

---

# Annual Report 2011 - 2012

---

# Annual Report

## 2011-2012

### Contents

Notice of the Annual General Meeting	02
Directors' Report	12
Corporate Governance Report	25
Management's Discussion and Analysis Report	33
Financial Statements	
- Auditors' Report	34
- Balance Sheet	38
- Profit and Loss Account	39
- Cash Flow Statement	40
- Notes forming part of the Accounts	41

## Notice

Notice is hereby given that the Twenty Third Annual General Meeting of Zenotech Laboratories Limited will be held on Friday, December 28, 2012 at 10.30 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, 2012 and the Balance Sheet as at that date and the Reports of the Directors' and Auditors' thereon.
2. To appoint Dr. Jayaram Chigurupati, who retires by rotation and, being eligible, offers himself for reappointment as Director.
3. To appoint Dr. Sudershan K. Arora, who retires by rotation and, being eligible, offers himself for reappointment as Director.
4. 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. B S R & Associates (Firm Regn. No. 116231W), the retiring auditors are eligible for reappointment.

### Special Business:

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

"RESOLVED that in supersession of the Resolution passed at the Extra-ordinary General Meeting of the Company held on July 21, 2011 for appointment of Mr. B.K.Raizada as Managing Director of the Company and pursuant to the provisions of Sections 269 and other applicable provisions if any, of the Companies Act, 1956 ("Act") read with Schedule XIII to the said Act and the Memorandum and Articles of Association of the Company, the Company hereby accords its approval for the re-appointment of Mr. B. K. Raizada as Managing Director of the Company for a period of two years effective October 1, 2012."

"RESOLVED further that subject to superintendence, control and direction of the Board, Mr. B.K.Raizada shall perform such duties and functions as would be commensurate with his position as Managing Director of the Company and as may be delegated to him by the Board from time to time."

"RESOLVED further that the Company or Mr. Raizada shall be entitled to terminate this appointment at any time by giving three months notice in writing or such shorter notice as may be mutually agreed between him and the Board of Directors."

"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."

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

"RESOLVED that subject to the approval of the shareholders for re-appointment of Mr. B.K.Raizada as Managing Director as elaborated in Item no. 5 hereinabove, and pursuant to the provisions of Sections 198, 269, 309 and all other applicable provisions if any, of the Companies Act, 1956 ("Act") read with Part II and Part III of Schedule XIII to the said Act, the Memorandum and Articles of Association of the Company and subject to the approval of the Central Government, the Company hereby accords its approval for the payment of remuneration to Mr. B.K.Raizada as Managing Director of the Company for a period of two years effective October 1, 2012, on the following terms and conditions:

- I. Salary: Not exceeding Rs. 45,00,000/- per annum with the authority granted to the Board of Directors (hereinafter referred to as "the Board" which term shall include a Committee of Directors) to determine the salary and grant increases from time to time within the aforesaid limit.
- II. Allowances & Perquisites: He will be entitled to perquisites, allowances, benefits, facilities and amenities (collectively "allowances & perquisites") such as medical reimbursement, leave travel reimbursement/allowance, membership fees for clubs, group hospitalization insurance for self and spouse, group term insurance, travel insurance and any other "allowances & perquisites" as per the policy/rules of the Company in force and/or as may be approved by the Board from time to time, provided that the aggregate value of such allowances and perquisites shall not exceed Rs. 3,00,000/- per annum. Allowances & Perquisites will be valued as per the Income-tax rules, wherever applicable and at actual cost to the Company in other cases.

III. In addition to the above, he will also be entitled to the following reimbursement of expenses :

- a. Running and maintenance of car on actual basis
- b. Telephone(s) and
- c. Entertainment expenditure actually incurred for the business of the Company.

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to fix actual remuneration of Mr. B.K.Raizada, and revise it from time to time within the aforesaid ceilings."

"RESOLVED further that the Board of Directors be and is hereby authorised to take such steps as the Board may consider 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 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**

Place : New Delhi  
Date : December 1, 2012

**B. K. Raizada**  
Managing Director

**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 December 22, 2012 to December 28, 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, Vitharao 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 the aforesaid address.

---

**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. 2**

As per the information last available with the Company, brief resume and other information for Dr. Jayaram Chigurupati are given below:

Dr. Jayaram Chigurupati aged about 49 years is a MBA (USA) & Ph.D in Bio Chemical Genetics. He was associated with recombinant proteins and bio-generics for the past eight years. Earlier, he has had a stint as Associate Consultant with The Wilkerson Group, New York City and as Technology Transfer Consultant at the Center of Advanced Technology Cornell University, Ithaca, New York.

He was also a founder and Vice President of Viral Therapeutics, Inc, New York, where his responsibilities included development and marketing of recombinant proteins for therapeutic and diagnostic use.

He was also the Executive Vice President of Emerging Businesses (Biotechnology, Oncology and Diagnostics) and International Branded Formulations Marketing at Dr Reddy's (RDY). He was also the Managing Director of Zenovus Biotech (a wholly owned subsidiary of Dr. Reddy's).

In terms of the declaration made by Dr. Jayaram Chigurupati, as on November 12, 2012 he holds 48,01,858 shares in the Company and is a Director of the following other companies/Bodies Corporate:

1. Techtran Polylenses Limited
2. Hemarus Therapeutics Limited
3. Cypress Capital Group, USA
4. Coastal Local Area Bank Limited
5. Credence Infrastructure Limited

He is not related to any of the Directors of the Company.

### Item No.3

Dr. Sudershan K. Arora, currently working as President -R&D, Ranbaxy Laboratories Limited, has over 30 years of extensive experience in Drug Discovery, pre-clinical and clinical development and in leading research programs for design, synthesis and pre-clinical development of NCEs/natural products. He obtained a PhD, in Synthetic Organic Chemistry from Kurukshetra and a D.Sc from Bundelkhand University.

Dr. Arora has worked with many leading Indian and global pharmaceuticals companies including Greenwich Pharmaceuticals Inc., USA, Medicarb Inc., USA, Lupin and Sandoz, Austria.

Dr. Arora has been a prominent speaker at various national and international scientific forums. He is also on the governing bodies of numerous academic institutions in India, besides being an eminent speaker in various forums. He has 30 US patents/PCT applications to his credits and his articles are regularly published in reputed ACS and Indian Journals. Dr. Arora has been bestowed with awards by various institutes.

Dr. Arora does not hold any share in the Company. He does not hold directorship in any other company His nature of expertise is in Pharmaceutical Research.

He is not related to any of the Directors of the Company.

### Item Nos. 5 & 6:

Mr.B.K.Raizada had been appointed as the Managing Director of the Company effective from March 19, 2011 for a period of two years on a remuneration of Rs.15.00 lacs per annum subject to requisite approvals. The same was unanimously approved by the shareholders in their Extraordinary General Meeting of the Company held on July 21, 2011 subject to the approval of Central Government. Ministry of Corporate Affairs subsequently had granted its approval for payment of remuneration to Mr. Raizada subject to the condition that the Company makes payment of its outstanding dues towards the loan assistance granted by Technology Development Board (TDB). The Company while citing the arbitration proceedings pending with TDB requested MCA to modify the above date. The Company is awaiting the approval from the Ministry in this regard. Dr. Jayaram Chigurupati has also filed a case before Hon'ble High Court of Andhra Pradesh and the matter is currently sub-judice.

It is, now proposed to reappoint Mr. Raizada as Managing Director of the Company for a period of two years effective from October 1, 2012 subject to the terms and conditions as set out in the aforesaid resolutions. The Remuneration cum Compensation Committee in its meeting held on November 14, 2012 had approved the payment of remuneration to Mr. Raizada, commensurate with his qualifications and experience.

The revised scale of remuneration to Mr. Raizada as proposed above, is as per ceilings as set out in Part II, Section II of the Schedule XIII to the Companies Act, 1956 read with the General Circular No. 46/2011 and Notification both dated 14.07.2011 issued by the Ministry of Corporate Affairs, New Delhi.

Mr. Raizada satisfies the requirements above notification/circular and thus payment of remuneration as per above revised scale does not require approval of the Central Government. However, in view of the default in repayment to financial institutions still existing as on March 31, 2012; in terms of provisions of para C of Section II of part II of Schedule XIII to the Companies Act, 1956, approval of the Central Government would be required for payment of the said remuneration to Mr. Raizada.

Mr. B.K. Raizada is a Director of the following other companies:

1. Instapower Limited
2. Pinewood Diagnostics Limited
3. PI Industries Limited and
4. Amira Natural foods Limited

He is a member of following Committees of PI Industries Limited:

1. Audit Committee;
2. Management Committee ;
3. Administration Committee and
4. Remuneration Committee

He is also the Chairman of the Audit and Compensation Committee of Amira Natural Foods Limited.

He is also a member of Audit Committee of the Company.

Mr. Raizada does not hold any share in the Company. He is not related to any of the Directors of the Company.

The Board of Directors considers that in view of the background and experience of Mr. Raizada as detailed below, it would be in the interest of the Company to re-appoint him as a Managing Director of the Company.

The Board recommends the Resolution for approval of the shareholders.

Mr. Raizada is interested or concerned in the proposed Resolution. None of the other Directors are interested or concerned in the proposed Resolution.

The Notice read with Explanatory Statement should be considered as an abstract of the terms of appointment and payment of remuneration to Mr. Raizada as Managing Director and a memorandum as to nature of the concern or interest of the Director as required under Section 302 of the Companies Act, 1956.

**The other particulars as required under provisions of para C of Section II of part II of Schedule XIII to the Companies Act, 1956 are, as follows:**

In view of the non-availability of the various records and other information as more fully explained in Note 2.27 read with Note Nos. 2.28 to 2.30 forming part of the financial statements for the year ended March 31, 2012 (herein after collectively referred to as "notes" and individually with the relevant note number), the information provided hereunder is having its own limitations.

## **General Information**

### **1. Nature of industry and Date or expected date of commencement of commercial production**

Zenotech Laboratories Limited (herein after referred to as "Zenotech/the Company"), bearing CIN L72200AP1998PLC029831 having its Registered Office cum Corporate Office situated at Survey No. 250-252, Turkapally Village, Shameerpet Mandal, R.R. Dist - 500078, Andhra Pradesh, is a public limited company listed on the Bombay Stock Exchange Limited (BSE). It was incorporated on June 15, 1989 as a private limited company by the name of Maa Shakti Tube Mill Private Limited. On April 1, 1992, its name was changed to Sunline Tubes Private Limited, and on August 25, 1993, it was converted into a public limited company. The Company was, at this stage engaged in carrying out the activities of engineering project execution including heavy machinery erection and commissioning for process industries. The Company came out with Public Issue during May 1996 to implement the project of manufacturing of lancing Tubes and ERW tubes.

The Company has changed its Objects Clause on February 10, 2000 to carry on the business of software, hardware and information technology, as the previous operations of the Company were not encouraging and thus carried out business relating to Software Development activities and focus was on B2B and B2C, E-Commerce, Web/Portal Development activities and on December 6, 2000, its name was changed to Sunline Technologies Limited.

Subsequently, as the Information technology business is facing stiff competition around the world, the then promoters with an intention to diversify into potential business like Biotechnology, Pharmaceuticals etc., amended the objects and entered into a scheme of amalgamation with Zenotech Laboratories Private Limited. The Hon'ble High Court of Andhra Pradesh, Hyderabad sanctioned the scheme of amalgamation by its order dated July 1, 2004, effective from November 1, 2003. Under this scheme of amalgamation, Zenotech's name was changed to its present form, Zenotech Laboratories Limited effective from August 10, 2004.

Further, Zenotech entered into a second scheme of amalgamation with M/s Credence Pharmaceuticals Limited and M/s Hemarus Healthcare Private Limited in the year 2005. The Hon'ble High Court of Andhra Pradesh, Hyderabad sanctioned the scheme of amalgamation by its order dated May 2, 2006, with effect from October 1, 2005.

The Company commenced pharmaceutical operations in 2003-04 and has since become a specialty generic injectables company with expertise in the area of bio-technology. The Company's injectables product portfolio

primarily serves niche therapy areas like oncology and anesthesiology. It has R&D facilities and manufacturing facilities located in Hyderabad.

Presently the Company is a specialty Biosimilars and generic injectables company with expertise in the area of Recombinant bio-technology.

**2. In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus.**

Not Applicable.

**3. Financial performance based on given indicators**

The Financial performance of the Company (Based on Stand-alone financial statements) on given indicators in last three years is as under:

(Amount in Rs. Lakhs)

Financial Parameters	Year ended March 31, 2010	Year ended March 31, 2011*	Year ended March 31, 2012*
Sales	656.51	700.14	218.42 **
Profit/(Loss) Before exceptional items	(1,247.49)	(1,482.78)	(868.84)
Net Profit/(Net Loss)	(1,247.49)	(3,783.81)	(1,026.19)
Dividend %	Nil	Nil	Nil

\* the financial statements for these years are prepared on Reconstructed books of accounts basis as more fully explained in the relevant notes to accounts forming part of the financial statements.

\*\* including Rs. 44.29 lakhs towards price equalization on sales.

**4. Export performance and net foreign exchange collaborations**

(Amount in Rs. Lakhs)

Financial Parameters	Year ended March 31, 2010	Year ended March 31, 2011*	Year ended March 31, 2012*
F.O.B value of exports	7.98	8.38	-
Royalty/technical consultancy fees	-	-	-
Dividend	-	-	-
Others	-	-	-

\* the financial statements for these years are prepared on Reconstructed basis as more fully explained in the relevant notes to accounts forming part of the financial statements.

**5. Foreign investments or collaborators, if any.**

As per the audited financials of 2009-10 and previous years, the Company has the following overseas subsidiaries:

- Zenotech Farmaceutica Do Brasil Ltda, Brazil
- Zenotech Laboratories Nigeria Ltd, Nigeria
- Zenotech Inc., USA

For the reasons and details as explained in Note 2.27

- It is believed that the above entities are either delinquent or do not exist anymore;
- No audited statements of the subsidiaries are available for the financial periods from 2008-2012;
- the Management had on a prudent basis, written down the investments in its subsidiaries and loans and advances to these subsidiaries in the year 2010-11, in addition to the write down of the investments in Brazil and Nigeria in the year 2008-09;
- Consequent various requests made by the current Management, the Company could get some limited information on copies of SWIFT transmissions from respective bankers/authorised dealers;
- The Management has evaluated the extent of the missing information and the regulatory non compliances etc., relating to the above subsidiaries and subsequent to year end issued a legal notice to Dr. Jayaram



Chigurupati, co-Managing Director to immediately release all the details pertaining these subsidiaries and documents / certificates related to forex transactions with these subsidiaries including certain loans and investment made in the same as well as asked him to take all required steps to finish audit of Subsidiaries and submit the financial statements to the Company;

- f. An appropriate reminder to this effect was also included in the letter dated October 3, 2012 informing the Co- Managing Director of having vacated his office as Managing Director of the Company but so far no response has been received and
- g. Provision has not been made for potential financial consequences arising out of such ongoing evaluations, the outcome of which will depend on the nature and extent of non compliances which is currently not determinable.

## Information about the appointee

### 1. Background details and past Remuneration

Mr. Raizada aged about 68 years is a graduate in Commerce and is a Fellow Member of the Institute of Chartered Accountants in England and Wales and also of Institute of Chartered Accountants of India.

Mr.B.K.Raizada had been appointed as Managing Director of the Company effective from March 19, 2011 for a period of two years on a remuneration of Rs.15.00 lacs per annum subject to requisite approvals. Pursuant to the applicable provisions under the Companies Act, 1956 read with Schedule XIII thereto, the same was unanimously approved by the shareholders in their Extraordinary General Meeting of the Company held on July 21, 2011 subject to the approval of Central Government.

As already stated, the Company is awaiting the approval of the Central Government in this regard.

### 2. Recognition or awards

Mr. Raizada was nominated by Government as member of the Committee on R & D for Pharmaceutical Industry (called the Mashelkar Committee) and the Group on Patent Laws (which helped write the new law adopted in 2002) as well the 'Industry group on new Pharmaceutical Policy' in 2001-02. He had been providing advisory services to pharmaceuticals companies on strategic issues.

He has been active in Professional and Social organizations and was country Representative for the Institute of Chartered Accountant in England and Wales for 10 years. Presently, Mr. Raizada is the member of the Board of Governors of the Institute of Internal Auditors, Delhi Chapter; Treasurer of the Association of UK Chartered Accountants in India and was past President of both organizations.

### 3. Job profile and his suitability

In a career spanning over 44 years, Mr. Raizada has held senior managerial positions in many companies in India and abroad. He worked for 30 years with Ranbaxy Laboratories Limited, one of India's largest pharmaceutical Company, in various capacities including heading the finance function, strategic planning, logistics and new business development. From 1997 till his retirement in 2003 was responsible for Ranbaxy's worldwide non-human health business.

His nature of expertise is in Pharmaceutical Business Strategy, Financial Management & Industry relations.

### 4. Remuneration proposed

Remuneration as detailed in the resolution No. 6 is proposed to be paid subject to requisite approvals.

### 5. Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin)

In view of ongoing disputes before various legal forums as well as missing of information and data as explained above and in notes; the fundamental task before the Management, when the premises were handed over to them by CLB was to stabilize and to bring normalcy into the operations as well as to take appropriate steps to recover various assets/information/data that was missing. Further, the Company is yet to leverage on account its product strength commensurate with the size of market potential.

The present Management under the leadership of Mr. Raizada, is working towards this direction and with continuous repair, renovation and validation of various equipments and facilities of the Company; the Plant is now geared to start Production by end of December, 2012.

The remuneration proposed to be paid to Mr. Raizada is in line with remuneration of Managing Directors of other pharmaceutical companies; keeping in view his job profile and complexity of operations and business of the Company.

**6. Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any.**

Mr. Raizada is not related to any of the Directors as well as Managerial Personnel of the Company. He does not have any pecuniary relationships directly or indirectly with the Company or its managerial personnel, other than drawing his remuneration in the capacity as Managing Director of the Company. He does not hold any shares in the Company.

**Other information**

**1. Reasons of loss or inadequate profits**

The Company in August 2006, with an intention to mobilize funds for funding the Company's product development and Abbreviated New Drug Application (ANDA) filings in the United States and European Union had, collected Rs. 20.00 Crores from Ranbaxy Laboratories Limited ('Ranbaxy') and had allotted 20,00,000 equity shares of Rs.10/- each at Rs.100/- (inclusive of a premium of Rs.90/- per share) under preferential allotment mode as per relevant SEBI Guidelines.

In October 2007, pursuant to entering of definitive agreements among Dr. Jayaram Chigurupati and associates ('Erstwhile Promoters'), the Company and Ranbaxy;

- Ranbaxy had purchased 78,78,607 shares from promoters;
- Ranbaxy had been allotted 54,89,536 shares on preferential basis; and
- the aforesaid acquisition triggered on the part of Ranbaxy to make an open offer to the then shareholders of the Company, and thus it had acquired 7,58,851 shares of Company pursuant to the open made in this regard.

