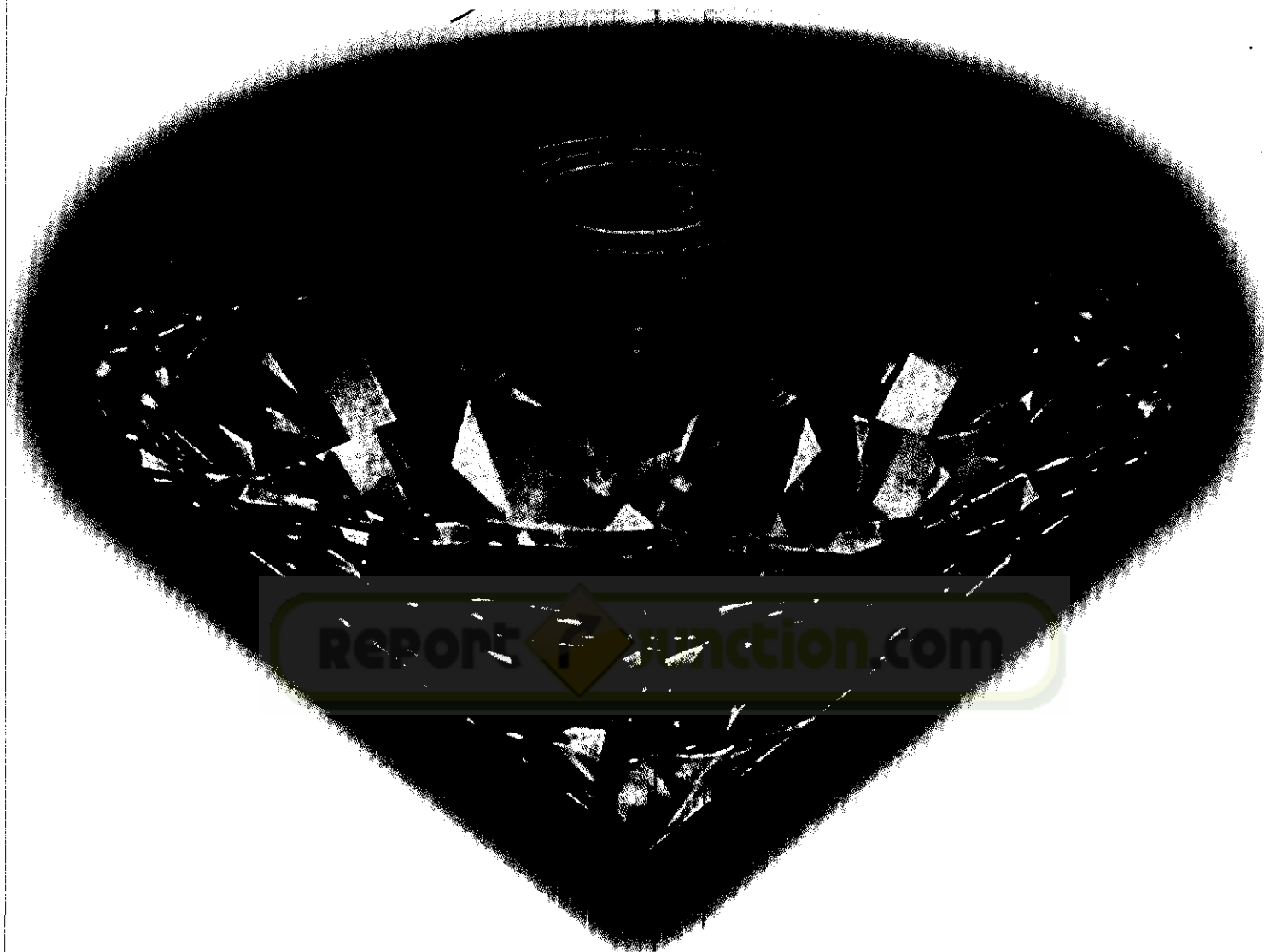


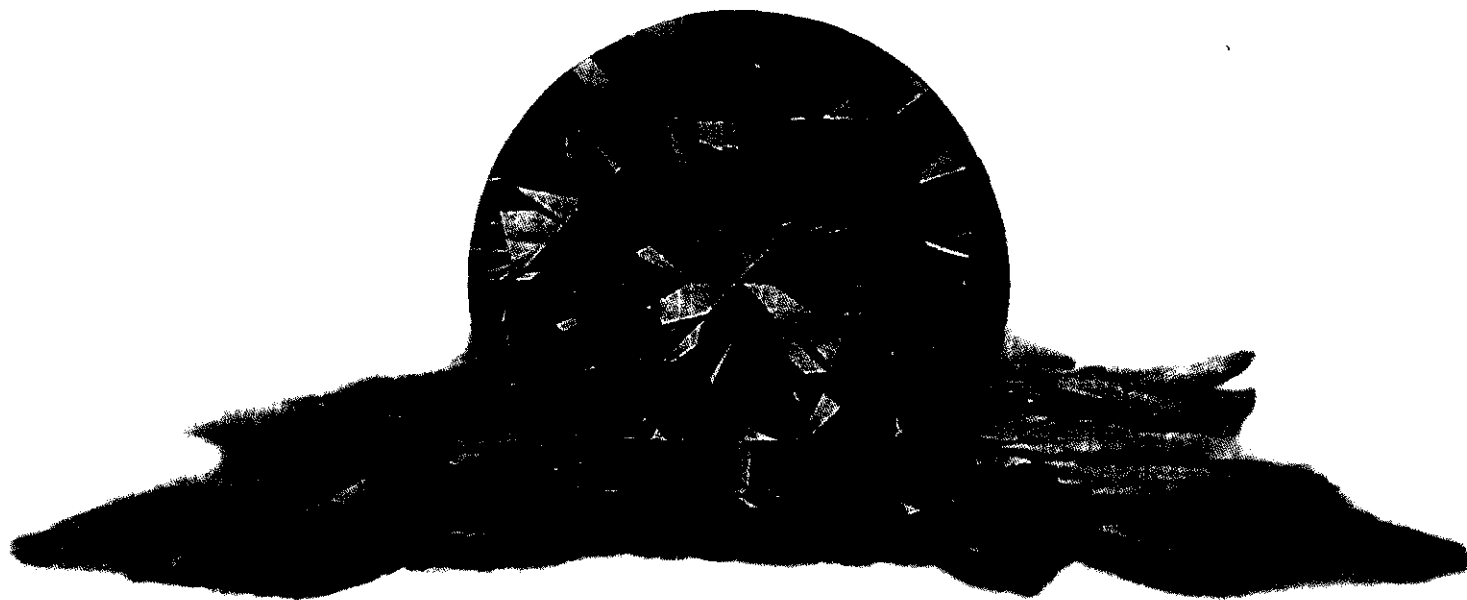
FIFTEENTH ANNUAL REPORT 1998-99



**NEULAND
LABORATORIES LIMITED**

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Diamonds are special. They are brilliant, priceless and rare. They have a personality and character all of their own. They have a complex blend of characteristics that cannot be imitated. The brilliance, the sparkle, the dance of light and colour released from every diamond is a unique reflection of the fire of creation.

Naturally, diamonds have been held in awe, by every generation. Their majesty and their outstanding attributes, justify the halo that is placed around them.

The word diamond itself comes from the Greek word 'adamas', which means unconquerable. And, when it comes to sheer beauty, a diamond is truly unconquerable. Interestingly, diamonds were first unearthed in India. Through centuries, India has borne some of the biggest beauties. Kohinoor is one of them. Universally admired and treasured, diamond often is the jewel in a crown.

Most beautiful and the hardest substance. Contrary this may seem. Yet, true. Indeed, they are the hardest substance known to man. No other natural substance can match the hardness of a diamond which is 2,000 times harder than rubies or sapphires, and 3,000 times harder than man-made imitations such as synthetic cubic zircon.

