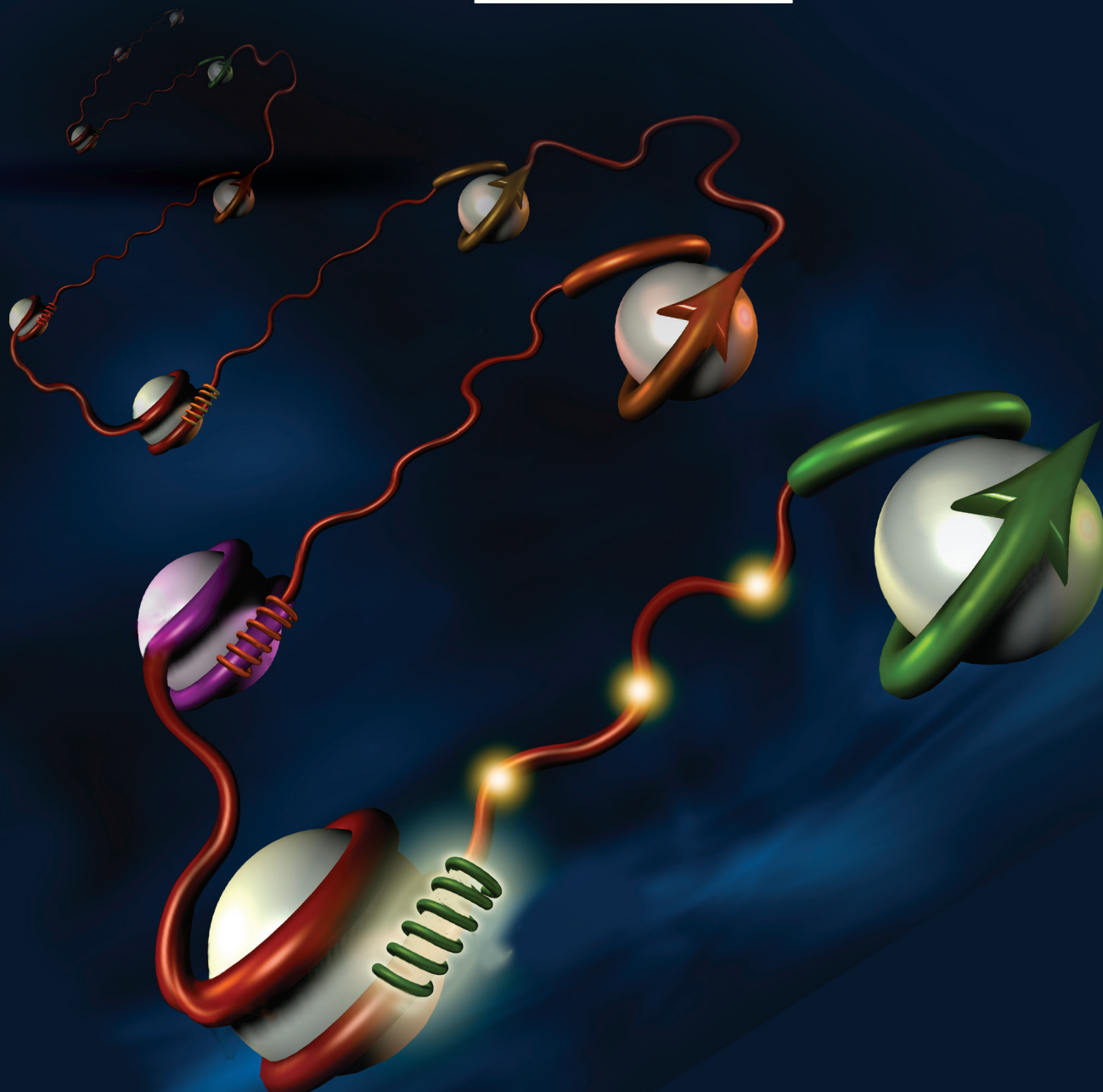

Annual Report 2010 - 2011



Annual Report

2010-2011

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Notice

Notice is hereby given that the Twenty Second Annual General Meeting of Zenotech Laboratories Limited will be held on Wednesday, July 25, 2012 at 11:00 A.M. at Auditorium of Hotel Taj Deccan, Road No. 1, Banjara Hills, Hyderabad - 500 034, Andhra Pradesh, to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Profit and Loss account for the year ended March 31, 2011 and the Balance Sheet as at that date and the Reports of the Directors' and Auditors thereon.
2. To resolve not to fill the vacancy for the time being, caused by the retirement of Mr. Ranjit Kohli, who retires by rotation and does not seek re-appointment.
3. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and fix their remuneration. M/s. BSR & Associates, the retiring auditors are eligible for reappointment.