Pursuant to above acquisition of shares made, Ranbaxy held 1,61,27,293 shares of the Company constituting 46.94% of the then paid-up capital of the Company and become the single largest shareholder. The Company had raised Rs.87.83 crores from Ranbaxy under the said preferential allotment. As on January 30, 2008; Ranbaxy appointed three nominee Directors and the said Directors are vacated their offices as such, consequent to non-holding of 19th Annual General Meeting of the Company on or before the due date i.e. 31.12.2008.

Subsequent to Daiichi Sankyo Company Limited (Daiichi) acquiring 63.92% stake in Ranbaxy in October 2008, Daiichi announced an open offer to acquire 20% share of the Company at Rs. 113.62 per share. Aggrieved by the pricing of the share, erstwhile promoters and one or two other shareholder filed a petition in the Hon'ble High Court of Madras. The Company has been named as Respondent in the said case. An interim injunction in connection with the offer was given by the Hon'ble High Court of Madras and subsequently it was quashed by the Hon'ble Supreme Court based on a petition filed by Daiichi against the said injunction. Meanwhile some of the shareholders (excluding Ranbaxy) including erstwhile promoter of the Company filed a petition with Securities Appellate Tribunal (SAT) with respect to the pricing of the share of the Company. SAT directed Daiichi to price the open offer at Rs 160/- per share. Daiichi has filed an appeal against the SAT order in the Supreme Court. The Supreme Court vide its order dated July 8, 2010 has ruled in favor of Daiichi and allowed the open offer to be made at the price of Rs 113.62 per share.

In the mean time, erstwhile promoters had filed a petition on June 30, 2009 before Company Law Board (CLB) alleging oppression against Ranbaxy and its associates. Ranbaxy had filed another on October 7, 2009 before CLB counter alleging oppression and mismanagement against erstwhile promoters.

Post completion of open offer formalities by Daiichi as explained above, pursuant to intervention of CLB and Hon'ble Andhra Pradesh High Court, the Board of Zenotech Laboratories Limited got restructured in January, 2011 and the new Board containing nominees of Ranbaxy had started functioning effective March 19, 2011. Until this period, Dr. Chigurupati was at the helm of the affairs as the Managing Director of the Company and thus responsible for its affairs. At this stage, the Company was incurring huge losses and the Financial performance of the Company (Based on Stand-alone financial statements) on given indicators in proceedings three years up to March 31, 2011 is as under:

(Amount in Rs. Lakhs)

Financial Parameters	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011*
Sales	602.32	656.51	700.14
Profit/(Loss) Before exceptional items	(1,696.98)	(1,247.49)	(1,482.78)
Net Profit/(Net Loss)	(2,162.46)	(1,247.49)	(3,783.81)
Dividend %	Nil	Nil	Nil

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 of Directors expressed its dissatisfaction over the performance of Dr. Jayaram Chigurupati as Managing Director of the Company and felt that he is not taking remedial steps to improve the performance of the Company, which was deteriorating quarter by quarter and is failed to take appropriate steps to review and readjust the operations in tune with market dynamics and focused more on filing litigations on major shareholder rather than focusing on the core issues of the Company. The Board further felt that he also did not change the pricing policy for the Company's products for the last 4 years since their introduction, in line with the changing market dynamics as a result of which the prices are totally uncompetitive and the company is operating not even at breakeven level forcing it to incur further losses.

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 Dr. Chigurupati 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 was locked and resorting of 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.

As the shareholders may be aware, it was only in November 2011, when pursuant to the orders of the CLB, the present 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 was shocked to discover that key records, assets, books of accounts and statutory records of the Company were missing. Appropriate action, including filing of criminal complaints against the persons responsible including Dr. Chigurupati, has already been initiated by the Management.

Since April 2011, there has been no production in the plant as employees of the Company were on an illegal strike. As a result of closure of operations for full year, the Company recorded a total loss after tax of Rs. 10.21 crores for the year ended March 31, 2012. Included in this figure is a loss from exceptional items of Rs 1.57 crores, mainly on account of provisions for claims.

## **2. Steps taken or proposed to be taken for improvement**

In view of continuous incurring of losses coupled with temporary stoppage of operations for more than a year; ongoing disputes before various legal forums as well as missing of information and data as explained above and in notes; the fundamental task before the present Management, when the premises were handed over to them by CLB was first to stabilize and to bring normalcy into the operations as well as to take appropriate steps to recover various assets / information/data that were missing.

There has been no production in the plant as employees of the Company were on illegal strike. In view of the same, soon after the new management is allowed to function, sale of the Company's products in Oncology has been resumed though Licenced Toll production after necessary obtaining approvals from the various authorities and thus achieved a turnover of Rs. 219.03 lakhs including Rs. 44.29 lakhs towards price equalization on sales. This has been done to ensure continued availability of your Company's products to meet tender commitments, revival of brand names and demand for life saving drugs from the market. While the turnover reported may be lower, but may be viewed as a positive step by the Management towards ensuring a longer term Market standing for the Company.

The Management after taking over the possession of the plant premises in November, 2011; 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, certain employees submitted their resignations which are being processed in accordance with the legal provisions. The Management reviewed matters relating to Technical viability and further steps required to be taken to restart the Company's facilities including the further manpower requirements etc. In last one year, all necessary steps have been taken by the Company to be able to resume operations at the plant and production of Commercial batches are already being undertaken for some of the products

range of the Company. The renewal applications filed for all expired Drug licenses have been approved by both the State and Central Drug Regulators. The Plant is now geared to start Production to its capacities by end of December 2012. Steps are also initiated for applying for certifications under WHO GMP and inspections in this regard by the Regulatory Authorities concerned are scheduled in December, 2012.

Further, the management to evaluate the restoration of current product pipelines with current set-up and to leverage on account its product strength commensurate with the size of market potential, has undertaken a comprehensive Market Survey and the Management is hopeful of completing the same in by this year end. Based on the same, the Management will also initiate necessary steps to evaluate and commence development of a new range of products to upscale the market presence of our product range.

The R&D team of the Company has also commenced work on technical and clinical data collection for preparation of Regulatory Approval Applications for the product range in emerging markets in Asia, Africa and Latin America countries.

The current fund position of the Company is not at all favourable and is facing a severe liquidity crunch due to lack of financial management in the last few years in spite of substantial funds injection. Based on the audited financial statements as at March 31, 2011; the Company had become a potential sick company as contemplated under Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). The necessary intimations as required under the provisions of the said section of SICA were made to the Board of Industrial and Financial Reconstruction (BIFR). In view of all these, the present Management has adopted a cautious approach to initiating action to grow the Company through new initiatives through proper controls and direction.

The management is also exploring various options to meet the fund requirements including raising equity from the existing shareholders etc., and would intimate you once the plans have been drawn up for execution.

### **3. Expected increase in productivity and profits in measurable terms.**

Oncology and Biotech Products are a high technology area which needs continued Research and Development efforts. Also as availability improves, prices do get reduced. We are now focusing more on efficiency in production and reduction in costs. It is too early to comment on the impact on profitability but the management is hopeful to improve volumes and start exports to emerging countries of Asia, Africa and Americas in next few years.

### **Disclosures:**

The relevant disclosures as on March 31, 2012 as required under Corporate Governance code stipulated under clause 49 of the listing agreement are made in the Report on Corporate Governance form part of this Annual Report.

### **Item No. 7**

The proposal to amend the Articles of Association of the Company as detailed in the Resolution at Item no. 8 was already placed before the Shareholders in their 22nd Annual General Meeting of the Company but the same could not be passed with requisite majority. The said proposal is once again placed in before the shareholders, in view of:

- Increase in the Authorized Share Capital of the Company;
- Incorporation/effecting changes to make the Articles in line with the amendments in the provisions of the Companies Act & rules framed there-under;
- 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**

Place : New Delhi  
Date : December 1, 2012

**B. K. Raizada**  
Managing Director

## Directors' Report

Your Directors herewith present the Twenty Third Annual Report together with the audited accounts of the Company for the year ended March 31, 2012.

### Standalone working results under Indian GAAP

(Rs. in thousands)

Particulars	2011-12	2010-11
Sales(net)	21,842	70,014
Other Income	1,337	8,633
Depreciation	34,927	35,378
Amortisation of Misc. expenditure	-	15,232
Loss before tax	(86,884)	(148,278)
Exceptional Items	15,735	230,103
(Loss) after tax	(102,619)	(378,381)
Loss brought forward from previous year	(889,719)	(511,338)
Profit/(Loss) carried forward to balance sheet	(992,338)	(889,719)
Earnings Per Share (Rs.) - Basic	(2.98)	(10.99)

As earlier informed to you in the last year's Directors' report, it was only in November 2011, when 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 was shocked to discover that key records, assets, books of accounts and statutory records of the Company were missing. Appropriate action, including filing of criminal complaints against the persons responsible including Dr. Chigurupati, has already been initiated by the Management. The Honorable Company Law Board vide its order dated 8 October 2012 also directed Dr. Chigurupati to return all the documents and provide written details of all missing documents/ assets/ statutory records / equipment of the Company. Dr. Chigurupati has so far not complied with the orders of the CLB.

In view of the non-availability of the said records, the management followed the similar exercise of reconstruction of books of accounts as carried out for the year ended 31 March 2011 for the period from 1 April 2011 to 12 November 2011 as more fully explained in Note 2.27 read with Note Nos. 2.28 to 2.30 in notes on accounts and forming part of the aforesaid financial statements (Herein after referred to as "Note 2"). The books of accounts, necessary statutory records and all original supporting documents are being maintained and are in the possession of the current management since 13 November 2011.

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

### Operations

During this period under review, as already informed, there has been no production in the plant as employees of the Company were on illegal strike. In view of the same, soon after the new management is allowed to function, sale of the Company's products in Oncology has been resumed though Licenced Toll production after, obtaining necessary approvals from various authorities and thus achieved a turnover of Rs. 219.03 lakhs including Rs. 44.29 lakhs towards price equalization on sales. This has been done to ensure continued availability of your Company's products to meet tender commitments, revival of brand names and demand for life saving drugs from the market. While the turnover reported may be lower, but may be viewed as a positive step by the Management towards ensuring a longer term Market standing for the Company. As a result of closure of operations for full year, the Company recorded a total loss after tax of Rs. 10.21 crores for the year ended March 31, 2012. Included in this figure is a loss from exceptional items of Rs 1.57 crores, mainly on account of provisions for claims.

The Management after taking over the possession of the plant premises in November, 2011, 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. 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 operations comprising of Biologics API, Formulations



(General Injectables, which is FDA approved) and Oncology Injectables formulations plant including further manpower requirements etc. In last one year, all necessary steps have been taken by the Company to be able to resume operations at the plant and production of Commercial batches are already being undertaken for some of the products range of the Company. The renewal applications filed for all expired Drug licenses have been approved by the Drug Authorities after completion of their necessary inspections/audits by both State and Central Drug Regulators. The Plant is now geared to start production to its capacities by end of December 2012. Steps are also initiated for applying for certifications under WHO GMP and inspections in this regard by the Regulatory Authorities concerned are scheduled in December, 2012.

#### **Intimation to BIFR and Report under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA)**

The shareholders are requested to note that pursuant to the provisions of SICA, if the accumulated losses of a company, as at the end of any financial year have resulted in erosion of fifty per cent or more of its peak net worth during the immediately preceding four financial years, the Company, within a period of sixty days from the date of finalization of the duly audited accounts of the company for the relevant financial year, is required to

- i. report the fact of such erosion to the Board for Industrial and Financial Reconstruction and
- ii. hold a general meeting of the shareholders of the company for considering such erosion and forward to every member of the company a report as to such erosion and the causes for such erosion.

Based on the audited financial statements as at March 31, 2011 adopted by the shareholders in their 22nd AGM of the Company held on July 25, 2012; the accumulated losses of the Company as on March 31, 2011 have resulted in erosion of more than 50% of its peak net-worth during the immediately preceding four financial years. Accordingly, pursuant to the provisions of SICA, the Company has intimated the above erosion and company's potential sickness to the BIFR on September 24, 2012. Further, a report to the shareholders detailing the reasons for such erosion and the steps taken/proposed to be taken as required under the above-mentioned provisions of SICA is provided as Annexure A to this Report.

#### **Share Capital**

There has been no change in the share capital of the Company during the year.

#### **Auditors Qualifications/Remarks**

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

- a. As stated above, in view of the non-availability of the said records, the management followed the similar exercise of reconstruction of books of accounts as carried out for the year ended 31 March 2011 for the period 1 April 2011 to 12 November 2011. The Company has been able to substantively reconstruct the books of accounts and based on the steps taken by the Management and evidence available from the subsequent events, the risk that financial statements may be materially misstated is not significant.
- b. With respect to the qualification of auditors in 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 arising out of non-compliance of provisions of various applicable laws and regulations, the Management, for the reasons as explained in various foregoing paragraphs i.e. missing of books and records including supporting documents etc. read with Note 2, 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.

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. The Honorable Company Law Board vide its order dated 8 October 2012 also directed Dr.Chigurupati to return all the documents and provide written details of all missing documents/ assets/ statutory records / equipment of the Company. Dr. Chigurupati has not so far complied with the orders of the CLB. Considering the availability of information in the public domain and in other indirect mode as more detailed in Note 2 etc., the management exercised its best judgment in recognition / non recognition of aforesaid expenses.

- c. Point No. 3 (d) of the main report as to completeness of disclosures on related parties, as required under Accounting Standard 18- While all other Directors had provided disclosures in the prescribed form, despite best efforts, two of the Directors viz. Dr. Chigurupati and Mr. Raghu Vasu did not submit disclosures under section 299 of the Companies Act, 1956. The Management therefore has been unable to provide complete information as required under the said Accounting Standard. However, Dr. Chigurupati, while expressing his willingness to continue as Director of the

Company liable to retire by rotation, has submitted the above declarations as on November 12, 2012. Since these declarations are required as of March 31, 2012, the qualification stands unresolved.

- d. Point No. 4 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 said matter is pending before the Court of the Hon'ble Chief Judge City Civil Court at Hyderabad. As the matter remains sub-judice, no adjustments have been made to the financial statements for years ended March 31, 2012 as well as March 31, 2011.
- e. Point No. 5 of the main report as to pending approval of managerial remuneration to another co-Managing Director, the Management wishes to state that Mr.B.K.Raizada was appointed as another Managing Director of the Company w.e.f March 19, 2011 for a period of two years on a remuneration of Rs.15.00 lacs per annum subject to requisite approvals. The same was approved by the shareholders in their Extraordinary General Meeting of the Company held on July 21, 2011 subject to the approval of Central Government pursuant to the provisions of Schedule XIII to the Companies Act.

The Ministry of Corporate Affairs, New Delhi (MCA) had granted its approval for payment of remuneration to Mr. Raizada subject to the condition that the Company makes payment of its outstanding dues towards the loan assistance granted by Technology Development Board (TDB) by 29/02/2012. The Company while citing the arbitration proceedings pending with TDB requested MCA to modify the above date to "within 30 days of the Arbitration Award". The Company is awaiting the Ministry's approval in this regard. Dr.Jayaram Chigurupati has also filed a case before Hon'ble Andhra Pradesh High Court as more fully explained in the notes and the matter is currently sub-judice.

- f. Point No. 3 (main paragraph), 7(i) 7(ii) and 7 (iv) 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 etc., the Management wishes to state the following, in addition to what has been already mentioned either in this report or previous year annual report or Note 2:
  - i. Due to non availability of all relevant books of account and records the present Management for substantial part of 2011-12, 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 Note 2 like it was done for 2010-11, whose accounts are already adopted by you in the 22nd AGM held on July 25, 2012.
  - ii. 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.
  - iii. 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 as well as 2011-12 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.
- g. Point No. 7 (v) of the main report as to representation not received from Dr. Jayaram Chigurupati under Section 274(1) (g) of the Companies Act, 1956: As stated in point no. (c) above, Dr. Jayaram Chigurupati had not provided declaration to the effect that he is not disqualified to act as a Director as on March 31, 2012. Though Dr. Chigurupati has provided the above declaration as on November 12, 2012, whereas these declarations are required as of March 31, 2012, the qualification stands unresolved.
- h. Inadequacy/weakness in Internal Control Procedures - The Company is in process of implementing a robust internal control system regarding inventory movements, initiated institution of certain internal controls over purchases of goods/fixed assets/sale of goods and services. The said systems will be reviewed post commencement of production process and if necessary, required steps will be taken to make them adequately commensurate with size of operations. The Company has also started working to improve the system of internal controls by issuing Standard Operating Procedures. Further, management had already appointed M/s N. Sai Baba &Co., Chartered Accountants, Hyderabad, as the Internal Auditors, who have submitted their report. The management is taking all required steps to strengthen the internal controls as suggested in their report.

- i. 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 appropriate intimation in this regard as required under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 with the Board of Industrial and Financial Reconstruction has been made and necessary steps are being taken to revive the operations by management.
- j. Delay in payment of Interest on Secured loans 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.
- k. Application of term loans taken by the Company, as mentioned in Annexure, the Management wishes to state that as on date, the Company has no outstanding loans from Banks/Financial institutions except loan outstanding from TDB and in absence of the documents/records as explained above, your Directors are not in a position to comment further.
- l. Utilization of money raised on short term basis to long-term basis, as mentioned in Annexure, the Management wishes to state that same was result of heavy losses incurred during the period, which is unintentional and out of the control of the management for various reasons as explained above. The Management is taking all required steps to restart the production.
- m. Notice/Reporting of fraud on or by the Company, delays in the large number of cases of certain employee contributions and non-possession of secretarial records to be maintained under various provisions of Companies Act, 1956 till November 12, 2012, as mentioned in Annexure, the Management wishes to state that the Company has already taken requisite steps including filing of criminal complaints for retrieval of the records including the secretarial records up to November 12, 2012. The Management is also trying to retrieve records to the extent possible by obtaining certified true copies from various sources. The irregularities noted are under investigation and financial consequences of the same are being ascertained.

### **Consolidated Financial Statements**

On getting possession of the factory premises, the Management observed that no books of account and records of the Company's overseas subsidiaries were available. As part of efforts to obtain relevant information, the Management through local consultants and advisors in the respective countries tried to reach out to these subsidiaries. The Company however has been unable to retrieve any relevant information, books and records and based on all reasonable efforts that it could have made under the circumstances believes that information relating to the subsidiaries is missing and the entities are either delinquent or do not exist anymore.

The Management has evaluated the extent of the missing information and the regulatory non compliances etc., relating to the above subsidiaries and subsequent to year end issued a legal notice to Dr.Chigurupati to immediately release all the details pertaining these subsidiaries and documents / certificates related to forex transactions with these subsidiaries including certain loans and investment made in the same as well as asked him to take all required steps to finish audit of Subsidiaries and submit the financial statements to the Company. The Company has not yet received any response in this regard from Dr. Chigurupati despite a reminder sent to him.