In many ways, Neuland Laboratories is similarly placed. It has a very good product portfolio. Market perception of its products, and of the company itself, are strong. Regulatory authorities have also approved the processes and products.

The company's most modern and state-of-the-art manufacturing facility ensures that the product quality is comparable to the best in the world. The business has been built on solid foundations of customer satisfaction. Obviously, Neuland is emerging as a jewel of the pharma industry at Hyderabad.

Diamonds need to be cut, chiseled and polished to get the colour and clarity. They can glow as if fire is locked inside them. They need to be worked hard to shine and hold that extra-ordinary value. Neuland is going through the same cut and polish.

The commitment to technology, quality, productivity and human resources development is creating efficiencies and improving product quality. Neuland is overcoming pressures and working to become the most preferred supplier to every customer.

The cutting and polishing is ongoing. The perceptible difference will be visible. Soon.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS



2 How would you describe the year 1998-99?

A Very satisfying. We in Neuland negotiated the year skillfully, despite the difficult conditions that prevailed. Competition came in the form of cheaper imports from China. Selling prices dropped, and threatened to go down at every level. We managed to overcome the adverse conditions, by producing and exporting to the more profitable global markets.

Keeping the long term in view, considerable work was done in cost containment, and improving the production process. The time

was also used to build long term relationship with customers.

We ensured that our customers saw us as very reliable suppliers, of the quality that they want, even in times when the margins were not remunerative for Neuland. We believe that our customers see us like the Swiss watch, dependable come what may.

This does two things. Firstly, the customer-supplier interface and relationships get strengthened. They see us as a quality conscious producer, sensitive to their needs. Secondly, we remain on our toes, thereby toughening the organisation. Strength of diamond we have. And, over a time we will have it cut and polished.

Q. How else will you remember the year?

A. A year in which a lot of spadework was done to get international recognition. Our managers and staff sweated to prepare ourselves for US FDA inspection. Recently this bore fruit, when we received the formal approval from the FDA for Ranitidine Hydrochloride Form I.

Earlier we had received the Certificate of Suitability for Ranitidine Hydrochloride Form I. We already hold US FDA approval for Albuterol Sulfate USP. A portfolio is being built, and as soon as the necessary formalities are completed by the importers in those countries, our shipments would commence.

Drug Master Files are being prepared for more products, and it is our stated philosophy that we must have international quality approval for all our products. In the foreseeable future, we would have a presence only in the markets that will value quality, above anything else. Our competitive advantage will be built around it. We will actualise it soon.



Q. What are the immediate plans of the Company?

- A. We exported Ciprofloxacin to USA. This will trigger FDA inspection of the Ciprofloxacin plant, in the near future. We also hope to be inspected for Ofloxacin.

Q. What are the other thrust areas of Neuland?

- A. We are exploring possibilities of a strategic alliance with international investors. Our resources position will improve thereafter, and will get us the strength to produce and distribute in markets that pay better prices for better quality products. We will not be competing in the commodity markets.

We are also investing in Research and Development. With our track record, we are likely to report products and processes that will give us advantage in the market.

Q. Are there any down sides to the Company's activities?

- A. Not really. However, I must make it clear that international recognition and R & D cannot be converted to sale, cash and profits overnight. There would be some gestation period. Even when we get US FDA approval, as has happened in two of our products, our customers would need to apply for permission to import with samples produced by us. This does take time.

