairman & Managing Director

Date : 31-07-2007
Place: Vadodara



ANNEXURE A

Information in accordance with the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2007.

A. CONSERVATION ENERGY :

(a) Energy Conservation measure taken :

Optimum batch size, Elimination idle running time and Inventory planning control.

(b) Additional Investment proposal being implemented for reduction in consumption energy:

The Company has ongoing study and survey of actual energy consumption. Less efficient equipments are being replaced with efficient equipments.

(c) Impact of the measure a (a) and (b) above for reduction in energy consumption and consequent impact on the cost production of goods :

The measures taken have resulted in saving the cost of production.

(d) Detail Energy Consumption for production

a Power and fuel Consumption :

| | Current Year | Previous Year |
|---|--------------|---------------|
| 1 Electricity | | |
| (a) Purchased Unit Nos. | 4,44,906 | 2,82,384 |
| Total Amount Rs. | 27,00,091 | 16,61,292 |
| Rate/Unit Rs | 6.06 | 5.88 |
| (b) Own Generation | | |
| (i) Through diesel Generator | | |
| Units(Kwh. | — | — |
| Units per liter | — | — |
| diesel oil | — | — |
| Cost / Units | — | — |
| (ii) Through Steam turbine /Generator | N. A | N.A. |
| 2 Coal (Specify quality an whereas used | N.A | N.A. |
| 3 Furnace Oil ,Qty(K. Liters) | 26,940 | 10,252 |
| Total Amount Rs | 9,04,117 | 3,01,368 |
| Average Rat Rs | 33.56 | 29.40 |
| (Per Lit) (Per Lit) | | |
| 4 Other internal Generation | N.A. | N.A |

b Consumption per unit production :

There are number of products with different sizes, shape and other parameters being manufactured by the Company. Hence, it is not feasible to give information of fuel consumption per unit of production.

B. TECHNOLOGY ABSORPTION :

Research Development an Technology Absorption :

Considering the size, the units and nature products the avenue for R&D are very limited and therefore not applicable.

C. FOREIGN EXCHANGE EARNING AND OUT GO :

| | Current Year | Previous Year |
|--|--------------|---------------|
| | Rs. | Rs. |
| Total Foreign Exchange used and earned : | | |
| i) Foreign Exchange earned | 5,01,70,015 | 4,08,21,638 |
| ii) Foreign Exchange used | 50,48,441 | 34,06,006 |