In view of the above, consolidated accounts could not be prepared. Further, for the same reason, the Company has not been able to attach / provide the statements/particulars as required pursuant to Section 212 of the Companies Act, 1956, relating to any of its subsidiary companies.

### **Directors' Responsibility Statement**

Subject to the limitations of the missing records and consequential reconstruction of the accounts as explained earlier, the Board submits in compliance of Section 217 (2AA) of the Companies Act, 1956, as under:

- in the preparation of the Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for that period;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities to the extent possible in the circumstances;
- the Directors have prepared the annual accounts on a going concern basis.



**Employee Stock Option Scheme**

Disclosures in this regard upto March 31, 2012 in accordance with Clause 12 of SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are provided as Annexure B to this Report.

**Energy Conservation, Research and Developments, Technology Absorption, Foreign Exchange Earnings and Outgo**

The particulars relating to energy conservation, research and development, technology absorption, foreign exchange earnings and outgo, as required to be disclosed under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988; prepared based on the information to the extent available from November 13, 2011 to March 31, 2012 are provided as Annexure C to this report.

**Report on Corporate Governance and Management's Discussion Analysis**

Reports on Corporate Governance alongwith the Certificate of Mr. Mahadev Tirunagari, practicing Company Secretary on the status of compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange as well as Management Discussion and analysis form part of the Annual Report and enclosed as Annexure D and E respectively, to this report.

**Deposits**

The Company has not accepted any deposit under Section 58A of the Companies Act, 1956, during the year under review.

**Auditors**

M/s. B S R & Associates, Chartered Accountants, Statutory Auditors of your Company hold office until the conclusion of the ensuing AGM and are proposed to be reappointed. The Company has received a certificate from them to the effect that their appointment if made would be within the limits prescribed under Section 224(1) of the Companies Act, 1956.

**Cost Audit**

Your Company had appointed M/s K.C. Kohli & Co., Cost Consultant & Advisor, Delhi as Cost Auditor with the approval of the Central Government for audit of cost accounts pertaining to business of your Company for the year ended March 31, 2012 maintained in terms of provisions Section 209(i)(d) of the Act read with the Cost Accounting Rules and circulars issued by the Ministry of Corporate Affairs there-under. The Cost Audit report submitted in this regard was taken note by the Board in its meeting held on November 14, 2012.

**Directors**

At the 22nd Annual General Meeting held on July 25, 2012 Dr. R S Bakshi and Mr. K. L. Khurana were appointed as Directors of the Company.

Dr. Jayaram Chigurupati has ceased to be the Managing Director of the Company upon completion of his term on September 30, 2012.

Dr. Sudershan K. Arora and Dr. Jayaram Chigurupati, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Mr. B.K.Raizada has been reappointed as the Managing Director of the Company for a further period of 2 years effective October 1, 2012 on revised terms subject to requisite approvals.

**Particulars of Employees**

In absence of the records/information available with the Company as explained above, the Directors are unable to confirm if during the part of the period under review ending November 12, 2011; any of the employees of the Company have drawn remuneration as specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975. However, during the post acquisition period i.e. effective from November 13, 2011 to March 31, 2012; none of the employees of the Company have drawn remuneration as specified under the said section.

**Listing at Stock Exchange**

The Equity Shares of the Company continue to be listed on Bombay Stock Exchange Ltd (BSE). The annual listing fees for the year 2011-2012 has been paid to the Exchange. As previously informed, BSE had issued a circular in March 2012 suspending the trading in the shares of the Company in view of the non-compliances of the Listing Agreement. However, the Hon'ble High Court of Andhra Pradesh, on considering the submissions of the Company that the non-compliances were due to non-availability of records with the existing management, granted stay against the said order of the BSE.

---

**Acknowledgement**

The Board of Directors would like to express their grateful appreciation for the assistance and co-operation received from the Financial Institutions, Banks, Government Authorities, Customers, Vendors and Members during the year under review.

Your Directors also wish to place on record the sincere efforts and committed services put in by the employees who have stood by the Company and its Management in these difficult times.

For and on behalf of the Board

Place : New Delhi  
Date : December 1, 2012

**Dr. Sudershan K. Arora**  
Chairman

**Annexure - A****Report to the shareholders under section 23(1)(b) of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA)**

Pursuant to the provisions of Section 23 (1) (b) of SICA, if the accumulated losses of a company, as at the end of any financial year have resulted in erosion of fifty per cent or more of its peak net worth during the immediately preceding four financial years, the Company, within a period of sixty days from the date of finalization of the duly audited accounts of the company for the relevant financial year, is required to

- i. report the fact of such erosion to the Board for Industrial and Financial Reconstruction and
- ii. hold a general meeting of the shareholders of the company for considering such erosion and forward to every member of the company a report as to such erosion and the causes for such erosion.

In terms of the audited financial statements of the Company for the year ended March 31, 2011 (prepared on reconstructed books of accounts) as adopted by the shareholders in their 22nd AGM of the Company held on July 25, 2012, your Board of Directors observed that the accumulated losses of the Company as on March 31, 2011 have resulted in erosion of more than 50% of its peak net-worth during the immediately preceding four financial years and thus the Company had become a potential sick company as contemplated under Section 23 of SICA. As required under the provisions of the said section of SICA, on 24 September 2012, the Company has filed required declaration under in Form C with the BIFR intimating the aforesaid fact potential sickness of the Company.

**Causes for Erosion**

The Company in August 2006, with an intention to mobilize funds for funding the Company's product development and Abbreviated New Drug Application (ANDA) filings in the United States and European Union had made a preferential issue of shares to Ranbaxy Laboratories Limited ('Ranbaxy') for Rs. 20.00 Crores. Further, in October 2007, pursuant to entering of definitive agreements among Dr. Jayaram Chigurupati and associates ("erstwhile promoters");

- Ranbaxy had purchased 78,78,607 shares from the erstwhile promoters;
- Ranbaxy was allotted 54,89,536 shares on preferential basis; and
- The aforesaid acquisition triggered on the part of Ranbaxy to make an open offer to the then shareholders of the Company, and thus it had acquired 7,58,851 shares of Company pursuant to the open made in this regard.

Pursuant to above acquisition of shares made, Ranbaxy held 1,61,27,293 shares of the Company constituting 46.94% of the then paid-up capital of the Company and become the single largest shareholder and the Company had raised Rs.87.83 crores from Ranbaxy under the said preferential allotment. As on January 30, 2008; Ranbaxy appointed three nominee Directors and the said Directors are vacated their offices as such, consequent to non-holding of 19th Annual General Meeting of the Company on or before the due date i.e. 31.12.2008.

Subsequent to Daiichi Sankyo Company Limited (Daiichi) acquiring 63.92% stake in Ranbaxy in October 2008, Daiichi announced an open offer to acquire 20% share of the Company at Rs. 113.62 per share. Aggrieved by the pricing of the share, Erstwhile Promoters and one or two other shareholder filed a petition in the Hon'ble High Court of Madras. The Company has been named as Respondent in the said case. An interim injunction in connection with the offer was given by the Hon'ble High Court of Madras and subsequently it was quashed by the Hon'ble Supreme Court based on a petition filed by Daiichi against the said injunction. Meanwhile some of the shareholders (excluding Ranbaxy) including erstwhile promoter of the Company filed a petition with Securities Appellate Tribunal (SAT) with respect to the pricing of the share of the Company. SAT directed Daiichi to price the open offer at Rs 160/- per share. Daiichi has filed an appeal against the SAT order in the Supreme Court. The Supreme Court vide its order dated July 8, 2010 has ruled in favor of Daiichi and allowed the open offer to be made at the price of Rs 113.62 per share.

In the mean time, the erstwhile Promoters had filed a petition on June 30, 2009 before Company Law Board (CLB) alleging oppression against Ranbaxy and its associates. Ranbaxy had filed another on October 7, 2009 before CLB counter alleging oppression and mismanagement against Erstwhile Promoters.

Post completion of open offer formalities by Daiichi as explained above, pursuant to intervention of CLB and Hon'ble Andhra Pradesh High Court, the Board of Zenotech Laboratories Limited got restructured in January, 2011 and the new Board containing nominees of Ranbaxy had started functioning effective March 19, 2011. Until this period, Dr. Chigurupati was at the helm of the affairs as the Managing Director of the Company and thus responsible for its affairs. At this stage, the Company was incurring huge losses and the Financial performance of the Company (Based on Stand-alone financial statements) on given indicators in proceedings three years up to March 31, 2011 is as under:

(Amount in Rs. Lakhs)

Financial Parameters	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011*
Sales	602.32	656.51	700.14
Profit/(Loss) Before exceptional items	(1,696.98)	(1,247.49)	(1,482.78)
Net Profit/(Net Loss)	(2,162.46)	(1,247.49)	(3,783.81)

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 of Directors expressed its dissatisfaction over the performance of Dr. Jayaram Chigurupati as Managing Director of the Company and felt that he is not taking remedial steps to improve the performance of the Company, which was deteriorating quarter by quarter and is failed to take appropriate steps to review and readjust the operations in tune with market dynamics and focused more on filing litigations on major shareholder rather than focusing on the core issues of the Company. The Board further felt that he also did not change the pricing policy for the Company's products for the last 4 years since their introduction, in line with the changing market dynamics as a result of which the prices are totally uncompetitive and the company is operating not even at breakeven level forcing it to incur further losses.

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 Dr. Chigurupati 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 was locked and resorting of 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.

As the shareholders may be aware, it was only in November 2011, when pursuant to the orders of the CLB, the present 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 was shocked to discover that key records, assets, books of accounts and statutory records of the Company were missing. Appropriate action, including filing of criminal complaints against the persons responsible including Dr. Chigurupati, has already been initiated by the Management. The Hon'ble CLB vide its order dated 8 October 2012 also directed Dr. Chigurupati to return all the documents and provide written details of all missing documents/ assets/ statutory records / equipment of the Company. Dr. Chigurupati has so far not complied with the orders of the CLB.

During this period under review, as already informed, there has been no production in the plant as employees of the Company were on illegal strike. As a result of closure of operations for full year, the Company recorded a total loss after tax of Rs. 10.21 crores for the year ended March 31, 2012. Included in this figure is a loss from exceptional items of Rs. 1.57 crores, mainly on account of provisions for claims.

### Remedial Measures

- Soon after the new management is allowed to function, sale of the Company's products in Oncology has been resumed though Licenced Toll production after obtaining necessary approvals from various authorities and thus achieved a turnover of Rs. 219. 03 lakhs including Rs. 44.29 lakhs towards price equalization on sales. This has been done to ensure continued availability of your Company's products to meet tender commitments, revival of brand names and demand for life saving drugs from the market. While the turnover reported may be lower, but may be viewed as a positive step by the Management towards ensuring a longer term Market standing for the Company.
- The Management after taking over the possession of the plant premises in November, 2011, 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, certain employees have submitted their resignations

which are being processed in accordance with the legal provisions. 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 operations comprising of Biologics API, Formulations (General Injectables, which is FDA approved) and Oncology Injectables formulations plant including further manpower requirements etc. In last one year, all necessary steps have been taken by the Company to be able to resume operations at the plant and production of Commercial batches are already being undertaken for some of the products range of the Company. The renewal applications filed for all expired Drug licenses have been approved by the Drug Authorities after completion of their necessary inspections/ audits by both State and Central Drug Regulators. The Plant is now geared to start Production to its capacities by end of December 2012. Steps are also initiated for applying for certifications under WHO GMP and inspections in this regard by the Regulatory Authorities concerned are scheduled in December, 2012.

- c. The Management is in process of working a roadmap both operations wise as well as fund supporting. As informed, all required steps towards gearing the plant ready for production have been taken. The current fund position of your Company is not at all favourable and facing a severe liquidity crunch due to lack of financial management in the last few years in spite of substantial funds injection. The management is also exploring various options to meet the fund requirements including raising equity from the existing shareholders etc.,

**Annexure - B**
**Details of Stock Options granted under Zenotech Stock Option Scheme, 2005 (ZESOS, 2005) as on 31.03.2012\*. Pursuant to SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999**

DESCRIPTION	PLAN - 1A	PLAN 2
Number of Options available under the Scheme	92,000	42,500
Total Number of Options granted	92,000	42,500
Options granted during the year	Nil	Nil
Pricing formula	The market price of the Share quoted on the Bombay Stock Exchange as per SEBI (ESOS & ESPS) Guidelines, 1999 in vogue.	
Options vested during FY 2011-12	Nil*	Nil*
Options exercised during FY 2011-12	Nil	Nil
The total number of shares arising as a result of exercise of options	Nil	Nil
Options lapsed during FY 2011-12 which are subject to reissue	Nil	Nil
Variation of terms of options	Nil	Nil
Money realized by exercise of options	Nil	Nil
Grant Price (Face value of Rs.10)	Rs. 69.70	Rs. 103.65
Total Number of options in force as on March 31, 2012 (cumulative)*	5,000*	15,000*
Grant details of members of senior management team during the year 2011-12	Nil	Nil
Number of other employees who receives a grant in any one year options amounting to 5% or more of options granted during that year	Nil	Nil
Number of employees who are granted options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil	Nil
Diluted Earnings per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard (AS) 20	Rs. (2.97)	
Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognized if it had used the fair value of the options (in case the company has calculated the compensation cost using the intrinsic value of the Stock Options).	Not applicable, as the Company is valuing the options at fair value of the options granted.	

Weighted average exercise price fair value of stock options granted		
Stock Options granted on	17.07.2006	30.07.2008
Weighted Average Exercise Price	Rs. 69.70	Rs.103.65
Weighted Average Net Fair Value (Fair Value-Grant Price)	Rs.2.13	Rs.2.84
Description of the method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information	The Black-Scholes options-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since, options-pricing models require use of substantive assumptions; changes therein can materially affect the fair value of options. The options-pricing models do not necessarily provide a reliable measure of the fair value of options.	
The main assumptions used in the Black- Scholes option-pricing model during the year were as follows:		
For each tranche Risk -free interest rate (%) & (Expected Life of options from the date(s) of grant (Years))	8.49	8.53
Expected volatility (%)	45.80%	
Dividend yield	0.00%	

\* The information provided is as on March 31, 2012 and based on the inferred data. Majority of employees to whom these options have been granted have not rejoined the Company, after reopen of facilities in November, 2011. Even the employees rejoined the Company have not opted to exercise their options, in view of the price of the scrip is quoting below the exercise price.

Under the Zenotech Employee Stock Option Scheme, 2005, the Company granted 17,000 options (net of options lapsed) of which 4,250 vested options have been exercised during the year ended 31 March 2010, which was subject to leave of the Company Law Board. Of these, the Company allotted 2,500 shares vide Company Law Board order dated 6 August 2010 and balance is pending for allotment subject to leave of the Company Law Board. Accordingly, Rs. 1,22,000/- received on exercise of options has been shown under Share application money.

## Annexure - C

### Additional information as required under the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988:

During the period under review, as already explained, the plant was shut down from April, 2011. Soon after the facilities are taken over in November, 2011; the focus of the management has been to repair, renovate and validate the equipment and facilities and to renew the licenses from Drug Control Authorities. Hence, no production has been undertaken during this period. However, since the Company belongs to specialty Biosimilars and generic injectables with expertise in the area of Recombinant bio-technology; maintenance of certain critical equipment is very essential. Further, Company had also incurred expenditure to carry on the Research and Development activities in few areas. The relevant details based on the information and records available from November 13, 2011 to March 31, 2012 are as follows. The same should be read in conjugation with reconstructed financial statements and subject to the same limitations as detailed in various paragraphs of this report.

### FORM A

#### A. Conservation of Energy

The Company has taken significant measures to reduce energy consumption by using energy efficient equipments.

Form for disclosure of particulars with respect to conservation of energy:

##### 1. Power and fuel consumption

Nov 13, 2011 to  
March 31, 2012

##### I. Electricity

##### i) Purchased

Units	1,99,144
Total amount (Rs.)	15,32,079
Rate/unit (s.)	7.70

##### ii) Own generation through diesel generation set

Units per liter of diesel oil	69,880
Total amount (Rs.)	10,45,568
Units per liter of diesel oil	3
Rate/unit (Rs.)	14.96

##### II. Diesel (used in boiler)

Quantity (tones)	}	N.A.
Total cost (Rs.)		
Average rate (Rs.)		

##### 2. Consumption per unit of production

The Company manufactures injectables of various forms and strengths. It is therefore, impractical to apportion the consumption and cost of utilities to each unit. Further, during the period under review no production had been undertaken.

#### B. Technology Absorption

During the financial year, the Company has not undertaken any technology transfer.



**FORM B**

**Research and Development (R&D)**

As already informed, soon after the present management took over the facilities of the company in November, 2011; it was noticed that the most vital technical information, essential lab records including other technical data both maintained in all forms were missing. Further, it is also noted that, most of the DNA Mammalian clones relating to the Biotech product projects on which the Company was either working on hitherto or already commercially launched are not available including the vital information pertains thereto. Even though, appropriate actions, including filing of criminal complaints against the persons responsible, has already been initiated by the Management as more fully explained in Note 2.27 to the financial statements, in view of non-availability of information, it is not possible to comment on the status of these projects. Subject to this, an attempt is made to give the following information based on the records to the extent available either with the Company or with outside agencies and public domain etc., and in case if actual records are later found to be inconsistent with the present information, the same requires to be represented again.

**1. Specific areas in which R&D was carried out by the Company and Benefits derived as a result of the same.**

During the aforesaid period, the areas of focus for R&D have been the following.

- Human comparative clinical trial for biosimilar Etanercept, study being initiated by the CRO Clinsys, after receiving approval from the DCGI
- Improved product characterization, glycosylation and other biochemical and biophysical tests for all the products in the pipeline.

The pre-clinical toxicology studies for pegylated filgrastim and Interferon beta1b have been approved by the RCGM and the studies have been initiated. The human clinical trials for Rituximab, are completed and the Company has applied to DCGI for final approval. The Etanercept clinical trials are being initiated at different centres across the country.

In view of missing of vital data etc., as an alternative measure, further steps were initiated to upgrade the three flagship biosimilar products from the Biotech R&D product pipeline (Xphil nuTM, MacrogenTM and ReciITM). The Company may launch these products in 2013-14 subject to due approvals in India.

**2. Future plan of action**

In view of above peculiar situation exist, for next one or two years, the management intends to complete all required toxicological and clinical studies in two mammalian bio-similar products of the Company i.e. Rituximab and Etanercept and commercial launch of the same.

**3. Expenditure on R&D**

	Rs. in Lakhs
a. Capital	Nil
b. Recurring*	88.39
c. Total	88.39
d. Total as percentage of turnover	40.47%

**4. Technology absorption, adoption and innovation**

All processes transferred for pilot scale and commercial production will be developed by the in-house R&D team. There are no plans to collaborate with or out source technology from outside agencies.