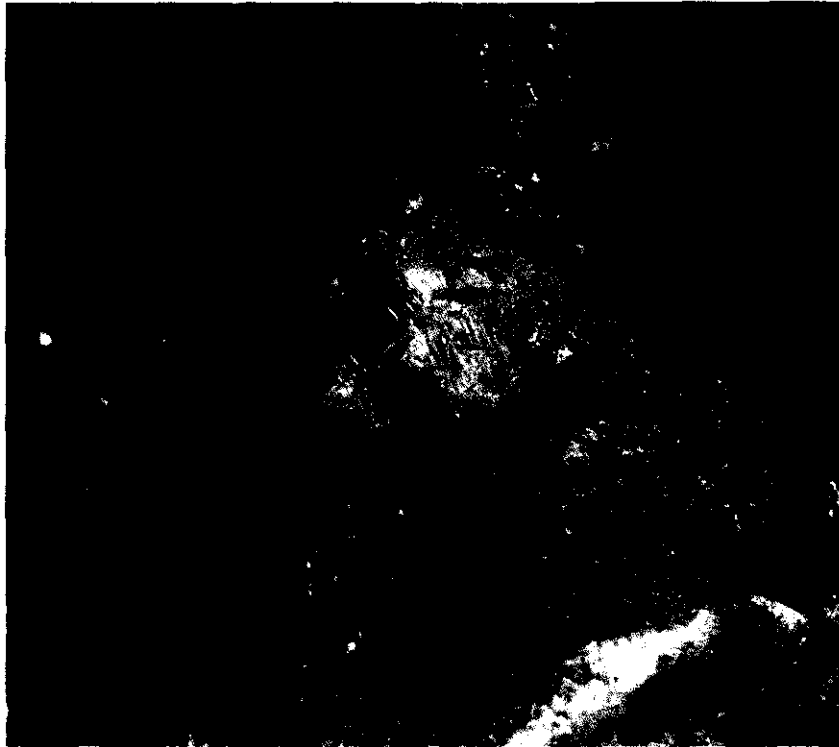
It must be understood, that we cannot climb the second floor, without climbing the first, and obviously, we must start with climbing the first few steps. This process cannot be rushed. The earlier we start, the sooner that we will be found taller. The process has begun.

Q. How does share owner value get created?

- A. We are all the time conscious of the share owner interest. We, at Neuland, believe that this is our primary objective. Strengthening the fundamentals, improving customer relationships, exploring new products and markets, seeking international recognition are all driven by the hunger to be seen as one of the best global players.

Our hunger for success, whether in qualitative terms like recognition, image or preferred supplier status or quantitatively with improving top line and bottom line, is a function of our need to meet share owner expectations. We are today strategising, and actioning on ground. All the strengths that we have built so far, and the cutting, chiselling and polishing now in process, will translate to add value, as seen by the share owner. We are at it.





Octahedral diamond crystal

WE CHALLENGED THE CHALLENGES

Every sailing out, every milestone, every financial year is a challenge. Despite this known reality, for Neuland laboratories, 1998-99 was one of the most difficult year.

The financial year saw the turnover increase, although the profit declined marginally. This reality is mitigated by a number of achievements through the year.

Both the production units at Bonthapally and Pashamylaram are modernised and the capacity utilisation improved. At various stages, de-bottlenecking was undertaken. This meant the Company had incurred costs and needed volume business to sustain the growth.

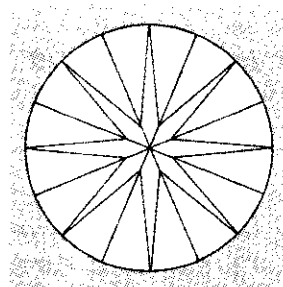
Unfortunately, the alround industrial recession and slower growth in consumer demand put pressure on the Company's marketing efforts. Global recession added to the difficulties, since cheaper imports competed with domestic supplies.

Neuland took on this challenge. We realised that long term interests of Neuland lay in further improving our product quality and production efficiencies. To counter the challenge, especially external, we decided to build internal pressures.

Consumption of raw materials, cost, yield, quality, and so on were constantly monitored. Standards were objectively set, so that the end results could be consistent.

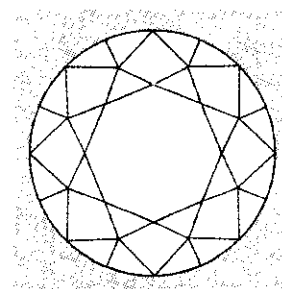


Neuland has prided itself always on its commitment to the best in technology and equipments, high productivity and superior quality. Care was taken during this financial year to tailor its products to each individual customer's requirements. We believe we have an acknowledged advantage in this unique service that we provide to all our customers.