SPECIAL BUSINESS:

4. To consider and if thought fit, to pass with or without modification(s) the following resolution as an ORDINARY RESOLUTION:

"RESOLVED THAT Dr. Ranbir S Bakshi, in respect of whom the Company has received a notice from a member pursuant to Section 257 of the Companies Act, 1956 alongwith requisite deposit proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

5. To consider and if thought fit, to pass with or without modification(s) the following resolution as a ORDINARY RESOLUTION:

"RESOLVED THAT Mr. K L Khurana, in respect of whom the Company has received a notice from a member pursuant to Section 257 of the Companies Act, 1956 alongwith requisite deposit proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

6. To consider and if thought fit, pass with or without modifications(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED that pursuant to the provisions of Sections 94 and other applicable provisions if any, of the Companies Act, 1956, the Authorized Share Capital of the Company be and is hereby increased from Rs.35,00,00,000 (Rupees Thirty Five Crores Only) divided into 3,50,00,000 (Three Crore Fifty Lakhs Only) equity shares of Rs.10/- each to Rs.100,00,00,000 (Rupees One Hundred Crore Only) divided into 10,00,00,000 (Ten Crore Only) equity shares of Rs.10/- each."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all such acts, deeds and things as may be considered necessary or expedient to give effect to this Resolution."

7. To consider and if thought fit, pass with or without modifications(s), the following resolution as an ORDINARY RESOLUTION:

"RESOLVED pursuant to the provisions of Section 16 and other applicable provisions if any, of the Companies Act, 1956, for existing Clause V of the Memorandum of Association of the Company, the following Clause V be substituted:

Clause V

The Authorized Share Capital of the Company is Rs.100,00,00,000 (Rupees Hundred Crores Only) divided into 10,00,00,000 (Ten Crore Only) equity shares of Rs.10/- each. The Company has power from time to time to increase or reduce its capital and to divide the shares in the original or increased capital for the same in to several classes and to attach thereto respectively such preferential rights, privileges or conditions as may be determined by or in accordance with the regulations of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may be permitted by the Companies Act, 1956 or provided by the regulations of the Company for the time being."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all such acts, deeds and things as may be considered necessary or expedient to give effect to this Resolution."

8. To consider and if thought fit, pass with or without modifications(s), the following resolution as a SPECIAL RESOLUTION:

"RESOLVED pursuant to the provisions of Section 31 and other applicable provisions of the Companies Act, 1956, the Articles of Association of the Company be and are hereby amended as under:

1. In the beginning of the Articles of Association, under the heading 'Constitution', the word "not" appearing in the second line after the word "shall" be deleted.
2. For the existing Clause 3, following Clause 3 be substituted:
 "The Authorised Share Capital of the Company is Rs. 100,00,00,000 (Rupees One Hundred Crores Only) divided into 10,00,00,000 (Ten Crore Only) equity shares of Rs.10/- each."
3. The following new Clause 6A be inserted after existing Clause 6:
 6A: Buyback of shares
 Subject to the provisions of the Act, the Company shall have the power to purchase from time to time, its own shares and any securities that may have right to subscribe for shares of the Company and make payment in respect of such buyback including the power to re-sell and/or re-issue of such shares and securities."
4. Clause 7: In line 2 the words "Article 7" be substituted with "under these Articles".
5. Clause 10 be deleted.
6. The heading "Shares and Debenture Certificates" appearing between Clause 14 and Clause 15 be deleted.
7. Clause 24: In line 2, the words "all money" be substituted with "call money".
8. Clause 26: In last line the word "my" be deleted.
9. Clause 27: In 4th line, word "give" be substituted with "given".
10. Clause 30: After end of second para, the heading "Clause 30A: Forfeiture and Lien" be inserted.
11. Clause 30 (f): In the heading, the word "or" appearing after the word "forfeiture" be substituted with the word "of".
12. Clause 37: The phrase "for a period of 6 years or more" be substituted with "as prescribed under the provisions of Companies Act, 1956".
13. Clause 40B: The heading "Devaluation of Rights" be deleted.
14. Clauses 42 to 48 be deleted.
15. Clause 95: The figures "Rs. 250/-" be substituted with the following phrase: "such sum as may be determined by the Board from time to time, subject to the limits prescribed under the Act or by the Central Government in this behalf".
16. Clause 102: In line 2, reference to Clause "104" be substituted with reference to Clause "101".
17. Clause 104: Heading "Which Directors" be substituted with "Provision in case of non-election of retiring Directors".
18. Clause 107: Heading "Rights of Persons" be substituted with "Notice of candidature for office of Director".
19. Clause 139(2): In line 4, reference to Clause "123" be substituted with reference to Clause "120".
20. Clause 153 (1): In last line, the name "Sunline Technologies Limited" be substituted with "Zenotech Laboratories Limited".