**C. Foreign Exchange Earnings and Outgo**

Total foreign exchange used and earned:

	Rs. in lakhs
i) Foreign Exchange earnings	Nil
ii) Foreign Exchange outgo (including raw materials, components and spare parts of capital goods, investments and other expenditures in foreign currency including dividends)	159.18

## Annexure - D

## Corporate Governance Report for the year 2011-12

(As required under Clause 49 of the Listing Agreements entered into with Stock Exchanges)

### 1. A brief statement on company's philosophy on code of governance.

Zenotech Laboratories Limited (herein after "Company") as an institution believes in premise that good corporate governance practices is one of the vital tool, in directing and controlling the affairs of the Company in an efficient manner and thereby in achieving the goal of maximizing value for all Company's stake holders.

Transparency, Integrity, Honesty and Accountability are recognized as core values in discharging the responsibilities towards this end.

In the absence of essential statutory records and registers showing the necessary information for the part of financial year up to November 12, 2011; the present management is unable to comment on the compliance by the Company of all the essential elements during the financial year ended March 31, 2012. Alternatively for the said period, based on the information in public domain like MCA website, BSE website, Sub-Registrar/Registrar Offices etc., and Information and records to the extent available with the Company, an attempt is made to apprise the share holders on compliance status of the Company with essential aspects of corporate governance.

Thus, the information provided hereunder is having its own limitations and in case, later on, if actual data found, the same may force us to change the information contained herein, to the extent, it is different from the data provided hereunder. The Hon'ble Company Law Board (CLB) vide its order dated 8 October 2012 directed Dr. Chigurupati to return all the documents and provide written details of all missing documents/ assets/ statutory records / equipment of the Company. Dr. Chigurupati has so far not complied with the orders of the CLB.

### 2. Board of Directors:

The details of the Board of Directors of the Company as on March 31, 2012 were as under:

Name of the Director	Designation / Category	No. of Board Meetings attended during 2011-12	Whether attended AGM held on 25.07.2012	Number of Directorships held in other Public companies	Number of Board Committee memberships held in other companies	Number of Chairmanships of Board Committees held in other companies
Dr. Sudershan K. Arora, Chairman	Non-Executive Non-Independent	8	Yes	-	-	-
Mr. B.K.Raizada,	Managing Director	8	Yes	3	1	-
Mr. Ranjit Kohli	Non-Executive Non-Independent	6	Yes	4	-	-
Prof. N.K.Ganguly	Non-Executive Independent	4	Yes	-	-	-
Mr. Udbhav Ganjoo	Non-Executive Non-Independent	1	Yes	-	-	-
Mr. A.Raghu Vasu	Non-Executive Independent	4	N.A	}		
Dr. Jayaram Chigurupati	Managing Director	4	Yes			

The Company did not receive declarations From Mr. Raghu Vasu and Dr. Jayaram Chigurupati regarding their directorships as on March 31, 2012 (Please see foot note g & h below).

#### Notes:

- Dr. Sudershan K. Arora, Mr.Ranjit Kohli and Prof. N K Ganguly are nominee Directors of Ranbaxy Laboratories Limited.
- Justice (Retd.) A.Gopal Rao, who was appointed as a Director of the Company by the Hon'ble Andhra Pradesh High Court (Court), has resigned as Director of the Company effective July 7, 2011.
- Mr. Udbhav Ganjoo was appointed as an Additional Director effective from December 9, 2011.
- In terms of the Hon'ble Andhra Pradesh High Court's order dated April 24, 2012; Mr. Raghu Vasu deemed to vacate his office of the Director of the Company with effect from the date of the said order.

- e. The Board of Directors of the Company in their meeting held on July 21, 2011, removed Dr. Chigurupati as Managing Director of the Company subject to CLB's approval, which is pending for disposal by it. Further, consequent to expiry of term, Dr. Jayaram Chigurupati ceased to be Managing Director of the Company effective from closing business hours of September 30, 2012.
- f. At the 22nd AGM held on July 25, 2012; Mr. Udbhav Ganjoo had sought not to be reappointed as Director and Mr. Ranjit Kohli retired by rotation at the said AGM and had expressed his intention not to seek reappointment. In view of the same, they ceased to be directors of the Company effective from that date.
- g. As per the information available with the Company, none of the Directors were related interse. As Dr. Jayaram Chigurupati and Mr. Raghu Vasu did not provide declarations in this regard, the Company is not in a position to confirm the same in respect of the said Directors.
- h. Dr. Chigurupati, while expressing his willingness to continue as Director of the Company liable to retire by rotation, has submitted declaration with regard to his interest as on November 12, 2012. Since this declaration is required as of March 31, 2012, the position as on March 31, 2012 remains unaddressed.

### 3. Board Meetings

8 Board Meetings were held during the year ended March 31, 2012. The dates on which the Board Meetings were held are as follows.

April 29, 2011; May 17, 2011; June 4, 2011; June 21, 2011; July 21, 2011; August 13, 2011; December 5, 2011 and February 4, 2012.

- 4. The Board though, had reviewed the matter relating to constitution of committees and independent directors etc. from time to time, but in view of lack of clarity prevailed due to ongoing litigations between Ranbaxy Laboratories Limited, one of the promoters of the Company and Dr. Chigurupati and his associates etc., had taken a cautious approach in appointing the Independent Directors. As a result, as on March 31, 2012, the Company could not comply with constitution of Audit Committee and Shareholders/Investor Grievance Committee
- 5. The Company has constituted a Remuneration Committee of the Board in its meeting held on June 4, 2011 consisting of Prof. N.K.Ganguly, Justice (Retd.) A. Gopal Rao and Mr. A. Raghu Vasu, who are all independent directors as members under the Chairmanship of Dr. Sudershan K.Arora. The said committee was constituted to consider the matter relating to approving of payment to Mr.B.K.Raizada as Managing Director of the Company effective from March 19, 2011.

The said committee met on June 21, 2011, for the said purpose to which all the aforesaid members are attended. However, as stated earlier, consequent to resignation of Justice (Retd.) A.Gopal Rao as Director of the Company effective from July 7, 2011, the said committee was dissolved and until March 31, 2012; no reconstitution of this committee was made.

On May 12, 2012; the Company has constituted Shareholders / Investors Grievance and Share Transfer Committee. Subsequent to election of two new Independent Directors effective from July 25, 2012; the Board of Directors of the Company is now comprises sufficient number of Independent of Directors in conformity with Clause 49 of the Listing Agreement entered with Stock Exchanges.

Post induction of above Independent Directors on the Board, effective from August 8, 2012; the following committees are constituted as required under Corporate Governance Code.

- 1. Audit Committee
- 2. Remuneration cum Compensation Committee

Further, consequent to changes occurred in the Board, Shareholders / Investors Grievance and Share Transfer Committee has also been reconstituted effective from that date.

A confirmation has received from Karvy Computershare Private Limited, Company's RTA, stating that there were two investor complaints received during the period ended March 31, 2012, which had been resolved and no pending complaints exist to be resolved as on that date.

### 6. Remuneration Policy

The Company's remuneration policy is driven by the success and performance of the individual employees as well as their expertise in critical areas of operations of the Company. The Company follows a compensation of fixed pay. Performance of the individuals measured through the annual appraisal process. Further, the in terms of Zenotech

Employees Stock Option Scheme, 2005, the Compensation committee is authorised to select the eligible employees for granting the options and for this purpose, the following types of employees shall be considered:

- Employees with an exceptional annual performance shall be eligible for grants under the Plan.
- Employees who are members of the team considered critical to the success of the Company shall be eligible for grants under the Plan.
- New hires who are considered critical to the success of the Company shall be eligible for grants under the Plan.

Details of Remuneration and other terms of appointment of Directors:

#### A. Managing / Whole-time Directors:

As on date, payment terms are governed by the respective resolutions passed in this regard and subject to obtaining of other approvals/sanctions in that connection as required under Section 269 and other applicable provisions, if any read with Schedule XIII of the Companies Act, 1956.

The particulars of remuneration per annum payable to Managing Directors are as follows (based on the relevant resolutions approved by the shareholders of the Company):

(Amount in Rs. Lakhs)

Name of the Director	Salary	Commission	Perquisites	Service	
				Tenure	Notice period
Mr. B.K. Raizada *	15.00	Nil	Nil	2 years	3 months
Dr. Jayaram Chigurupati *	15.00	Not exceeding 3% of profits	6.00	5 years	N.A.

In addition,

- Mr. Raizada is eligible for Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund, to the extent these, either singly or together are not taxable under the income-tax Act, Gratuity payable at a rate not exceeding half month's salary for each completed year of service and encashment of leave at the end of the tenure payable as per rules of the Company.
- Dr. Chigurupati is eligible for company's contribution to provident fund and superannuation fund or Annuity Fund, to the extent these, either singly or together are not taxable under the Income tax Act, Gratuity payable as per rules of the company and encashment of leave as per rules of the company.

\* In view of Company's inadequate profits/losses for the last 4 to 5 years and defaults made in repayment of dues to financial institutions/banks; the payment of remuneration on above lines requires the approval of Central Government as per the provisions of section II of part II- Schedule XIII of the Companies Act, 1956. The Company has made requisite application with regard to the remuneration payable to Mr.B.K.Raizada effective from March 19, 2011 and the matter is pending before the said Ministry for its final approval. As on March 31, 2012, the remuneration payable to Mr. Raizada works out be Rs. 1,552 thousands. It is notice that the whole matter relating the aforesaid remuneration to Dr. Chigurupati was made without the approval of Central Government, which is in contravention of the provisions of section II of part II- Schedule XIII of the Companies Act, 1956. Accordingly, the current Management had filed a case in the Court of the Hon'ble Chief Judge City Civil Court at Hyderabad to for recovery of managerial remuneration aggregating to Rs. 7,980 thousands (excluding interests) paid to him during the period from October 1, 2007 to March 31, 2011. In view of the same, for the year ended March 31, 2012; no payment was made to him as Managerial Remuneration nor provision is made on this account.

As already stated, consequent to expiry of his term, Dr. Jayaram Chigurupati ceased to be Managing Director of the Company effective from closing business hours of September 30, 2012.

#### B. Non- Executive Directors:

The Non-Executive Directors (NEDs) are not paid any sitting fee for attending either Board or its Committee meetings. The Company reimburses travelling, out of pocket expenses and other incidental expenses incurred by the Directors for attending various meetings of the Company. They are also not paid any other remuneration.

**C. Share holdings of the Directors in the Company as on March 31, 2012.**

Name	Category	No. of Shares of Rs.10/- each
Dr. Jayaram Chigurupati	Non-Independent & Executive*	4,822,524

\* Cease to be a Managing Director effective from effective from closing business hours of September 30, 2012. Further the above information given based on the data available from the Register of Members of the Company maintained under Companies Act, 1956.

**7. General Body Meetings**

Year	Particulars of the AGM	Day, Date & Time	Venue	Special Resolutions Passed, if any.
2010-11	22nd AGM	Wednesday, July 25, 2012 at 11.00 A.M	Hotel Taj Deccan, Road No. 1, Banjara Hills, Hyderabad - 500 034	Special Resolution for amending certain clauses of Articles of Association was proposed but could not be approved.
2009-10	21st AGM	Tuesday, January 18, 2011, at 11.00 A.M.	Survey No. 250-252, Turkapally Village, Sameerpet Mandal, R. R. District- 500 078	No special resolution passed
2008-09	20th AGM	Friday, February 26, 2010, at 12.00 Noon.	Survey No. 250-252, Turkapally Village, Sameerpet Mandal, R. R. District- 500 078	No special resolution passed

For past three years ending as on March 31, 2012; there were no ordinary or special resolutions passed through postal ballot. Further, no Special Resolution is proposed to be conducted through postal ballot at the ensuing Annual General Meeting.

**8. Disclosures**

- i. In view of the non-availability of records for the part of year ended March 31, 2012 and non-receipt of relevant disclosures from Dr. Chigurupati and Mr. A. Raghu Vasu with regard to their interest as at March 31, 2012, it could not be verified in full whether:
  - a. if there were any materially significant related party transactions that were in potential conflict with the interests of Company. However, transactions with related parties as per requirements of Accounting Standards - (AS-18) - "Related Party Disclosures" are disclosed in Schedule No. 2.40 to financial statements as at March 31, 2012.
  - b. If there were any non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years. The Board of Directors from time to time had expressed its concerns over various non-compliances made by the Company. Bombay Stock Exchange Limited suspended the trading in the shares of the Company in view of the non-compliances of the Listing Agreement. However, the Hon'ble High Court of Andhra Pradesh, on considering the submissions of the Company that the non-compliances were due to non-availability of records with the existing management, granted stay against the said order of the BSE.
- ii. A report on the Management Discussion and Analysis encompassing Industry Structure, Outlook and opportunities and threats etc., to the extent applicable and relevant keeping in view the affairs of the Company is forming part of this annual report.
- iii. CEO and CFO Certificate: Certificate from Managing Director and Head (Finance & Accounts) for the financial year ended March 31, 2012 is as follows:

## Certificate from Managing Director & Chief Financial Officer

To  
 The Board of Directors  
 Zenotech Laboratories Limited

As the Board is aware, pursuant to the orders of the Hon'ble Company Law Board (CLB), the Management was able to get possession of the Plant facilities in the presence of Advocate Commissioner appointed by CLB. However, it was discovered that key records, assets, books of accounts and statutory records of the Company were missing. Appropriate action, including filing of criminal complaints against the persons responsible, has already been initiated by the Management.

In view of non-availability of books and records necessary to complete the statutory audit for 2010-11, the new management completed the same by reconstruction of books. The reconstructed financial statements for the year ended 31 March 2011 were approved by the shareholders in the AGM held on 25 July 2012.

The management has followed the similar exercise of reconstruction of books of accounts as carried out for the year ended 31 March 2011 for the period 1 April 2011 to 12 November 2011 as more fully explained in Note 2.27 read with Note Nos. 2.28 to 2.30 in notes on accounts forming part of the aforesaid financial statements. The books of accounts, necessary statutory records and all original supporting documents are being maintained and are in the possession of the current management since 13 November 2011.

The Board is further requested to note that as explained above, the entire period under review was not in total control of new management and thus the present management did not have any knowledge of the factual position and had to make certain inferences based on the availability of above information, for the said period.

Thus, in case, later on, if actual data found, the same may force us to change the information contained in aforesaid financial statements, to the extent, it is different from the data provided in the said financial statements.

Subject to the foregoing, we, B.K. Raizada, Managing Director and Rahul Kumar, Head (Finance and Accounts) of Zenotech Laboratories Limited, responsible for the finance function, certify that:

- (a) We have reviewed financial statements and the cash flow statement for the year ended March 31, 2012 and that to the best of our knowledge and belief, we state that:
  - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that may be misleading;
  - (ii) these statements give a true and fair view of the Company's affairs and of the results of operations and cash flow. The financial statements have been prepared in conformity, in all material respects, with the existing generally accepted accounting principles including accounting standards, applicable laws and regulations.
- (b) To the best of our knowledge and belief, there were no transactions entered into by the Company during the period from November 13, 2011 to March 31, 2012 which are fraudulent, illegal or violative of the Company's code of conduct.
- (c) We accept the responsibility for establishing and maintaining internal controls and for financial reporting during the period from November 13, 2011 to March 31, 2012. We have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and have disclosed deficiencies in the design or operation of such internal controls of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated to the Auditors and Audit Committee that for the period from November 13, 2011 to March 31, 2012:
  - (i) there were no significant changes in the internal controls or overall financial reporting;
  - (ii) no significant changes in accounting policies were made that require disclosure in the notes to the financial statements; and
  - (iii) no instance of significant fraud and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting, has come to our notice.

For **Zenotech Laboratories Limited**

Place : New Delhi  
 Date : 14.11.2012

**B.K.Raizada**  
 Managing Director

**Rahul Kumar**  
 Head (Finance & Accounts)

- iv. For the reasons, as more fully explained in Note 2.27 to the financial statements for the year ended March 31, 2012; the Company has been unable to retrieve any relevant information, books and records and based on all reasonable efforts that it could have made under the circumstances believes that information relating to the subsidiaries is missing and the entities are either delinquent or do not exist anymore. As a result, the Company is not in a position to comply with the requirement of placing minutes of Board Meetings of these subsidiaries before the Company's Board Meetings.



- v. Apart from above, the Company is taking requisite steps to comply with other mandatory requirements of Corporate Governance like Code of Conduct, placing of compliance certificate at every Board meeting, setting up procedures for and informing the Board of Risk assessment and their minimization and maintenance of functional website to place the Code of Conduct made available thereat. Further, the Company could not comply with approval of quarterly financial results as required under clause 41 of the listing agreement for all the quarters in the financial year ended March 31, 2012; the same could not be either published in the news papers.
- vi. The Company had allotted 2,500 shares to its employees under Company's ESOP Scheme in August, 2010 pursuant to CLB's order dated 6 August, 2010. As required under the provisions of Companies Act, 1956; relevant return in respect of the said allotment is not filed under MCA portal due to non-availability of related Board minutes. As a result of the same, the Company is not in a position to make listing application to BSE for the said shares and also not in position to file Corporate Action Forms with both depositories i.e. NSDL & CDSL. Consequently, the Company is also not able to file Reconciliation of Share Capital Audit report with BSE.

**9. General Shareholder information**

i. Annual General Meeting

Date	:	December 28, 2012
Time	:	10.30 A.M.
Venue	:	Auditorium of Hotel Taj Deccan, Road No. 1, Banjara Hills, Hyderabad - 500 034

ii. Financial Calendar

Year ending	:	March 31, 2012
AGM	:	December 28, 2012

iii. Date of Book Closure

: December 22, 2012 to December 28, 2012  
(Both days inclusive)

iv. Listing on Stock Exchange

: Bombay Stock Exchange Limited  
(The Company has paid the listing fee for 2011-12 to the Bombay Stock Exchange Limited)

v. Stock Code / Symbol on BSE  
(Physical & Demat)

: ZENOTECH LAB / 532039

vi. International Securities Identification  
Number (ISIN) allotted to the  
Company's Shares

: INE486F01012

vii. Market Price Data: High, Low (Based on the closing prices) and number of shares traded during each month in the financial year ended March 31, 2012 on the Bombay Stock Exchange Limited, Mumbai.