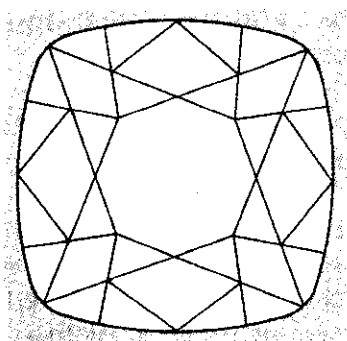
In our cutting and polishing process, in Neuland, for instance, we improved on discernible product quality.

Total Quality Management is real time in Neuland. The process re-engineering that we undertook helped us to face the competition head on. It added to our marketing thrust.



We rode the challenge. We improved the product. But we could not proportionately increase our selling prices. Global prices sagged. Our costs increased and our profit margin severely dipped. Of course, in the long run we are sure, that prices and profit margin will recover. We gave off our best despite the challenging conditions because we believe quality, customer and market are invaluable.

We chose to build the business during a difficult year. We are convinced that under pressure, the internals will get better, there will be sharper focus and ultimately Neuland will become competitive. We actually improved on our cutting edge, and delivered better.



Now that we have international recognition both from Europe and the US FDA authorities, we believe that it is only a matter of time before we should start encashing on our reputation. The order book will improve as the registration procedures by individual customers get completed.

When the prices in the market improve, as they will, we would have an advantage. We would have positioned ourselves better for the future.

The challenge of the market has been met. The diamond, as it were, is being cut and polished. It is only a matter of time that the colour and the clarity will be visible. Strength of Neuland will get to be known.





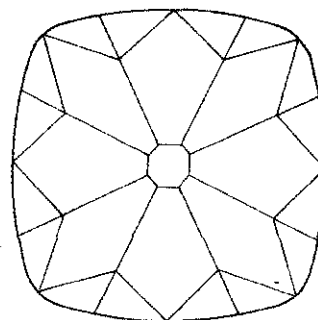
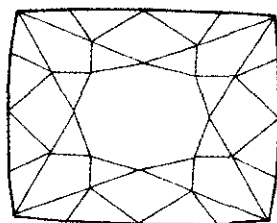
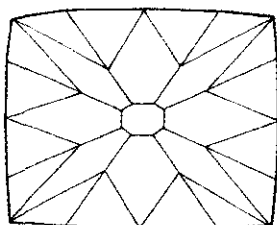
ANSWERS FOR SOME UNASKED QUESTIONS

2 Profit dropped to Rs.192 lacs in 1998-99, from Rs. 202 lacs in 1997-98. What happened?

A The plant capacity could not be fully utilised, since the slow down in the economy affected the domestic demand. Domestic prices fluctuated. We decided not to compete aggressively in a downward tending market, since there was the danger that we might be hurt, with every tonne of bulk drug produced. We chose to wait and make the profit, only when the price realisations were better and gave us margins. Losses were avoided.

We also kept up our export efforts, to markets where there was parity. Exports hence, constituted 50 per cent of our turnover.

In the meantime, overheads got committed without corresponding increase in turnover. All this impacted our bottom line. In fact, Neuland should be considered to have done better under some trying circumstances.



Q. Was there any mitigating situation in 1998-99?

A. We saw opportunity in such troubled times. Firstly, we stabilised our production process. We also ensured that we can change product mix, with only minimum shutdown time.

Secondly, our costs got contained. We monitored our consumption carefully, and ensured that manufacturing losses are minimised.

TQM was put in place. Our own performance standards improved.

In our marketing efforts, we could give maximum value to customers. We embarked on a detailed programme of intensive constant interaction with all our customers. We reached out to them and understood their needs and problems. We could offer them just-in-time deliveries. Effectively, we built true partnership with all our customers.





We recognised that there is no such thing as a commodity. We no longer are in commodity business. This is because, it all depends on what value package, that we offer in our products. We tailored our products to individual customer needs.