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to do all such acts, deeds and things as may be considered necessary or expedient to give effect to this Resolution."

By Order of the Board
FOR Zenotech Laboratories Limited

B. K. Raizada
 Managing Director

Date : June 27, 2012

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 be a member of the company. The proxy form duly completed and signed should be deposited at the Registered Office of the company not later than 48 hours before the commencement of the meeting.**
 2. An explanatory statement pursuant to section 173(2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
 3. The Register of members and Transfer Books of the Company will be closed from July 19, 2012 to July 25, 2012 (both days inclusive).
 4. The members are requested to -
 - a) Intimate to the Registrars and Transfer Agents of the Company / respective Depository Participants of changes, if any, in their registered addresses at an early date.
 - b) Quote Ledger Folio/Client ID in all the correspondence.
 - c) Bring the copy of the Annual Report and attendance slip with them to the Annual General Meeting.
 5. Shareholders holding shares in physical form are requested to advise any change of address immediately to Company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited (Unit: Zenotech Laboratories Limited) Plot No. 17 to 24, Vithalrao Nagar, Madhapur, Hyderabad 500 081, Andhra Pradesh. For shareholders holding shares in electronic form, intimation needs to be made to their respective Depository participants and not to the Company/its Registrars.
 6. Members seeking any information with regard to accounts are requested to write to the Company Secretary at the earliest.
 7. Pursuant to the provisions of the Section 109A of the Companies Act, 1956 shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the M/s. Karvy Computershare Private Limited, the Registrars and Transfer Agents at aforesaid address.
 8. The documents referred to in the proposed resolutions are available for inspection at the Registered Office of the Company during working hours between 9:00 A.M. to 1:00 P.M. except on holidays.
-

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956**Brief resume and other information in respect of Directors seeking appointment at the Annual General Meeting pursuant to Clause 49 of the Listing Agreement****Item No.4**

The Company has received Notice alongwith requisite deposit of Rs. 500/- from a member pursuant to the provisions of Section 257 of the Companies Act, 1956, proposing the candidature of Dr. Ranbir S Bakshi as a Director of the Company. Accordingly, the resolution for appointment of Dr. Bakshi as Director is being placed before the shareholders for their consideration.

Dr. Ranbir S Bakshi aged about 63 years did his M.B.B.S from Government Medical College, Amritsar. During his career spanning over 37 years Dr. Bakshi has been associated with various hospitals, NGOs and institutions providing community healthcare services to the underprivileged sections of society that had little or no access to basic healthcare. Dr. Bakshi has been associated with various programs providing preventive, promotive and curative services, spanning areas of maternal child health, family planning, reproductive health, adolescent health, health education including AIDS awareness.

Dr. Bakshi is neither a Director on the Board nor holds committee membership of any other company.

Dr. Bakshi does not hold any shares in the Company. He is not related to any Director of the Company.

Nature of expertise in specific functional area - Community Healthcare

None of the Directors are interested or concerned in the proposed Resolution.

Item No.5

The Company has received Notice alongwith requisite deposit of Rs. 500/- from a member pursuant to the provisions of Section 257 of the Companies Act, 1956, proposing the candidature of Mr. K L Khurana as a Director of the Company. Accordingly, the resolution for appointment of Mr. Khurana as Director is being placed before the shareholders for their consideration.

Mr. K L Khurana aged about 70 years is a B. Tech. in Chemical Engineering from University of Madras and M. Tech. in Chemical Engineering from IIT Kharagpur. Mr. Khurana has a rich experience of over 43 years and had been earlier associated with companies like Coromandel Fertilizers Ltd., Hindustan Insecticides Ltd. and Ranbaxy Laboratories Ltd. Currently he is heading his own process design & engineering company, providing technical services to process industries and manufacturing process instruments.