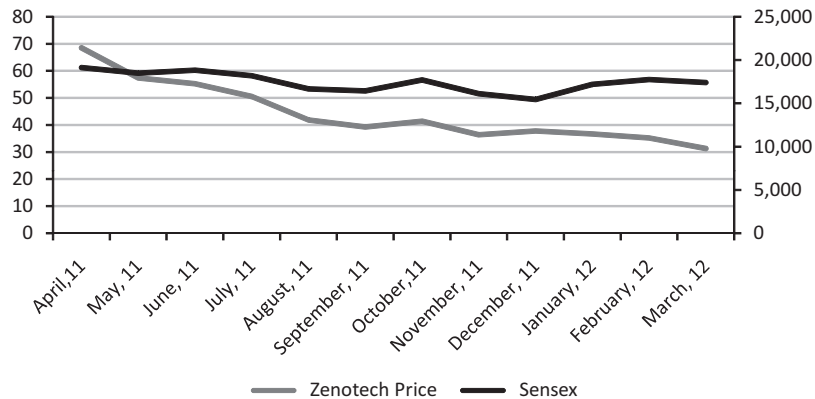
Month	High (Rs.)	Low (Rs.)	Total No. of Shares Traded
Apr - 11	74.00	46.25	98,234
May - 11	69.00	56.10	26,441
June - 11	59.65	50.60	17,218
July - 11	55.05	48.00	20,319
Aug - 11	53.05	38.70	16,145
Sep - 11	44.35	37.10	23,540
Oct - 11	41.50	37.00	16,217
Nov - 11	42.60	35.35	12,150
Dec - 11	39.00	32.35	18,817
Jan - 12	40.75	36.00	12,896
Feb - 12	39.45	34.15	16,602
Mar - 12	37.85	31.05	31,834

viii. Performance of share price of the Company in comparison to BSE Sensex

Month	Zenotech's Closing Price (Rs.)	BSE Sensex Closing
Apr - 11	68.50	19,135.96
May - 11	57.40	18,503.28
June - 11	55.25	18,845.87
July - 11	50.55	18,197.20
Aug - 11	41.85	16,676.75
Sep - 11	39.30	16,453.76
Oct - 11	41.40	17,705.01
Nov - 11	36.45	16,123.46
Dec - 11	37.80	15,454.92
Jan - 12	36.75	17,193.55
Feb - 12	35.25	17,752.68
Mar - 12	31.35	17,404.20

(Source: The information is compiled from the data available from the BSE website)

Chart pertaining to the movement of Company's share price on BSE compared to BSE Sensex during the financial year 2011-12



ix. Registrar and Transfer Agents

Name & Address : Karvy Computershare Private Limited (Unit: Zenotech Laboratories Limited)  
 Plot No. 17 to 24, Vithalrao Nagar, Madhapur, Hyderabad 500 081  
 Tel: 91 - 40 - 44655189; Fax: 91 - 40 - 23420814  
 E-mail: ksreddy@karvy.com Website: www.karvy.com

x. Share Transfer System: The Company's shares are traded in the stock exchanges compulsorily in Demat form. The Company's Registrar and Transfer agent is the common agency to look after physical and Demat share work. The shares lodged for transfer at the registrar are processed and returned to shareholders within the stipulated time.

xi. Shareholding (as on March 31, 2012):

a) Distribution of shareholding as on March 31, 2012

No. of Shares	Holding Capital	% to accounts	No. of Accounts	% to Total
1 - 500	7,91,632	2.30	5,859	87.31
501 - 1000	3,71,670	1.08	456	6.80
1001 - 2000	3,18,532	0.93	208	3.10
2001 - 3000	1,70,915	0.50	67	1.00
3001 - 4000	1,05,604	0.31	29	0.43
4001 - 5000	1,46,023	0.42	31	0.46
5001 - 10000	1,91,536	0.56	26	0.39
10001 & above	3,23,31,588	93.90	34	0.51
<b>GRAND TOTAL</b>	<b>3,44,27,500</b>	<b>100.00</b>	<b>6,710</b>	<b>100.00</b>



b) Categories of Shareholders as on March 31, 2012

Category	No. of shareholders	No. of shares	Percentage
Indian Promoters*	1	1,61,27,293	46.85
Foreign Promoters*	1	68,86,500	20.00
Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institutions / Non- Government Institutions)	3	4,514	0.01
Private Corporate Bodies	189	367,019	1.07
Indian Public	6,452	69,79,752	20.27
NRIs / OCBs	54	40,56,698	11.79
Clearing Members	10	5,724	0.01
<b>TOTAL</b>	<b>6,710</b>	<b>3,44,27,500</b>	<b>100.00</b>

\* Subsequent to completion of open offer by Daiichi Sankyo Company, Limited (Daiichi) to the shareholders' of Zenotech Laboratories Limited in August, 2010; Ranbaxy Laboratories Limited and Daiichi, are only the promoters of the Company.

xii. Dematerialization of shares and liquidity:

The company's shares are compulsorily traded in dematerialization form. Equity shares of the Company representing 81.08% of the company's share capital are dematerialized as on March 31, 2012. The Company's shares are regularly traded on Bombay Stock Exchange Limited.

xiii. As on March 31, 2012, the company did not have any outstanding GDRs /ADRs / Warrants or any convertible instruments

xiv. Manufacture facility : Zenotech Laboratories Limited  
Survey No. 250-252 and 253, Turkapally Village,  
Shameerpet Village, R R District 500 078, Andhra Pradesh

xv. Address of Correspondence : Zenotech Laboratories Limited  
Survey No. 250-252 and 253, Turkapally Village,  
Shameerpet Village, R R District 500 078, Andhra Pradesh

### Certificate on Compliance of Corporate Governance

To  
The Members  
Zenotech Laboratories Limited  
Hyderabad

I have examined the compliance of the conditions of Corporate Governance by Zenotech Laboratories Limited for the year ended March 31, 2012 as stipulated in Clause 49 of the Listing Agreement of the said company with the stock exchanges.

The compliance of conditions of corporate governance is the responsibility of management. My examination has been limited to a review of the procedures and implementation there of, adopted by the Company or ensuring the compliance with the conditions of corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In my opinion and to the best of my information and according to the explanations given to me, and the representations made by the management, I certify that the Company has not complied with the conditions of corporate governance as stipulated in the above mentioned listing agreement except making Management Discussion Analysis and CEO/CFO Certification part of Annual Report

Place : Hyderabad  
Date : December 1, 2012

**Mahadev Tirunagari**  
Practicing Company Secretary  
FCS: 6681, C.P. No. 7350

## Management's Discussion and Analysis Report

*(This review contains discussion on the Company's operations and should be read in conjunction with the accompanying Financial statements including notes thereon and Directors' Report)*

Biosimilars and Injectable formulations present a large potential in the emerging Pharmaceutical market scenario. A number of Biological products are coming off Patents in 2013-2015, which offers a substantial opportunity in the areas of your Company's focus. This opportunity also poses a big challenge requiring a complex mix of Manufacturing/Development abilities and a vast amount of technical data being generated and collated to meet Regulatory needs in India and different parts of the world.

The Biosimilar Market in India has reached a level of Rs 1800 crores and is one of the fastest growing segments of the Indian Pharmaceutical market. Previously it was dominated by international players, but is now being increasingly driven by the major Indian Companies, linked with a plethora of regional players. Almost 70% of the market is Institutional business driven with support of a strong Marketing, Distribution and Logistics network backed-up by a good Scientific/Clinical database. These are the challenges before your Company.

Post acquisition of premises of the Company in November, 2011; as already informed to you, the present Management has reviewed all issues relating to the technical viability of the facilities and further steps required to be taken to restart the Company's facilities for Bio-tech and Oncology products, including further manpower requirements etc. Repair, Renovation and validation of equipment as well as all processes are completed, including training of new personnel. All licenses have, now been renewed by both the State and Central Drug Regulators. WHO GMP certification related inspections are scheduled in December, 2012. It is the endeavor of the Management to comply with all Technical, Legal, Regulatory and other compliances and to this direction, all necessary steps are in progress both for training and facilities.

A comprehensive Market Survey has been undertaken by the Management to evaluate the restoration of current product pipelines with current set-up and the Management is hopeful of completing the same by the year end. Based on the same, the Management will also initiate necessary steps to evaluate and commence development of a new range of products to upscale the market presence of our product range, keeping in mind the Patent expiry opportunities.

The R&D team of the Company has also commenced work on technical and clinical data collection for preparation of Regulatory Approval Applications for the product range in emerging markets in Asia, Africa and Latin America countries.

The current fund position of your Company is not at all favourable and we are facing a severe liquidity crunch due to absence of financial management in the last few years in spite of substantial funds injection. Based on the audited financial statements as at March 31, 2011; the Company had become a potential sick company as contemplated under Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). The necessary intimations as required under the provisions of the said section of SICA were made to the Board of Industrial and Financial Reconstruction (BIFR). In view of all these, the present Management has adopted a cautious approach to initiating action to grow the Company through new initiatives through proper controls and direction. The Management is also exploring various options to meet the fund requirements including raising equity from the existing shareholders etc., and would intimate you once the plans have been drawn up for execution.

*Cautionary Statement: Statements in this Report, which seeks to describe the Company's objectives, projections, estimates, expectations or predictions may be considered to be "forward looking statements" and are stated as required by applicable laws and regulations. Actual results could differ from those expressed or implied. Many factors including global and domestic demand-supply conditions, prices, raw-materials availability, technological changes in Government Regulations and policies, tax laws and other statutes may affect the actual results, which can be different from what the Directors envisage in terms of future performance and outlook.*

## Auditors' Report

### Auditors' Report to the Members of Zenotech Laboratories Limited

1. We were engaged to audit the attached balance sheet of Zenotech Laboratories Limited ("the Company") as at 31 March 2012, the statement of profit and loss and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. It has been represented to us that the financial statements have been considered and approved by the Board of Directors in their meeting conducted in New Delhi, India on 14 November 2012.
2. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. Because of the matters described in paragraphs 3 and 4 below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
3. *As more fully explained in note 2.27 to the financial statements, the Company is not in possession of certain books and records including supporting documents and statutory registers required to be maintained as per the various provisions of the Companies Act, 1956. Attention is also invited to the fact that the financial statements for the year ended 31 March 2011 were prepared by the Management based on reconstructed books of account. This process was continued with respect to transactions during the current year ended 31 March 2012 as certain original books and supporting documents are not available up to 12 November 2011 when the current Management was able to obtain full possession of the operations. The Company has reconstructed the books of account on the basis of intensive efforts made to obtain and establish appropriate alternate evidence of transactions. Photocopies/duplicate copies of relevant documents and records have been obtained from external sources in support of many transactions for which the original documents and records were not available. The Company has represented to us that it has been able to substantively reconstruct the books of account and that based on the steps taken by Management and evidence available from subsequent events, it believes that in its assessment the risk that the financial statements may be materially misstated is not significant. However, we are unable to confirm this assertion. In view of this we carried out reasonable alternative audit procedures to obtain sufficient appropriate evidence except as stated below:*
  - (a) *We have not been able to obtain corroborative documentary evidence for administrative and other expenses aggregating to INR 382 thousands, product certain manufacturing expenses aggregating to INR 1,885 thousands recognized in the statement of profit and loss. In the absence of such documents, we are unable to comment on the private or business nature, completeness, validity and accuracy of the above expenditures for the year ended 31 March 2012. Further, we were not been able to obtain corroborative documentary evidence for administrative and other expenses aggregating to INR 20,520 thousands, product development expenses of INR 12,063 thousands, certain manufacturing expenses aggregating to INR 21,829 thousands recognized in the statement of profit and loss for the year ended 31 March 2011. In the absence of such documents, we are unable to comment on the private or business nature, completeness, validity and accuracy of the above expenditures for the comparative period ended 31 March 2011 and the likely impact on the opening reserves for the year ended 31 March 2012;*
  - (b) *As more fully explained in Note 2.27 to the financial statements, the Company has not complied with many provisions of applicable laws and regulations. In the absence of complete documentation, the financial implications of such non compliances cannot presently be determined, and no provision for any potential financial consequence has been made in the financial statements. Accordingly we are unable to comment on the impact, if any, of such non compliances on the loss and the opening reserves for the year ended 31 March 2012 and net assets of the Company as at 31 March 2012 and for the comparative period figure ;*
  - (c) *The Company had under the new Management carried out an operational and business review including technical assessment of manufacturing facilities by an independent valuation expert, basis which it recorded certain exceptional charges aggregating to an amount of INR 230,103 thousands towards impairment charges relating to certain fixed assets, capital work in progress identified as unsuitable for use, provision for doubtful debts, write down of investment in subsidiaries and provision for loans and advances and demands from authorities for the year ended 31 March 2011. While these charges were appropriate in the context of information available in this regard, we were unable to conclude whether this would be so, had original books of accounts and complete information been available. Accordingly we are unable to comment on the consequential impact of the same on the opening reserve for the year ended 31 March 2012;*

- (d) As more fully explained in Note 2.41 to the financial statements, regarding completeness of the list of related parties with the Company due to non receipt of form 24AA "Notice by the Interested Directors" pursuant to Section 299 of the Companies Act, 1956 from one of its directors for the year ended 31 March 2012 and from two of its directors for the year ended 31 March 2011, and in the context of non-availability of complete information in this regard, we are unable to comment on the completeness of disclosures related to related parties as required under Accounting Standard 18 "Related Party Disclosures" as well as whether there would be any other impact on the financial statements for the year ended 31 March 2012 and the comparative information for the year ended 31 March 2011;
4. As more fully explained in Note 2.29 to the financial statements, the Company had filed a legal case against the co-managing director for recovering the managerial remuneration paid amounting to INR 7,980 thousands during the period from 1 October 2007 to 31 March 2011, including an amount of INR 2,280 thousands which is in excess of the prescribed limits for the year ended 31 March 2011 without obtaining the necessary prior approval from the Central Government of India which is in contravention of the provisions of the Companies Act, 1956. Pending resolution of the matter, recovery of the said amounts is not certain and accordingly no adjustment in this regard has been made in the accompanying financial statements. Our audit report on the financial statements for the year ended 31 March 2011 was also qualified in respect of this matter.
5. As more fully explained in Note 2.29 to the financial statements, the Company's application under the Companies Act, 1956 to the Ministry of Corporate Affairs (MCA), Government of India for approval of managerial remuneration of Rs. 1,552 thousands payable to the another co-managing director for the year ended 31 March 2012 is yet not approved. Pending approval of the amount, no adjustment in this regard has been made in the accompanying financial statements.
6. As required by the Companies (Auditor's Report) Order, 2003 ("the Order"), as amended, issued by the Ministry of Corporate Affairs in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
7. Further to our comments in the Annexure referred to above, we report that:
- (i) In view of the matters discussed above we have not been able to obtain all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) as explained in paragraph 3 above, certain records and supporting documents were not available for our examination. In our opinion the Company has made comprehensive efforts to reconstruct the books of account. However, we are unable to express an opinion whether proper books of account as required by law were kept by the Company and whether these were maintained at the registered office of the Company;
- (iii) the balance sheet, the profit and loss account and the cash flow statement dealt with by this report are in agreement with the reconstructed books of account;
- (iv) in our opinion, subject to adjustments, if any, as might have been determined to be necessary had all original documents, vouchers and records been available as discussed in paragraphs 3 and 4 above, the balance sheet, the profit and loss account and the cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (v) Dr. Jayaram Chigurupati, Co-Managing Director has not produced written representation as to whether the companies in which Dr. Jayaram Chigurupati is also a director as on 31 March 2012, have not defaulted in terms of section 274(1)(g) of the Companies Act, 1956. In the absence of this representation, we are unable to comment whether Dr. Jayaram Chigurupati is disqualified from being appointed as a director under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956. As far as other directors are concerned, on the basis of the written representations received from such directors, and taken on record by the Board of Directors, we report that none of the remaining directors is disqualified as on 31 March, 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956; and
- (vi) Because of the significance of the matters discussed in paragraphs 3-5 above, we are unable to express an opinion on the financial statements.

for **B S R & Associates**  
Chartered Accountants  
Firm Registration No: 116231W

**Sriram Mahalingam**  
Partner  
Membership No: 049642

Place : Hyderabad  
Date : 14 November 2012

## Annexure to the Auditors' report

Annexure referred to in the Auditors' Report to the Members of Zenotech Laboratories Limited ("the Company") for the year ended 31 March 2012. We report that:

- i. (a) During the current year, as part of reconstruction of books of account for the year ended 31 March 2011, the Company had carried out a detailed exercise comprising physical verification and an independent valuation in the absence of complete historical information of its fixed assets. Based on such an exercise, it has updated the fixed asset register and maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has formulated policy in respect of regular programme of physical verification of its fixed assets. However, as mentioned in clause (a) above, as part of a one-time exercise the Company had physically verified all of its fixed assets during the year and material discrepancies noted on such verification of fixed assets had been properly dealt with in the books of account for the year ended 31 March 2011.
- (c) As informed by the Management, no fixed assets were disposed during the year. Accordingly paragraph 4(i) (c) of the Order is not applicable.
- ii. (a) The inventory has been verified by the Management at the year end. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures of physical verification of inventories followed by Management are reasonable and adequate in relation to the size of the Company and the nature of its business
- (c) *The internal control procedures were inadequate with regard to tracking quantitative movements of inventories and maintaining adequate records during the year.* On obtaining physical possession of factory premises by the current Management, the Company has implemented an internal control system for tracking inventory movements. The discrepancies noticed on verification between the physical stocks and the book records at year end were not material.
- iii. *As fully explained in the note 2.27 to the financial statements, the Company is not in possession of the mandatory secretarial records required to be maintained as per various provisions of the Companies act, 1956 till 12 November 2011. Subsequently, the Company has maintained required records. However, in the absences of complete records of the year, we are unable to comment on clause 4(iii), (v) and (xv) of the Order.*
- iv. *In our opinion and according to the information and explanations given to us, there were weaknesses in internal control procedures with regard to purchase of inventory and fixed assets and for sales of goods and services during the year including absence of a formal internal control framework.* However, the current Management has initiated the process of formulating an internal control framework over purchases of goods and fixed assets and sale of goods and services post access to factory premises. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal control system in respect of these areas post access to factory premises by the current Management.
- v. The Company has not accepted any deposits from the public.
- vi. *During the year, the Company has instituted an internal audit system, however, the internal audit is currently under progress.*
- vii. On obtaining physical possession of factory premises, the Company has maintained cost records as required under Section 209(1)(d) of the Companies Act, 1956 for the products manufactured by the Company during the year. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government of India under the above mentioned Section. We have not, however, made a detailed examination of the records for determining whether they are accurate or complete.
- viii. (a) According to the information and explanations given to us and on the basis of examination of the statutory returns of the Company, supporting records, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Income tax, Sales-tax, Service tax, Custom duty, Excise duty, and Wealth tax have generally been regularly deposited with the appropriate authorities *though there have been serious delays in the large number cases of Employees' state insurance, Provident fund, Professional tax dues.* As explained to us, the Company did not have dues on account of Investor Education and Protection Fund.

According to the information and explanations given to us, there are no undisputed amounts payable in respect of Provident fund, Employees' state insurance, Income-tax, Sales tax, Excise duty and Wealth tax, and other material statutory dues were in arrears as at 31 March 2012 for a period of more than six months from the date they became payable except for following dues of Service tax and Customs duty.

Name of the Statute	Nature of Dues	Amount in INR'000	Period to which the amount relates	Due Date	Date of Payment
The Custom Act, 1962	Custom duty	12,145	Financial Year 2006-07	Financial Year 2006-07	16 April 2012, 23 April 2012 and 2 May 2012
The Central Sales Tax Act, 1956	Sales tax	218	Financial Year 2007-08	20 April 2011	Yet not paid
The Finance Act, 1994	Service tax	3,035	Financial Year 2009-10 and 2010-11	Various	Yet not paid
The Finance Act, 1994	Service tax	360	Financial Year 2009-10 and 2010-11	Various	Yet not paid



As explained to us, the Company did not have dues on account of Investor Education and Protection Fund.