All these, we believe, add long term value to our corporate efforts.

Q. Any other achievements in 1998-99?

- A. We re-examined our business plans and philosophy. We decided to get all our products approved internationally, both in the US and in Europe. Drug Master Files are being prepared for all our products.

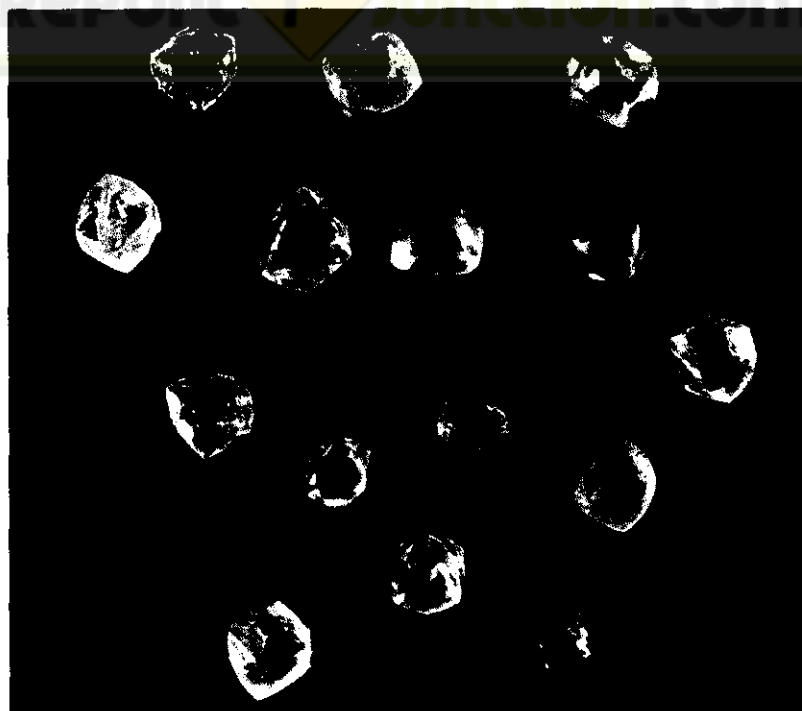
This initiative will bear fruit in a year or two. The first step needs to be taken early, so that all procedural formalities get completed, initially by the Company and later by the potential customers of Neuland.

There was another achievement. Interest costs were reduced. It is worth recalling that the interest cost of the Company in 1996-97 was Rs.854.8 lacs. This was reduced to Rs.685.6 lacs in 1997-98. During the current year under review, the interest costs were further reduced to Rs.558 lacs. This is a significant improvement, and have been achieved with constant follow-up and prudential management of finances.

Q. Are the gains of 1998-99 sustainable?

- A. All the improvements registered in 1998-99 are sustainable for the long term. Most of the improvements are longer lasting and will permanently add value to the company. Neuland is stronger by the experience.

Equally, the changes now being put in place will enhance shareholder value. The earning capacity would improve, and will be perceptible when the industry itself goes through the turnaround. Neuland is ready and confident to face the future.



Coloured rough diamonds



A PROFILE OF A STRONG COMPANY



Brilliance in a brooch

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At Neuland there is an around awareness that we are dealing with health. In fact, with the gift of good health. Obviously, there is a recognition that what we do should stand up to tests by exacting standards.

We have worked on it, indeed sweated, to ensure that Neuland is a dedicated manufacturer of bulk drugs and intermediates. Our processes, from sourcing of raw materials, through to manufacturing, storing and despatches are of unvarying dependability in quality.

The two world class manufacturing facilities, near Hyderabad, comply with WHO-cGMP standards. They are equipped to handle a comprehensive range of chemical reactions. The company is accredited with ISO 9002. The Bonthapally unit is USFDA approved for Albuterol Sulfate. The Pashamylaram unit is USFDA approved and holds the Certificate of Suitability by Council of Europe for Ranitidine HCl. No wonder, we have a global reputation and are a preferred source worldwide