Mr. Khurana is a Director on the Board of Amoli Organics Pvt. Ltd., Mumbai. He does not hold committee membership of any other company.

Mr. Khurana does not hold any shares in the Company. He is not related to any Director of the Company.

Nature of expertise in specific functional area - Pharmaceutical manufacturing, Projects & Technology management.

None of the Directors are interested or concerned in the proposed Resolution.

Item Nos. 6 & 7

The present authorised share capital of the Company is Rs. 35,00,00,000/- divided into 3,50,00,000 equity shares of Rs. 10/-each while the issued, subscribed and paid-up capital of the Company is Rs.34,42,75,000/- comprising of 3,44,27,500 equity shares of Rs.10/- each. Keeping in view the further fund requirements of the Company, it is proposed to increase the authorised share capital of the Company to Rs. 100,00,00,000/-(Rupees One Hundred Crores Only) divided into 10,00,00,000 (Ten Crore Only) equity shares of Rs.10/- each.

The proposed increase in the authorised capital of the Company and the corresponding alteration in the Memorandum of Association require approval of shareholders by way of an Ordinary Resolution.

The Board recommends the resolutions for the approval of the shareholders.

None of the Director of the Company are interested or concerned in the proposed Resolutions.

Item No. 8

It is proposed to amend the Articles of Association of the Company as detailed in the Resolution at Item no. 8, in view of:

- Increase in the Authorised Share Capital of the Company;
- Incorporation/effecting changes to make the Articles in line with the amendments in the provisions of the Companies Act & various Rules framed thereunder;
- Deletion of redundant & repetitive Clauses and
- Correction of anomalies and typographical errors in some other Clauses.

The said amendments require the approval of shareholders by way of a Special Resolution.

The Board recommends the resolution for the approval of the shareholders.

None of the Directors of the Company is concerned or interested in the proposed Resolution.

By Order of the Board
FOR Zenotech Laboratories Limited

B. K. Raizada
Managing Director

Date : June 27, 2012

Directors' Report

Your Directors herewith present the Twenty Second Annual Report together with the audited accounts of the Company for the year ended March 31, 2011.

Standalone Working Results under Indian GAAP

(Rs. in thousands)

Particulars	2010-11	2009-10
Sales(net)	70,014	65,651
Other Income	8,633	21,126
Depreciation	35,378	32,434
Amortisation of Misc. expenditure	15,232	11,942
(Loss)/Profit before tax	(148,278)	(124,749)
Exceptional Items	230,103	–
Current tax for earlier year written back	–	(203)
(Loss)/Profit after tax	(378,381)	(124,546)
(Loss)/Profit brought forward from previous year	(511,338)	(386,792)
(Loss)/Profit carried forward to Balance Sheet	(889,719)	(511,338)
Earnings Per Share (Rs.) - Basic	(10.99)	(3.62)

At the last Annual General Meeting (AGM) of the Company held on January 18, 2011, Dr. Sudershan K. Arora, Mr. Ranjit Kohli and Prof. N.K.Ganguly were appointed as Directors of the Company. Subsequently, Hon'ble High Court of Andhra Pradesh dismissed the appeal of Dr. Jayaram Chigurupati, Managing Director filed against the orders of the Hon'ble Company Law Board (CLB) for inclusion of the items for appointment of said Directors in the Notice of the AGM.

The reconstituted Board of Directors reviewed the state of affairs of the Company and being completely dissatisfied with the performance of Dr. Chigurupati, decided to appoint Mr. B.K.Raizada as another Managing Director for a period of two years effective March 19, 2011 subject to requisite approvals. The Board also allocated the responsibilities between the two Managing Directors. The CLB dismissed the appeal filed by Dr. Chigurupati against the said decision of the Board, and held that the appointment of Mr. Raizada was legal and he could perform his allocated duties as Managing Director. In view of Dr. Chigurupati continuing to act in total disregard to the directions of the Board and his performance continuing to be unsatisfactory, the Board of Directors in its meeting held on July 21, 2011, removed him from the position of Managing Director of the Company subject to approval of CLB, which is currently pending.

Despite the best efforts, Mr. Raizada and his Management team were not able to access the premises of Company's Registered Office and the plant in view of the Registered Office of the Company being locked and illegal strike by some of the employees of the Company. Finally in November 2011, pursuant to the orders of the CLB, the Management was able to get possession of the Plant facilities in the presence of Advocate Commissioner appointed by CLB.