- (b) According to the information and explanations given to us, there are no dues of Income-tax, Sales tax, Wealth tax, Custom duty, Excise duty and Cess which have not been deposited with the appropriate authorities on account of any dispute as at balance sheet date. The Company however disputes the following Service tax dues-

Name of the Statute	Nature of Dues	Amount in INR'000	Period to which the amount relates	Forum where dispute is pending*
The Finance Act, 1994	Service Tax	8,504	Financial Year 2007-08	Suprintendent of Central Excise Medchal Range Sector II
The Finance Act, 1994	Service Tax	4,522	Financial Year 2007-08, 2008-09 and 2009-10	Suprintendent of Central Excise Medchal Range Sector II
The Finance Act, 1994	Service Tax	11,016	Financial Year 2006-07 and 2007-08	Suprintendent of Central Excise Medchal Range Sector II

\* The Company is in process of filing an appeal with the concerned authorities in respect of these disputes.

- ix. *The Company's accumulated losses at the end of the financial year are not less than fifty percent of its net worth and it has incurred cash losses in the current year and immediately preceding financial year.*
- x. *On the basis of audit procedures performed by us, and according to the information, explanations and representation given to us by the Management, the Company had delayed in repayments of certain dues (including interest) to financial institutions. The delayed principal amount and the interest aggregates to Rs. 30,994 thousands and Rs 4,721 thousands respectively, and delays ranges from 304 days to 1,572 days. The Company has outstanding dues of Rs. 35,715 thousands as of balance sheet date. The Company did not have any outstanding debentures during the year.*
- xi. *In our opinion and according to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.*
- xii. *In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.*
- xiii. *According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Order are not applicable to the Company.*
- xiv. *In the absences of adequate documentations and records, we are unable to comment whether the term loans taken by the company have been applied for the purpose for which they were raised during earlier years.*
- xv. *According to information and explanations given to us, and on an overall examination of the balance sheet of the Company, we are of the opinion that funds of Rs. 71,942 thousands raised on short term basis have been used for long-term investment and to finance operating losses.*
- xvi. *The Company has not made any preferential allotment of shares to companies/ firms/ parties covered in the register maintained under Section 301 of the Companies Act, 1956.*
- xvii. *The Company did not have any outstanding debentures during the year.*
- xviii. *The Company has not raised any money by public issues during the year.*
- xix. *According to the information and explanations provided to us, given the state of affairs which exists and the events arising out of the ongoing disputes as more fully explained in note 2.27 to the financial statement, the irregularities noted are under investigation. Pending assessment of the financial consequences by the current Management, we are unable to comment whether any fraud on or by the Company has been noticed or reported during the year.*

**for B S R & Associates**  
Chartered Accountants  
Firm Registration No: 116231W

**Sriram Mahalingam**  
Partner

Membership No: 049642

Place : Hyderabad  
Date : 14 November 2012

## Balance Sheet as at March 31, 2012

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	Note	As at 31 March 2012	As at 31 March 2011
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	2.1	344,275	344,275
Reserves and surplus	2.2	171,986	274,605
		<b>516,261</b>	<b>618,880</b>
<b>Share application money pending allotment</b>	2.3	122	122
<b>Non-current liabilities</b>			
Long-term borrowings	2.4	871	1,272
Long term provisions	2.5	2,356	6,876
		<b>3,227</b>	<b>8,148</b>
<b>Current liabilities</b>			
Short-term borrowings	2.6	20,000	-
Trade payables	2.7	23,656	17,744
Other current liabilities	2.8	120,844	81,132
Short-term provisions	2.9	249	995
		<b>164,749</b>	<b>99,871</b>
		<b>684,359</b>	<b>727,021</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Fixed assets</b>			
Tangible assets	2.10	621,382	655,150
Capital work-in-progress		-	-
Non-current investment	2.11	-	-
Long-term loans and advances	2.12	37,439	36,948
		<b>658,821</b>	<b>692,098</b>
<b>Current assets</b>			
Inventories	2.13	2,953	8,038
Trade receivable	2.14	662	5,351
Cash and bank balances	2.15	17,169	15,764
Short-term loans and advances	2.16	1,391	3,458
Other current assets	2.17	3,363	2,312
		<b>25,538</b>	<b>34,923</b>
		<b>684,359</b>	<b>727,021</b>
The note referred to above form an integral part of balance sheet			
<b>Significant accounting policies</b>	1		
<b>Notes on accounts</b>	2		

As per our report of even date attached  
 for **B S R & Associates**  
 Chartered Accountants  
 Firm Registration Number:116231W

**Sriram Mahalingam**  
 Partner  
 Membership No.: 049642

Place : Hyderabad  
 Date : 14 November 2012

for and on behalf of the Board of Directors of  
**Zenotech Laboratories Limited**

**Dr. Sudershan K. Arora**  
 Chairman

**B. K. Raizada**  
 Managing Director

**I. Srinivas**  
 Company Secretary

Place : New Delhi  
 Date : 14 November 2012



## Statement of Profit and Loss for the year ended March 31, 2012

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	Note	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>Revenue from operations</b>			
Gross sales		17,474	71,651
Less : Excise duty		(61)	(1,637)
Net sales		17,413	70,014
Other operating income	2.18	4,429	-
Other income	2.19	1,337	8,633
<b>Total revenue</b>		<b>23,179</b>	<b>78,647</b>
<b>Expenses</b>			
Cost of materials consumed	2.20	2,031	26,389
Purchase of traded goods		7,057	-
Changes in inventories	2.21	4,218	8,395
Manufacturing expenses	2.22	8,634	37,364
Employee benefits expenses	2.23	11,058	53,417
Finance expenses	2.24	5,051	8,029
Depreciation	2.10	34,927	35,378
Other expenses	2.25	37,087	57,953
<b>Total expenses</b>		<b>110,063</b>	<b>226,925</b>
Loss before exceptional items and tax		(86,884)	(148,278)
Add : Exceptional items	2.26	15,735	230,103
<b>Loss before tax</b>		<b>(102,619)</b>	<b>(378,381)</b>
Income tax expense		-	-
<b>Net loss after tax</b>		<b>(102,619)</b>	<b>(378,381)</b>
<b>Earning per share (equity share, par value Rs 10 each)</b>	2.31		
Basic and diluted (Rs.)		(2.98)	(10.99)
The note referred to above form an integral part of statement of profit and loss			
<b>Significant accounting policies</b>	1		
<b>Notes on accounts</b>	2		

As per our report of even date attached  
for **B S R & Associates**  
Chartered Accountants  
Firm Registration Number:116231W

**Sriram Mahalingam**  
Partner  
Membership No.: 049642  
Place : Hyderabad  
Date : 14 November 2012

for and on behalf of the Board of Directors of  
**Zenotech Laboratories Limited**

**Dr. Sudershan K. Arora**  
Chairman

**B. K. Raizada**  
Managing Director

**I. Srinivas**  
Company Secretary

Place : New Delhi  
Date : 14 November 2012

## Cash Flow Statement for the year ended March 31, 2011

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

Note	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>Cash flows from operating activities</b>		
Loss before taxation and exceptional items	(86,884)	(148,278)
<b>Adjustments:</b>		
Depreciation	34,927	35,378
Amortisation of miscellaneous expenditures	-	15,232
Unrealised foreign exchange loss	-	248
Provision for doubtful debts and advances	583	-
Interest expenses	4,830	7,977
Interest income	(1,184)	(7,646)
<b>Operating cash flows before working capital changes</b>	<b>(47,728)</b>	<b>(97,089)</b>
Decrease in inventories	5,085	15,176
Decrease in trade receivables	4,675	11,997
(Increase) / Decrease in loans and advances and other assets	1,215	41,931
Increase in current liabilities and provisions	19,844	36,395
<b>Cash generated from operating activities</b>	<b>(16,908)</b>	<b>8,410</b>
Income taxes paid/ TDS (net)	(208)	(917)
<b>Net cash (used in)/provided by operating activities</b>	<b>(17,116)</b>	<b>7,493</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(1,159)	(6,589)
Proceeds from bank fixed deposits	-	(40,000)
Interest income received	133	7,570
<b>Net cash used in investing activities</b>	<b>(1,026)</b>	<b>(39,019)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	20,000	-
Repayment of borrowings	(330)	(52,841)
Interest paid	(123)	(23,146)
<b>Net cash provided by/ (used in) financing activities</b>	<b>19,547</b>	<b>(75,987)</b>
<b>Net increase/ (decrease) in cash and cash equivalents during the year</b>	<b>1,405</b>	<b>(107,513)</b>
Cash and cash equivalents at the beginning of the year	15,764	123,277
<b>Cash and cash equivalents at the end of the year (Note 1)</b>	<b>17,169</b>	<b>15,764</b>

### Note 1:

Cash and bank balances comprise:

#### Cash and cash equivalents

Cash on hand	15	1
Balances with banks on current account	4,995	3,604

#### Other bank balances

Term deposit (note 1)	12,159	12,159
	<b>17,169</b>	<b>15,764</b>

**Note 2:** Cash and cash equivalents includes restricted cash balance (Margin money) of Rs 12,159 (previous year: Rs 12,159).

**Note 3:** Cash flow statements has been prepared under the 'Indirect Method' as set out in Accounting Standard (AS 3) 'Cash Flow Statement'.

 As per our report of even date attached  
 for **B S R & Associates**

Chartered Accountants

Firm Registration Number:116231W

#### Sriram Mahalingam

Partner

Membership No.: 049642

Place : Hyderabad

Date : 14 November 2012

 for and on behalf of the Board of Directors of  
**Zenotech Laboratories Limited**
**Dr. Sudershan K. Arora**  
 Chairman

**B. K. Raizada**  
 Managing Director

**I. Srinivas**  
 Company Secretary

Place : New Delhi

Date : 14 November 2012

## Notes forming part of the Accounts

### 1. Significant accounting policies:

#### 1.1 Company overview

Zenotech Laboratories Limited is a public limited company listed on BSE. Zenotech Laboratories Limited was incorporated on June 15, 1989 as a Private Limited company by the name of MAA Shakti Mills Private Limited under the Companies Act, 1956. On April 1, 1992, its name was changed to Sunline Tubes Private Limited and August 25, 1993 it was converted into a Public Limited Company. Subsequently, on December 6, 2000 its name was changed to Sunline technologies Limited. In 2004, the said Company entered into a scheme of amalgamation with Zenotech Laboratories Private Limited. The Hon'ble High Court of Andhra Pradesh sanctioned the scheme of amalgamation by its order dated July 1, 2004 with effect from November 1, 2003 pursuant which, its name was changed to its present form, Zenotech Laboratories Limited with effect from August 10, 2004.

The Company commenced pharmaceutical operations in 2003 and has since become a specialty generic injectables company with expertise in the area of bio-technology. The Company's injectables product portfolio primarily serves niche therapy areas like oncology and anesthesiology.

#### 1.2 Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the generally accepted accounting principles in India and comply with the Accounting Standards (AS), prescribed by the Companies (Accounting Standards) Rules, 2006 and other pronouncements of Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, to the extent applicable. The financial statements are presented in Indian rupees, unless otherwise stated. The financial statements have been prepared and presented from the reconstructed books of accounts as detailed in note 2.27

This is the first year of application of the revised Schedule VI to the Companies Act, 1956 for the preparation of the financial statements of the company. The revised Schedule VI introduces some significant conceptual changes as well as new disclosures. These include classification of all assets and liabilities into current and non-current. The previous year figures have also undergone a major reclassification to comply with the requirements of the revised Schedule VI.

#### 1.3 Going concern

The financial statements have been prepared on a going concern basis, notwithstanding the accumulated losses, as one of the significant shareholder has undertaken to provide such financial support as necessary, to enable the Company to continue its operations and to meet its liabilities as and when they fall due. Accordingly these financial statements do not include any adjustments relating to the recoverability and classification of carrying amount of assets or the amounts and classification of liabilities that may be necessary if the entity is unable to continue as a going concern.

#### 1.4 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods. Refer note 2.27 certain key factors impacting the management estimates.

#### 1.5 Current-non-current classification

All assets and liabilities are classified into current and non-current.

##### Assets

An asset is classified as current when it satisfies any of the following criteria:

- a. it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;

**Significant accounting policies (Contd.)**

- b. it is held primarily for the purpose of being traded;
- c. it is expected to be realised within 12 months after the reporting date; or
- d. it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Current assets include the current portion of non-current financial assets. All other assets are classified as non-current.

**Liabilities**

A liability is classified as current when it satisfies any of the following criteria:

- a. it is expected to be settled in the company's normal operating cycle;
- b. it is held primarily for the purpose of being traded;
- c. it is due to be settled within 12 months after the reporting date; or
- d. the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current liabilities include current portion of non-current financial liabilities. All other liabilities are classified as non-current.

**Operating cycle**

Operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

**1.6 Fixed assets and Depreciation**

Fixed assets are carried at cost of acquisition or construction less accumulated depreciation and impairment losses if any. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition or construction of those fixed assets. Acquired intangible assets are recorded at the consideration paid for acquisition. Borrowing costs directly attributable to acquisition of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Depreciation on fixed assets is provided on the straight-line method and at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956, except in respect of improvements to leasehold premises, where depreciation is charged over the lease period.

Assets individually costing Rs. 5,000/- or less, are depreciated fully in the year of purchase. Depreciation is charged on a proportionate basis for all assets purchased and sold during the year.

The cost of fixed assets not ready for their intended use before such date, are disclosed as capital work-in-progress.

**1.7 Product development expenditure**

Direct material and overhead costs in relation to product development activities are treated as deferred revenue expenditure and amortized over five years from the date revenue is generated from the respective products. All other revenue expenditure is expensed as incurred and capital expenditure incurred on product development is capitalized as fixed assets and depreciated in accordance with depreciation policy of the Company. The Company has written off product development expenditure fully during the year.

**1.8 Foreign currency translations**

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the respective transaction. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the profit and loss account of the year.

## Significant accounting policies (Contd.)

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date, the resultant exchange differences are recognised in the statement of profit and loss.

### 1.9 Investments

Long term investments are stated at cost of acquisition less provision for permanent diminution in value of such investments.

### 1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. The method of determining cost of various categories of inventories is as below:

- i) Raw materials, Packing materials, Stores and spares - First - in - First Out method.
- ii) Finished goods and Work-in-process - Weighted average method, which comprises direct material costs and appropriate overheads.

Inventories are stated net of write downs or allowances on account of obsolete, damaged or slow moving inventories.

### 1.11 Employee Retirement benefits

Liability for employee benefits, both short and long term, for present and past services which are due as per terms of employment are recorded in accordance with Accounting Standard (AS) 15 " Employee Benefits" as notified by the Companies (Accounting Standards) Rules, 2006.

- i) Gratuity: Liability on account of Gratuity is determined and charged to the statement of profit and loss on the basis of valuation by an independent Actuary. The liability is unfunded.
- ii) Provident Fund: Contribution to Provident Fund (a defined contribution plan) is recognized and expensed on accrual basis.
- iii) Compensated Absences: Liability in respect of compensated absence is determined and charged to the statement of profit and loss on the basis of valuation by an independent actuary.

All actuarial gains and losses arising during the year are recognized in the statement of profit and loss.

### 1.12 Revenue recognition

Sale of goods is recognized on despatch and upon transfer of significant risk and rewards of ownership to the customer. Sales include amount recovered towards excise duty but excludes sales tax and is net of sales returns.

Royalty income is recognized as per the terms of the contract with customers when the related goods or services are sold/ performed by the Customers on behalf of the Company.

Service income is recognized as per the terms of the contract with customers when the related services are performed.

Interest on deposits is recognized on the time proportion method using the underlying interest rates.

### 1.13 Taxation

Income-tax expense comprises current tax (i.e. amount of tax for the year determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the year). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carried forward loss under

## Significant accounting policies (Contd.)

taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/ virtually certain (as the case may be) to be realised.

The Company offsets, the current (on a year on year basis) and deferred tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

### 1.14 Leases

Assets taken on lease where the company acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of minimum lease rental and other incidental expenses during the lease term or the fair value of the assets taken on lease. The rental obligations, net of interest charges, are reflected as secured loans. Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases and recorded as expense on a straight line basis.

### 1.15 Miscellaneous expenditure

Written off over a period of five years or the period over which the benefit of the expenditure is expected to be derived.

### 1.16 Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the statement of profit and loss. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined, if no impairment loss had been recognised.

### 1.17 Provisions and contingent liabilities

The Company recognises a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.

### 1.18 Earnings per share

Basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date.

## 2. Notes on Accounts

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	As at 31 March 2012	As at 31 March 2011
<b>2.1 Share capital</b>		
<b>Authorised</b>		
35,000,000 (previous year: 35,000,000) Equity Shares of Rs.10/- each	350,000	350,000
<b>Issued, subscribed and paid-up capital</b>		
34,427,500 (previous year 34,427,500) Equity Shares of Rs. 10 each fully paid	344,275	344,275
	<b>344,275</b>	<b>344,275</b>

### Notes:

- a) The Company has a single class of equity shares. Accordingly, all equity shares rank equally with regard to dividends and share in the Company's residual assets. The equity shares are entitled to receive dividend as declared from time to time. The voting rights of an equity shareholder on a poll (not on show of hands) are in proportion to its share of the paid-up equity capital of the Company. Voting rights cannot be exercised in respect of shares on which any call or other sums presently payable have not been paid. "Failure to pay any amount called up on shares may lead to forfeiture of the shares." "On winding up of the Company, the holders of equity shares will be entitled to receive residual assets of the Company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held by the shareholders.
- b) Under the Zenotech Stock Option Scheme 2005, total of 50,000 and 75,000 shares have been issued to directors during the year ended 31 March 2008 and 31 March 2009 respectively and 2,500 shares have been issued to employees during the year ended 31 March 2011.