Once the access, as explained above was provided, the Management began exercise for retrieval of assets, including a detailed technical and business assessment of the status of entire manufacturing facilities, fixed assets, inventories, key records and books of accounts of the Company. To the utter shock of the management, it was discovered that key records, assets, books of accounts and statutory records were missing. Appropriate action, including filing of criminal complaints against the persons responsible including Dr. Chigurupati, has already been initiated by the Management.

Due to non availability of the records, a comprehensive exercise was carried out to reconstruct the books of accounts and other financial information by obtaining requisite information from external sources including previous Auditors, banks and financial institutions, customers, suppliers, tax authorities, Registrar of the Companies, employees and other relevant sources as detailed in Schedule 22 in the notes to Accounts and forming part of the aforesaid financial statements (herein after "Schedule 22"). The said mechanism is also based on the announcement / guidance notes of Institute of Chartered Accountants of India.

The shareholders are further requested to note that in view of the non-availability of records, these accounts have been prepared on the basis of certain inferences based on the availability of information and in case, if the actual records are later found to be inconsistent with the present information, the accounts may be required to be redrawn.

Operations

The Company recorded a total loss after tax of Rs. 37.84 crores for the year ended March 31, 2011. Included in this figure is a loss from exceptional items of Rs 23.01 crores, mainly on account of provisions for impairment and doubtful debts/ advances, and a loss of Rs.14.83 crores being incurred from operations.

Since April 2011, there has been no production in the plant as employees of the Company were on an illegal strike. The Management after taking over the possession of the plant premises published an advertisement in English and local dailies advising employees to report for duty on or before November 23, 2011. While, some of the employees have joined back the duties, others have submitted their resignations which are being processed in accordance with the legal provisions. Necessary steps are being taken by the Company to resume operations at the plant.

Sale of the Company's products in Oncology has been resumed though Licenced production after necessary approvals from the various authorities. This has been done to ensure continued availability of your Company's products to meet tender commitments and demand for life saving drugs from the market. Soon after taking over the possession of premises in November, 2011, the Management reviewed matters relating to Technical viability and further steps required to be taken to restart the Company's facilities related to Bio-tech, Oncology Injectables manufacturing plant and FDA approved Injectables manufacturing Plant including the manpower requirements etc. Presently cleaning and validation of the process of all the facilities has started including training of new personnel, on completion of which, the Management is confident of restarting the operations. The Company has applied for renewal of all expired Drug licenses.

Share Capital

As per the intimation made earlier by the Company to BSE, it is learnt that 4,250 equity shares were allotted to four employees on November 16, 2009 under Company's ESOPs Scheme, which was subject to leave of CLB. CLB vide its order dated 06.08.2010 approved the allotment of 2500 shares and accordingly, an intimation to this effect was sent to BSE from Company stating that these shares are issued proportionately to the said four employees.

Auditors Qualifications/Remarks

With regard to qualifications/remarks contained in the Auditors' Report and Annexure thereto, your Directors' wish to state as under:

- a. Point No. 3(a), (b) and (c) of the main report as to recognition of certain expenditure and exceptional charges as well as non-recognition of potential financial consequences, the Management, for the reasons as explained in various foregoing paragraphs i.e. missing of books and records including supporting documents etc., read with Schedule 22, was not in a position to:
 - produce any document to support the nature, completeness validity and accuracy of the expenditure as quantified in 3(a) of the said report;
 - not able to make provision for potential financial implications of non-compliances.
 - justify the carrying value of respective fixed assets, capital work in progress etc., as detailed in Schedule 21 to the stated financials.

The Management, as mentioned above, has initiated necessary steps to recover various missing assets, valuable information and records before CLB as well as appropriate court of law.

Considering the un-audited financial results, as submitted under signature of Dr. Chigurupati to Bombay Stock Exchange upto the quarter ended December 31, 2010; reasonability of carrying value of certain fixed assets and the state of affairs of subsidiaries as more detailed in Schedule 22 etc., the management exercised its best judgment in recognition / non recognition of aforesaid expenses.