### c) The reconciliation of the number of equity shares outstanding is set out below;

Name of the Share holder	As at 31 March 2012 Number of shares	As at 31 March 2011 Number of shares
Shares outstanding at the beginning of the year	34,427,500	34,425,000
Shares issued during the year	-	2,500
Share bought back during the year	-	-
Shares outstanding at the end of the year	<b>34,427,500</b>	<b>34,427,500</b>

### d) The details of shareholders holding more than 5% equity shares is set below;

Name of Shareholder	As at 31 March 2012		As at 31 March 2011	
	No. of Shares	%	No. of Shares	%
Ranbaxy Laboratories Limited	16,127,293	46.84%	16,127,293	46.84%
Daiichi Sankyo Company Limited	6,886,500	20.00%	6,886,500	20.00%
Dr Jayaram Chigurupati	4,822,524	14.01%	4,822,524	14.01%
Padmasree Chigurupati	3,060,500	8.89%	3,060,500	8.89%
	<b>30,896,817</b>	<b>89.7%</b>	<b>30,896,817</b>	<b>89.7%</b>



## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	As at 31 March 2012	As at 31 March 2011
<b>2.2 Reserves and surplus</b>		
<b>Securities premium</b>		
Balance at the beginning of the year	1,164,324	1,164,176
Add: Received during the year	-	148
Less: Utilisation during the year	-	-
Closing balance	<u>1,164,324</u>	<u>1,164,324</u>
<b>Deficit from statement of profit and loss</b>		
Opening balance	(889,719)	(511,338)
Add : Net loss for the year	(102,619)	(378,381)
Closing balance	<u>(992,338)</u>	<u>(889,719)</u>
	<b><u>171,986</u></b>	<b><u>274,605</u></b>
<b>2.3 Share application money</b>		
Under the Zenotech Employee Stock Option Scheme, 2005, the Company granted 17,000 options (net of options lapsed) of which 4,250 vested options have been exercised during the year ended 31 March 2010, which was subject to leave of the Company Law Board. Of these, the Company allotted 2,500 shares vide Company Law Board order dated 6 August 2010 and balance is pending for allotment subject to leave of the Company Law Board. Accordingly, Rs. 1,22,000/- received on exercise of options has been shown under Share application money.		
<b>2.4 Long term borrowings</b>		
<b>Secured</b>		
Vehicle Loans*	95	328
<b>Unsecured</b>		
Biotech Consortium India Limited**	776	944
	<u>871</u>	<u>1,272</u>
* Secured by hypothecation of respective vehicles, repayable in monthly instalments.		
** Repayable in ten yearly instalments of Rs. 1,68,000/- each. The Company has not paid installment for the year ended 31 March 2012 fell due in November 2011 and the said default continue as of the balance sheet date.		
<b>2.5 Long-term provisions</b>		
Provision for employee benefit		
- Provision for gratuity	1,356	4,094
- Provision for compensated absences	1,000	2,782
	<u>2,356</u>	<u>6,876</u>
<b>2.6 Short term borrowings</b>		
<b>Secured</b>		
Term loan from banks*	20,000	-
	<u>20,000</u>	<u>-</u>
* Term loans from banks are secured by way of first charge on the current assets of the Company and Corporate Guarantee from Ranbaxy Laboratories Limited. The same has been taken at 11.25% interest p.a. and loan is repayable within one year from the date of disbursement.		

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	As at 31 March 2012	As at 31 March 2011
<b>2.7 Trade payables</b>		
Total outstanding due to micro and small enterprises (Refer note 2.48)	-	-
Others	23,656	17,744
	<b>23,656</b>	<b>17,744</b>
<b>2.8 Other current liabilities</b>		
Bank overdraft as per book	79	-
Current maturities of loan from others	336	168
Current maturities of vehicle loan	524	622
Current maturities of loan from financial institution*	30,826	30,826
Interest accrued and due	4,721	76
Interest accrued but not due	62	-
Advance from customers	1,077	1,077
Advance from related party	2,699	-
Security deposits	1,672	1,672
Statutory liabilities	42,041	37,711
Payable to employees	5,076	3,769
Payable towards claim**	12,361	-
Provision for expenses	19,370	5,211
	<b>120,844</b>	<b>81,132</b>
<p>* Secured by way of paripassu first charge on the whole of movable properties of the Company including movable plant and machinery, both present and future and paripassu first charge on land or other immovable property of the Company, present and future, and personal guarantee of the Director of the Company. The Company has not paid above loan due and the default continues as of balance sheet date.</p>		
<p>** Refer note 2.28(b)</p>		
<p>There are no amount due and outstanding to be credited to Investor Education and Protection Fund.</p>		
<b>2.9 Short-term provisions</b>		
Provision for employee benefits		
- Provision for gratuity	67	372
- Provision for compensated absences	182	623
	<b>249</b>	<b>995</b>

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.10 Fixed assets

Description	Gross block			Accumulated depreciation			Impairment losses			Net block	
	As at 1 April 2011	Additions	Sales/ Adjustments	As at 31 March 2012	As at 1 April 2011	For the year	Sales/ Adjustments	As at 31 March 2012	As at 31 March 2012	As at 31 March 2011	
<b>Tangible- Owned Assets</b>											
Freehold land (note 1)	14,008	-	-	14,008	-	-	-	-	-	14,008	14,008
Buildings	209,730	-	-	209,730	32,836	7,024	-	39,860	-	169,870	176,894
Plant and machinery	563,910	537	-	564,447	103,607	25,686	-	129,293	11,284	423,870	449,019
EDP equipment	4,828	530	-	5,358	3,710	508	-	4,218	-	1,140	1,118
Office equipment	632	27	-	659	189	40	-	229	-	430	443
Furniture and fixtures	12,316	65	-	12,381	3,901	747	-	4,648	-	7,733	8,415
Vehicles	9,644	-	-	9,644	4,391	922	-	5,313	-	4,331	5,253
<b>Total</b>	<b>815,068</b>	<b>1,159</b>	<b>-</b>	<b>816,227</b>	<b>148,634</b>	<b>34,927</b>	<b>-</b>	<b>183,561</b>	<b>11,284</b>	<b>621,382</b>	<b>655,150</b>
Previous year	811,740	6,589	3,261	815,068	116,412	35,378	3,156	148,634	11,284	655,150	-
Capital work in progress											
Less: Provision for impairment											
<b>Net Capital work in progress</b>											
										121,450	121,450
										(121,450)	(121,450)
										-	-

#### Notes

- Freehold land includes a sum of Rs 3,716 (previous year Rs 3,716) in respect of which conveyance is pending.
- Also refer note 2.27 and 2.28.

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	As at 31 March 2012	As at 31 March 2011
<b>2.11 Non-current investments (refer Note 2.27)</b>		
<b>Long term, unquoted (at cost)</b>		
<b>Shares in wholly owned subsidiaries</b>		
Zenotech Farmaceutica Do Brasil Ltda	11,661	11,661
39,600 (previous year: 39,600) quotas of Reais 10 each		
Less: Provision for diminution in value	(11,661)	(11,661)
Zenotech Laboratories Limited, Nigeria	317	317
9,99,000 (previous year: 9,99,000) Ordinary shares of Naira 1 each		
Less: Provision for diminution in value	(317)	(317)
Zenotech Inc., USA	10,560	10,560
10,00,000 (previous year: 10,00,000) shares of USD 0.10 each		
Less: Provision for diminution in value	(10,560)	(10,560)
<b>Shares in associate company</b>		
Credence Organics Private Limited	24	24
2,400 (previous year: 2,400) shares of Rs.10 each		
Less: Provision for diminution in value	(24)	(24)
	<u>-</u>	<u>-</u>
<b>2.12 Long-term loans and advances</b>		
<b>Unsecured, considered doubtful</b>		
Loans to associate	2,430	2,430
Loan to subsidiary (interest free loan)		
Zenotech Inc.USA [Maximum amount outstanding during the year Rs. 23,039 (previous year Rs 23,292)]	23,039	23,039
Advance to subsidiaries (interest free advance )		
Zenotech Laboratories Limited, Nigeria (Maximum amount outstanding during the year Rs. 814 (previous year Rs. 814))	814	814
Zenotech Inc, USA (Maximum amount outstanding during the year Rs.2,257 (previous year: Rs. 2,257))	2,233	2,233
Application money for investement in:		
Zenotech Farmaceutica Do Brasil Ltda	31,956	31,956
Zenotech Laboratories Limited, Nigeria	2,614	2,614
Zenotech Inc., USA	11,055	11,055
Deposits with Government, public bodies and others	211	-
Loans and advances to employees	519	161
	<u>74,871</u>	<u>74,302</u>
Less: Provision for doubtful advances (refer Note 2.27)	(74,871)	(74,302)
	<u>-</u>	<u>-</u>
<b>Unsecured, considered good</b>		
Advance income taxes (net of provisions)	21,131	20,923
Deposits with Government, public bodies and others	2,157	1,673
Balance with customs, central excise etc	14,035	14,177
Others	116	175
	<u>37,439</u>	<u>36,948</u>
	<b><u>37,439</u></b>	<b><u>36,948</u></b>

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	As at 31 March 2012	As at 31 March 2011
<b>2.13 Inventories</b>		
(at lower of cost or net realisable value)		
Raw and packing materials	2,953	3,842
Work-in-progress	-	7
Finished goods	-	4,189
	<u>2,953</u>	<u>8,038</u>
<b>2.14 Trade receivable</b>		
<i>Unsecured</i>		
Trade receivables outstanding for period exceeding six months from the date they become due		
Considered good	-	-
Considered doubtful	4,128	2,777
Less: Provision for bad and doubtful debts	(4,128)	(2,777)
	<u>-</u>	<u>-</u>
Others		
Considered good	662	5,351
Considered doubtful	-	1,337
Less: Provision for bad and doubtful debts	-	(1,337)
	<u>662</u>	<u>5,351</u>
	<u>662</u>	<u>5,351</u>
<b>2.15 Cash and bank balances</b>		
Cash in hand	15	1
Balances with schedule banks		
- in current accounts	4,995	3,604
- in deposit accounts*	12,159	12,159
	<u>17,169</u>	<u>15,764</u>
	<u>17,169</u>	<u>15,764</u>
* Deposit held against margin money		
<b>2.16 Short-term loans and advances</b>		
Unsecured, considered good		
Advance to supplier for material and services	1,053	1,305
Loan and advances to employees	34	-
Rent and other deposits	205	1,381
Prepaid expenses	99	772
	<u>1,391</u>	<u>3,458</u>
	<u>1,391</u>	<u>3,458</u>
<b>2.17 Other non-current assets</b>		
Interest accrued but not due	3,363	2,312
	<u>3,363</u>	<u>2,312</u>
	<u>3,363</u>	<u>2,312</u>

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>2.18 Other operating income</b>		
Price equalisation on sales	4,429	-
	<b>4,429</b>	<b>-</b>
<b>2.19 Other income</b>		
Interest income	1,184	7,646
Miscellaneous income	153	987
	<b>1,337</b>	<b>8,633</b>
<b>2.20 Cost of materials consumed</b>		
Opening stock	3,842	10,370
Add : Purchases	3,116	24,655
Less : Closing stock	2,953	3,842
	4,005	31,183
Less: Transferred to product development expenses	1,974	4,794
	<b>2,031</b>	<b>26,389</b>
<b>2.21 Changes in inventories</b>		
<i>Opening stock</i>		
Work in progress	7	11,594
Finished goods	4,189	1,249
	4,196	12,843
<i>Closing stock</i>		
Work in progress	-	7
Finished goods	-	4,189
	-	4,196
Changes in inventories of work in progress and finished goods	4,196	8,647
Adjustment for excise duty on stock	22	(252)
	<b>4,218</b>	<b>8,395</b>
<b>2.22 Manufacturing expenses</b>		
Power and fuel	5,350	22,950
Repairs and maintenance		
- Buildings	500	1,936
- Plant and machinery	1,060	6,451
Contract manpower	1,492	5,900
Other manufacturing expenses	232	127
	<b>8,634</b>	<b>37,364</b>
<b>2.23 Employee benefits expenses</b>		
Salaries, wages and bonus	8,398	45,144
Contribution to provident and other funds	926	2,820
Workmen and staff welfare	1,734	5,453
	<b>11,058</b>	<b>53,417</b>
<b>2.24 Finance expenses</b>		
Interest	4,830	7,977
Other finance expenses	221	52
	<b>5,051</b>	<b>8,029</b>



## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>2.25 Other expenses</b>		
Advertisement	797	53
Communication	70	742
Rates and taxes	3,687	740
Rent	1,145	2,317
Insurance	732	852
Repair and maintenance - others	918	7,412
Legal and professional	8,928	10,769
Printing and stationery	248	721
Office and general maintenance	928	306
Research and development	8,744	12,063
Security	6,057	2,206
Selling and distribution	-	448
Commission on sales	-	130
Product development expenditure written off	-	15,231
Provision for doubtful debtors	14	-
Provision for doubtful advances	569	161
Travelling and conveyance	3,884	2,821
Foreign exchange loss, net	-	248
Miscellaneous expenses	366	733
	<b>37,087</b>	<b>57,953</b>
<b>2.26 Exceptional items (refer note 2.28)</b>		
Provision for diminution in the value of investments	-	10,584
Provision for doubtful loan and advances	-	38,757
Provision for doubtful debtors	-	4,114
Fixed assets and CWIP write off	-	17,929
Provision for impairment	-	132,734
Provision for other taxes	-	25,985
Provision for claims	15,735	-
	<b>15,735</b>	<b>230,103</b>

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.27. Reconstruction of books and records because of the state of affairs existing on account of events and circumstances resulting from ongoing disputes between the Co-Managing Director and the Current Management

#### a. Background

The Company commenced pharmaceutical operations in 2003 and has since become a specialty generic injectables company with expertise in the area of bio-technology. The Company's injectables product portfolio primarily serves niche therapy areas like oncology and anesthesiology.

Pursuant to various preferential allotments of shares and certain definitive agreements, Ranbaxy acquired equity shares of the Company and as on March 31, 2008 was holding 16,127,293 shares constituting 46.94% of the then paid-up capital of the Company and became the single largest shareholder of the Company. Subsequently, in October 2010, Daiichi also acquired through an open offer 20% share of the Company.

During the year 2009, Dr. Jayaram Chigurupati and his associates ('collectively referred to as Erstwhile Promoters' and individually as 'Erstwhile Promoter' or 'Co- Managing Director') had filed a petition under Section 397, 398 and other applicable provisions of the Companies Act, 1956 with the Company Law Board (CLB) alleging oppression against Ranbaxy and its associates. Ranbaxy filed another counter petition under the above said Sections on 7 October 2009 against Erstwhile Promoters before CLB alleging oppression and mismanagement. These petitions related to various matters relating to control and management of the Company's affairs. While interim orders have been given in these cases, the main petition still awaits direction.

Post acquisition of stake in the Company by Ranbaxy and Daiichi Sankyo Company Limited (herein after referred to as the "Current promoters") there were disagreements on various counts between the erstwhile promoters and the current promoters resulting in various petitions/cases being filed by both the parties at various forums. As a result of the said disputes the current promoters had to fight a protracted legal case before the CLB in order to obtain the physical possession of the factory premises on 13 November 2011.

The Co-Managing Director unilaterally terminated the lease deed of the premises where then Registered Office of the Company was located, which forced current Management to shift the Registered Office to the Factory premises with effect from August 1, 2011. However, the current Management have been unable to get the possession of books of account, records and other information pertaining to accounts, finance, legal, secretarial matters, etc, which were maintained at the previous registered office.

Zenotech under the new management had prepared an inventory of all the documents, registers, machineries, and assets and goods of the Company. As an alternative, in the absence of the original records, new management pending disposal of the petitions/cases filed, embarked upon an exercise of reconstruction of books of accounts for the year ended 31 March 2011 based on a best effort basis and so far as practicable under the circumstances including obtaining photocopies/ duplicate copies, requisite information of relevant books and records from external sources including previous auditors, banks and financial institutions, customers, suppliers, tax authorities, Ministry of Corporate Affairs, employees and other relevant sources. The reconstructed financial statements for the year ended 31 March 2011 were duly approved by the shareholders in the AGM held on 25 July 2012.

The current Management based on statutory returns filed and supporting records available with it observed various non compliances of applicable laws and regulations including the Companies Act, 1956, SEBI regulations, listing agreement, etc. The Management is in the process of evaluating financial impact, if any, of such non compliances. Further the Management is also in process of regularizing and compounding such non compliances with various authorities concerned.

#### Investment in subsidiaries:

As per the audited financials of 2009-10 and previous years, the Company has the following overseas subsidiaries:

- a. Zenotech Farmaceutica Do Brasil Ltda, Brazil
- b. Zenotech Laboratories Nigeria Ltd, Nigeria
- c. Zenotech Inc., USA

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

Upon obtaining control of the Company, the current Management observed that no books of account and records were available regarding its overseas subsidiaries. As part of efforts to obtain relevant information the Company through its consultants and local advisors in the respective countries above reached out to the overseas subsidiaries. The Management has been unable to retrieve any relevant information, books and records and based on all reasonable efforts that it could have made under the circumstances believes that information relating to the subsidiaries is missing and the entities are either delinquent or do not exist anymore. No audited statements of the subsidiaries are available for the financial periods from 2008-2012.

Considering the above matters and as a result of non availability of primary books and records, in the year 2010-11, the Management had on a prudent basis, written down the investments in its subsidiaries and loans and advances to these subsidiaries, in addition to the write down of the investments in Brazil and Nigeria in the year 2008-09.

### b. Update for the year ended 31 March 2012

- i. As stated in note (a) above, though the current promoters were able to obtain the physical possession of the factory premises on 13 November 2011, they were unable to obtain the possession of books of accounts, certain original supporting documents and other statutory records till that date. As a result, the management followed the similar exercise of reconstruction of books of accounts as carried out for the year ended 31 March 2011 for the period 1 April 2011 to 13 November 2011. The books of accounts, necessary statutory records and all original supporting documents are being maintained and are in the possession of the current management since 13 November 2011. The current management based on the steps taken by it, disclosures made, and supporting documents, evidence available from subsequent events believes that in its assessment the risk that the financial statements are materially misstated is not significant.
- ii. In addition, the Company, as part of its efforts to reconstruct the books and records, also attempted to reach out to various bankers through whom the foreign exchange payments have been made over the years to these overseas subsidiaries. Consequent various requests made by the current Management, the Company could get some limited information on copies of SWIFT transmissions from respective bankers/authorised dealers. The Management has evaluated the extent of the missing information and the regulatory non compliances etc., relating to the above subsidiaries and subsequent to year end issued a legal notice to co-Managing Director to immediately release all the details pertaining these subsidiaries and documents / certificates related to forex transactions with these subsidiaries including certain loans and investment made in the same as well as asked him to take all required steps to finish audit of Subsidiaries and submit the financial statements to the Company. An appropriate reminder to this effect was also included in the letter dated October 3, 2012 informing the Co- Managing Director of having vacated his office as Managing Director of the Company but so far no response has been received. Provision has not been made for potential financial consequences arising out of such ongoing evaluations, the outcome of which will depend on the nature and extent of non compliances which is currently not determinable.
- iii. As stated above, the Company has issued a notice to Co- Managing Director intimating vacation of his Office as Managing Director of the Company consequent to completion of his five year term on 1 October 2012 as per the term of reappointment approved by the shareholders in the Annual General Meeting held on 8 November 2007 and asked, inter-alia for return of all assets, information, records and documentation related to the Company in his possession.
- iv. The Honorable Company Law Board vide its order dated 8 October 2012 also directed Erstwhile Promoter to return all the documents and provide written details of all missing documents/ assets/ statutory records / equipment of the Company.
- v. On 24 September 2012, the Company has filed required declaration under the Sick Industrial Companies (Special Provisions) Act, 1985 with the Board of Industrial and Financial Reconstruction for potential sickness as the net worth of the Company has been eroded by more than fifty percent. The Management is in process of finalising revival plan for the Company.

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.28 Exceptional items

- a. On account of the events as explained in note 2.27 and the operating restructuring of the Zenotech business by the current management had led to certain one off exceptional costs being recognized in the reconstructed financial statements for the previous year ended March 31, 2011 aggregating to Rs. 230,103. These related to impairment of fixed assets including certain capital work in progress, corporate costs incurred, investments written down, provision for doubtful debtors, loans and advances, disputed demands provided for.
- b. The Company has received final order on the Arbitration matter on the dispute with Ranbaxy Pharmaceuticals Inc directing the Company to pay damages to Ranbaxy Pharmaceuticals Inc including professional fees incurred amounting to Rs. 15,735 which has been provided in the books of accounts for the year ended 31 March 2012 and disclosed as an "Exceptional Item". Further, the Management is in process of filing a claim for recovery of the said amount from Erstwhile Promoter of the Company.

### 2.29 Managerial Remuneration

- a. The Company has filed an application under the Companies Act, 1956 to the Ministry of Corporate Affairs (MCA), Government of India for approval of managerial remuneration of Rs. 1,552 thousands payable to Mr. B. K. Raizada, co-managing director for the year ended 31 March 2012. This application pending approval.
- b. The current Management had filed a case in the Court of the Hon'ble Chief Judge City Civil Court at Hyderabad to for recovery of managerial remuneration aggregating to Rs. 7,980 thousands (excluding interests) paid to Co-Managing Director during the period from October 1, 2007 to March 31, 2011, in contravention of the provisions of the Companies Act, 1956.

### 2.30 Contingent liabilities and commitments

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>Contingent liabilities</b>		
i) Claims against the company not acknowledged as debt	12,064	—
ii) Bank guarantees	11,688	11,688
iii) Other matters*		

#### \*Legal cases filed by/against the Company

- a. During the year ended 31 March 2011, Technology Development Board (TDB) had filed a claim petition under Arbitration and Conciliation Act, 1996 for recovery of dues payable by the Company as per loan agreement. The matter had been heard and the Arbitrator has reserved the Award. In the mean time, TDB has issued a notice dated 3 April 2012 to Co Managing Director to settle the dues payable by the Company within 15 days failing which, TDB will sell 6,00,000 equity shares of the Company held pledged as security by him. The said notice was stayed by Hon'ble Andhra Pradesh High Court until further orders, in view of his filing of Writ Petition and the matter is yet to be disposed off.
- b. Subsequent to Daiichi Sankyo Company Limited (Daiichi) acquiring 63.92% stake in Ranbaxy in October 2008, Daiichi announced an open offer to acquire 20% share of the Company at Rs. 113.62 per share. Aggrieved by the pricing of the share, Promoters and one or two other shareholder filed a petition in the Hon'ble High Court of Madras. The Company has been named as Respondent in the said case. An interim injunction in connection with the offer was given by the Hon'ble High Court of Madras and subsequently it was quashed by the Hon'ble Supreme Court based on a petition filed by Daiichi against the said injunction. Meanwhile some of the shareholders (excluding Ranbaxy) including promoter of the Company filed a petition with Securities Appellate Tribunal (SAT) with respect to the pricing of the share of the Company against the order of the SEBI turning down Erstwhile Promoters' complaint.. SAT directed Daiichi to price the open offer at Rs. 160/- per share. Daiichi has filed an appeal against the SAT order in the Supreme Court. The Supreme Court vide its order dated July 8, 2010 has ruled in favor of Daiichi and allowed the open offer to be made at the price of Rs. 113.62 per share.

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

In June 2012, Erstwhile promoter has filed a writ petition before Honorable Andhra Pradesh High Court against, ineralia, Foreign Investment Promotion Board and Daiichi Sankyo Limited challenging acquisition of 20% shares of the Company by Daiichi through an open offer.

### 2.30 Contingent liabilities and commitments (continued)

- c. The Erstwhile Promoters has filed a letter with SEBI alleging certain non compliances by the Company with respect to the requirements of Clause 49 of the listing agreement and certain provisions of the Companies Act, 1956. The Management has duly filed its reply to SEBI refuting the allegations raised. No further communication from SEBI has been received till date.
- d. In addition to the legal claim as mentioned in note 2.29 (b) above, the Company has filed certain legal cases before the appropriate forum against the erstwhile promoter with regard to loss of vehicles, missing records including intellectual property, unauthorised use of the name of the Company and certain missing mammalian clones.
- e. The Company received a letter dated January 9, 2012 from Bombay Stock Exchange (BSE) stating, inter-alia, that the Company had defaulted in compliance with various clauses of listing agreement and requiring the Company to show cause as to why appropriate action should not be taken against it, including suspension of trading of securities of the Company. The Company informed to BSE about reason of non compliance and corrective measures taken by it. However, BSE, vide its public notice dated March 27, 2012 proposed to suspend the trading of the Company's scrips, till all the compliances under listing agreement are made good subject to the satisfaction of BSE effective from 20 April 2012. The Company filed a writ petition before Hon'ble Andhra Pradesh High Court wherein the Hon'ble Court suspended the operation of the above public notice, in so far it relates to the suspension of the trading of the shares of the Company. As a result the trading of the Company's scrip was restored from 23 April 2012 on the BSE.

### 2.31 Earnings per share (EPS)

	For the year ended 31 March 2012	For the year ended 31 March 2011
<i>Earnings</i>		
Loss for the year	(102,619)	(378,381)
<b>Number of share outstanding</b>		
Weighted average number of equity shares outstanding during the year	34,427,500	34,427,500
Potential equity shares on Employee Stock option granted – Anti dilutive*	-	-
Weighted average number of dilutive potential equity shares in respect of share application money	1,750	1,750
Weighted Average number of Equity Shares in computing diluted earnings per share	34,429,250	34,429,250
Earnings per share of par value Rs. 10 per share		
Basic	(2.98)	(10.99)
Diluted	(2.98)	(10.99)

\* The potential equity shares on ESOP granted are not available with the Company. The same is anti-dilutive, hence there is no impact on Earning per share.

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.32 Legal and professional charges includes auditor's remuneration as follows (excluding service tax)

	For the year ended 31 March 2012	For the year ended 31 March 2011
Statutory audit fee	1,500	2,100
Other services	-	100
Out of pocket expenses	83	-
	<b>1,583</b>	<b>2,200</b>

### 2.33 Employee benefit plans

The Company has a defined benefit gratuity plan which is presently unfunded. The components of net gratuity expense recognised in the statement of profit and loss and amounts recognised in the balance sheet for the gratuity plans is as provided below.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	As at 31 March 2012	As at 31 March 2011
Opening defined benefit obligation	4,466	2,912
Current service cost	902	712
Interest cost	430	292
Actuarial losses / (gain)	(4,375)	608
Benefits paid	-	(58)
Closing defined benefit obligation	<b>1,423</b>	<b>4,466</b>

#### Amount recognised in balance sheet

	As at 31 March 2012	As at 31 March 2011	As at 31 March 2010	As at 31 March 2009	As at 31 March 2008
Present value of funded obligations	1,423	4,466	2,912	2,053	1,542
Fair value of plan assets	-	-	-	-	-
<b>Net liability</b>	<b>1,423</b>	<b>4,466</b>	<b>2,912</b>	<b>2,053</b>	<b>1,542</b>
Provision for gratuity-Long term and Short term	1,423	4,466	2,912	2,053	1,542
<b>Actuarial losses/(gain)</b>	<b>(4,375)</b>	<b>608</b>	<b>(209)</b>	<b>(602)</b>	<b>(187)</b>
<b>Experience adjustment</b>					
On account of change in assumption	-	-	-	-	-
On account of change in experience	(4,375)	608	(209)	(602)	(187)



## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### Expense recognized in statement of profit and loss

	As at 31 March 2012	As at 31 March 2011
Current service cost	902	712
Interest on defined benefit obligation	430	291
Net actuarial losses / (gains) recognized in year	(4,375)	608
Amount, included in "Employee benefits expenses"	(3,043)	1,611
Actual return on plan assets	-	-

### Summary of actuarial assumptions

Assumptions at the valuation date

	As at 31 March 2012	As at 31 March 2011
Discount rate	8.30% p.a.	8.30% p.a.
Salary escalation rate	10% p.a.	10% p.a.

**Discount rate:** The discount rate is based on the prevailing market yields of Indian Government securities as at the balance sheet date for the estimated term of the obligations.

**Salary escalation rate:** The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

### 2.34 Product development expenditure incurred comprises of:

	For the year ended 31 March 2012	For the year ended 31 March 2011
Salaries	1,680	12,442
Raw and packing material consumed	1,974	4,794
Clinical trial and studies	1,676	6,933
Depreciation	2,946	2,946
Others	563	577
	<b>8,839</b>	<b>27,692</b>

Product development expenditure has been shown under appropriate expenditure heads. The Company has charged off above expenses in the current year.

### 2.35 CIF value of imports

	For the year ended 31 March 2012	For the year ended 31 March 2011
Raw material	63	1,238
Spares	120	1,292
Capital goods	-	1,034
	<b>183</b>	<b>3,564</b>

### 2.36 Earnings in foreign currency

	For the year ended 31 March 2012	For the year ended 31 March 2011
Exports of finished goods on FOB basis	-	839

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.37 Expenditure in foreign currency

	For the year ended 31 March 2012	For the year ended 31 March 2011
Professional fees	3,372	-
Other	12,363	-
<b>Total</b>	<b>15,735</b>	<b>-</b>

### 2.38 Value of imported and indigenous consumption

	For the year ended 31 March 2012	%	For the year ended 31 March 2011	%
Imported	-	0%	1,950	6%
Indigenous	4,005	100%	29,233	94%
	<b>4,005</b>	<b>100%</b>	<b>31,183</b>	<b>100%</b>

### 2.39 Segment information

The Company has considered business segment as the primary segment for disclosure. The Company is engaged in the manufacture and trading of Pharmaceuticals products in India and is governed by a similar set of risks and returns. Hence, in the view of the management the entity operates in only one business segment, 'Pharmaceutical manufacturing and trading' and in one geographical segment, 'In India'. Consequently, no information under the requirements of the Accounting Standard 17 on segment reporting has been provided.

### 2.40 Hedging and derivatives

- There are no outstanding forward exchange contracts as at the year end.
- Foreign currency exposures as at 31 March 2012 and 31 March 2011 that have not been hedged by derivative instruments or otherwise:

	For the year ended 31 March 2012		For the year ended 31 March 2011	
	USD	INR	USD	INR
Loans and advances	584,223	26,086	584,223	26,086
Trade payables	45,524	2,033	45,524	2,033
Trade receivables	4,619	206	8,716	389
Other payables	65,914	3,372	-	-
	GBP	INR	GBP	INR
Trade payables	479	39	-	-

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.41 Related party transactions

Information relating to Related Party transactions as per "Accounting Standard (AS) 18" notified by the Companies (Accounting Standards) Rules, 2006.

(A) Name of the Related Party*	Relationship
Ranbaxy Laboratories Limited	Entity holding more than 20%
Daiichi Sankyo Company Limited	Entity holding more than 20%
Zenotech Farmaceutica Do Brasil Limiteda, Brazil	Subsidiary
Zenotech Laboratories Nigeria Limited, Nigeria	Subsidiary
Zenotech, Inc., USA	Subsidiary
Credence Organics Private Limited	Associate
Dr. Jayaram Chigurupati–Co-Managing Director***	Erstwhile Promoter and Key Management Personnel**
Mr. Bimal K Raizada – Co-Managing Director	Key Management Personnel

\*The Company does not have a complete list of related parties due to absence of non receipt of form 24AA "Notice by the Interested Directors" from one of its directors namely Dr. Jayaram Chigurupati under Section 299 of the Companies Act, 1956 for the year and in the absence of non receipt of said declaration from two its directors namely Dr. Jayaram Chigurupati and Mr. A Raghu Vasu for the year ended 31 March 2011. Parties identified and disclosed related to these is based on earlier years audited financial statements.

\*\*Consequence to completion of open offer formalities by Daiichi in September 2010, Dr. Jayaram Chigurupati and Associates ceased to be promoters, however, Dr. Jayaram Chigurupati continues to be Co-Managing Director of the Company.

\*\*\*Ceased to be as Managing Director effective from 1 October 2012 on completion of the five year term as per reappointment approved in the Annual General Meeting dated 8 November 2007.

### (B) Particulars of related party transactions

#### i) Details of related party transactions :

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>i. Transaction with entity holding more than 20%</b>		
Sales to Ranbaxy Laboratories Limited	14,947	68,061
Royalty income from Ranbaxy Laboratories Limited	4,429	-
Reimbursement of expenses by Ranbaxy Laboratories Limited	6,119	-
<b>ii. Transaction with subsidiaries</b>		
Provision for diminution in investment - Zenotech Inc., USA	-	10,560
Provision for advances - Zenotech Inc., USA	-	2,233
Provision for loans - Zenotech Inc., USA	-	23,039
Provision towards share application money - Zenotech Inc., USA	-	11,055
<b>iii. Transaction with associates-Credence Organics Private Limited</b>		
Interest accrued on loan	-	183
Provision for diminution in investments	-	24
Provision for loans	-	2,430

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### (B) Particulars of related party transactions (Contd.)

#### i) Details of related party transactions (Contd.)

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>iv. Transaction with Key Management Personnel</b>		
Reimbursement of expenses to Mr. Bimal K Raizada	301	-
Reimbursement of expenses	-	54
Advance received from Dr. Jayaram Chigurupati	1,100	-
Advance repaid to Dr. Jayaram Chigurupati	1,100	-
Remuneration paid to Dr. Jayaram Chigurupati	-	2,280
Remuneration payable to Mr. Bimal K Raizada	1,552	-

#### ii) The Company has the following amounts due to/from related parties:

	As at 31 March 2012	As at 31 March 2011
<b>i. Amount Due from :</b>		
Ranbaxy Laboratories Limited	3,745	3,534
<b>ii. Amount payable to :</b>		
Ranbaxy Laboratories Limited	6,596	812
Zenotech Inc., USA	1,985	1,985
Mr. Bimal K Raizada	1,588	-
<b>iii. Advance towards share capital :</b>		
Zenotech Farmaceutica Do Brasil Limiteda, Brazil	31,956	31,956
Zenotech Laboratories Nigeria Limited, Nigeria	2,614	2,614
Zenotech Inc., USA	11,055	11,055
<b>iii. Advance outstanding :</b>		
Zenotech Laboratories Nigeria Limited, Nigeria	814	814
Zenotech Inc., USA	2,233	2,233
<b>iv. Loan due from :</b>		
Zenotech Inc., USA	23,039	23,039
Credence Organics Private Limited	2,430	2,430

Also refer Note 2.28. Outstanding balance are before considering provision made.

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.42 Breakup of revenue from sale of manufactured and traded products

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>Manufactured</b>		
Formulation		
Oncology	8,934	43,935
G-CSF	-	20,460
G-MCSF	69	4,519
IL 2	-	2,737
API	588	-
<b>Traded</b>		
Oncology	7,883	-
	<b>17,474</b>	<b>71,651</b>

### 2.43 Breakup of purchase of raw and packing materials

	For the year ended 31 March 2012	For the year ended 31 March 2011
Oncology	426	10,007
Biotech R&D chemicals	1,590	4,863
Other chemicals	738	6,611
Packing materials	362	3,174
	<b>3,116</b>	<b>24,655</b>

### 2.44 Breakup of purchase of traded goods

	For the year ended 31 March 2012	For the year ended 31 March 2011
Oncology	7,057	-
	<b>7,057</b>	-

### 2.45 Breakup of consumption of raw materials

	For the year ended 31 March 2012	For the year ended 31 March 2011
Oncology	1,295	10,913
Biotech R&D chemicals	1,604	6,116
Other chemicals	754	9,132
Packing materials	352	5,022
	<b>4,005</b>	<b>31,183</b>

## Notes on Accounts (Contd.)

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

### 2.46 Breakup of inventories

	As at 31 March 2012	As at 31 March 2011
<b>Raw and packing material</b>		
Oncology	34	977
Biotech	247	202
Packing materials	2,672	2,663
	<b>2,953</b>	<b>3,842</b>
<b>Finished Goods</b>		
Oncology	-	4,124
G-MCSF	-	65
	-	<b>4,189</b>
<b>Work in progress</b>		
Oncology	-	7
	-	<b>7</b>

### 2.47 Leases

The Company is obligated under cancellable operating lease agreements. Total rental expense under cancellable operating leases was Rs.1,145 (previous year: Rs 2,317) which has been disclosed as 'Rent' in the statement of profit and loss.

### 2.48 Micro and Small Enterprises

The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allotted after filing of the Memorandum. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2012 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the Micro, Small and Medium Enterprises Development Act, 2006 is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.

	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>Principal</b> The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year	Nil	Nil
<b>Interest</b> The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the year	Nil	Nil
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise	Nil	Nil

**Notes on Accounts (Contd.)**

(All amounts in thousands of Indian Rupees except share data and where otherwise stated)

**2.49 Employee Stock Option Scheme**

- a) Under the Zenotech Employee Stock Option Scheme 2005, the company granted 17,000 options (net of options lapsed) of which 4,250 vested options have been exercised during year 2009-10, issued 2,500 shares and balance is pending for allotment. Accordingly Rs. 1.22 lakhs received on exercise of options has been shown under "Share Application Money pending allotment".
- b) The Company uses the fair value method for accounting employee share based payments.
- c) The company has not disclosed the impact on the net results and earnings per share (both basic and diluted) for the year using the fair value method as required in terms of the Guidance Note on Accounting for Employee Share-based Payment issued by the Institute of Chartered Accountants of India.

**2.50 Deferred Taxation:**

The Company has significant amount of outstanding business loss and unabsorbed depreciation. In the absence of virtual certainty of realisation, the Company has not recorded the cumulative deferred tax asset as on March 31, 2012 and for the year arising on account of timing differences, as stipulated in Accounting Standard (AS) 22 – Accounting for taxes on income.

- 2.51** Till the year end 31 March 2011, the Company was using pre-revised Schedule VI to the Companies Act 1956, for preparation and presentation of its financial statements. During the year ended 31 March 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the Company. The Company has reclassified the previous year figures to confirm to current year's classification. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it significantly impacts presentation and disclosure made in the financial statement, particularly presentation of balance sheet.

---

As per our report of even date attached  
for **B S R & Associates**  
Chartered Accountants  
Firm Registration Number:116231W

**Sriram Mahalingam**  
Partner  
Membership No.: 049642

Place : Hyderabad  
Date : 14 November 2012

for and on behalf of the Board of Directors of  
**Zenotech Laboratories Limited**

**Dr. Sudershan K. Arora**  
Chairman

**B. K. Raizada**  
Managing Director

**I. Srinivas**  
Company Secretary

Place : New Delhi  
Date : 14 November 2012