- b. Point No. 3 (d) of the main report as to completeness of disclosures on related parties, as required under Accounting Standard 18; despite best efforts, two of the Directors viz. Dr. Chigurupati and Mr. Raghu Vasu have chosen not to submit information as required under Sections 274 and 299 of the Companies Act as mentioned in Note no. 3(d) and 7 (v) of the Auditors report. The Management therefore has been unable to provide complete information as required under the said Accounting Standard.
- c. Point No. 5 of the main report as to recovery of amount paid to Dr. Jayaram Chigurupati as managerial remuneration from October 1, 2007 to March 31, 2011 in contravention of provisions of the Companies Act, 1956 along with Interest thereon; the Management wishes to reaffirm that the said matter is pending before the Court of the Hon'ble Chief Judge City Civil Court at Hyderabad. As the recovery of the claim is dependent of the outcome of the judicial action, no adjustments have been made to the financial statements.

- d. Point No. 4, 7(i) and 7(ii) of the main report as to significance of material misstatement of reconstructed books of accounts; the inability of Auditors' to obtain all the information and explanations necessary for the purpose of audit and thus to express their opinion on the financial statements, the Management wishes to state the following, in addition to what has been already mentioned either in this report or Schedule 22:
- i. Your Company has been unable to comply with various statutory requirements, the latest one being the Accounts for the year ended 31st March 2011, completion of statutory Audit and conducting the 22nd AGM of the Company due for the aforesaid financial year of the Company. It may be mentioned here that the present Management approached the Registrar of Companies, Andhra Pradesh, to grant extension of time for holding the aforesaid AGM on or before December 31, 2011. But, when the Management got the access to the premises and tried to set right the issues as explained above, inter-alia, books of accounts, records including vouchers and other information necessary to complete the statutory audit for 2010-11 was not available.
 - ii. the Management was unable to commence preparation of the Accounts for the year ended 31st March 2011 till December 2011, as a result of which the Company was unable commence the Statutory Audit and conduct the AGM on or before December 31, 2011.
 - iii. Due to non availability of all relevant books of account and records the present Management, was left with no other choice, but to carry out a detailed exercise to reconstruct whole of the books of accounts and other financial information by obtaining requisite information from external sources including previous Auditors, banks and financial institutions, customers, suppliers, tax authorities, Registrar of the Companies, employees and other relevant sources as detailed in Schedule 22.
 - iv. The management further wishes to emphasize that the process of Reconstruction of Books undertaken by the present management should be seen as a positive move to reconstruct value of each item of Balance Sheet based on widest possible data to check its veracity from a true and fair viewpoint and subject to certain implications and inferences etc, to be made in that connection. The said mechanism is supported by the announcement / guidance notes of Institute of Chartered Accountants of India and since, no other option was available to comply with the requirements of statutory Audit, the present Management, after much deliberation, had agreed to reconstruct the same and to complete the statutory Audit.
 - v. The shareholders are further requested note that the period under review was in total control of previous Management and as the present Management did not have any knowledge of the factual position, it had to make certain inferences based on the availability of above information.
 - vi. The Management would once again emphasize that as the present management completed the statutory Audit by complete reconstruction of books as explained above, the information provided in financial statements having its own limitations in so far as it relates to the financial year 2010-11 and in case, later on, if actual data is found, the same may force us to change the accounts may be required to be redrawn.
- e. Appointment of Internal Auditors as mentioned in Annexure, the Management wishes to state that the Company is in process of implementing a robust internal control system regarding inventory movements and has initiated institution of certain internal controls over purchases of goods and fixed assets and sale of goods and services post year-end. The Company has also started working to improve the system of internal controls by issuing necessary Standard Operating Procedures. Further, management is also contemplating to appoint an Internal Auditor, commensurate with the size of its operations, to review and strengthening of internal controls.
- f. Maintenance of cost records as required under Section 209(1)(d) of the Companies Act, 1956 as mentioned in Annexure, the Management wishes to state that the Company has now appointed M/s. K.C.Kohli & Co., Cost Accountants as Cost Auditor of the Company for audit of the cost accounts pertaining to Bulk Drugs and Formulations for the year 2011-12 & 2012-13. The Company is in the process of making requisite applications with the Central Government for seeking their approval for the aforesaid appointment of Cost Auditors.
- g. Accumulated losses at the end of the financial year are not less than fifty percent of its net worth and incurring of cash losses in the current year and immediately preceding financial year, as mentioned in Annexure, the Management wishes to state that necessary steps are being taken to revive the operations by management.
- h. Delay in payment of Interest on Secured loans: Note 10 of schedule 22 to the financial statements, as mentioned in Annexure, the Management wishes to state that interest on loan taken from Technology Development Board is overdue and is subject matter of arbitration proceedings. The Company would take necessary steps on receipt of the final award in this regard.