

MERCURY

26th Annual Report 2006-2007



MERCURY LABORATORIES LIMITED



MERCURY

WHERE YOUR WELL - BEING MATTERS

An ISO 9002 Company

**BOARD OF DIRECTORS**

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

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

BANKERS

State Bank of India,

AUDITORS

Naresh & Company,
 Chartered Accountants
 Vadodara.

REGISTERED OFFICE

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

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

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

UNIT No. 2

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

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NOTICE

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

Ordinary business:

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

Special Business :

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

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

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

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

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

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

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



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

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

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

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

For and on behalf of the Board,

Date : 31.07.2007
Place: Vadodara

Rajendra R. Shah
Chairman & Managing Director

Notes:

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

ANNEXURE TO NOTICE

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

Item Nos. 5 & 6 :

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



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

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

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

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

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



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

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

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

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

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

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

The Board recommends the resolutions for adoption.

Item No. 7

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

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

The Directors recommend the resolution for adoption.

For and on behalf of the Board,

Date : 31.07.2007

Place: Vadodara

Rajendra R. Shah
Chairman & Managing Director

ANNEXURE TO THE NOTICE OF ANNUAL GENERAL MEETING.

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

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



DIRECTORS' REPORT

To,
The Members,
Mercury Laboratories Limited

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

1. FINANCIAL RESULTS :

(Rs. in Lacs)

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

2. Dividend :

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

3. Operations in Retrospect:

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

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

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

**4. MANAGEMENT DISCUSSION & ANALYSIS :****a. Industry Structure and Developments:**

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

b. Opportunities and Threats :

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

c. Outlook :

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

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

d. Risks and concerns :

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

e. Internal Control System and their adequacy :

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

f. Financial Performance :

Financial performance of the Company has been indicated hereinabove.

g. Human Resources/Industrial Relations :

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

5. Directors' Responsibility Statement :

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

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

6. Directorate :

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

**7. Statutory Disclosures :**

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

8. Corporate Governance :

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

9. Dematerialisation of Shares :

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

10. Auditors :

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

11. Deposits :

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

12. Insurance :

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

13. Appreciation :

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

For and on behalf of the Board,

Date : 31-07-2007
Place: Vadodara

Rajendra R. Shah
Chairman & Managing Director

**ANNEXURE A**

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

A. CONSERVATION ENERGY :

(a) Energy Conservation measure taken :

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

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

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

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

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

(d) Detail Energy Consumption for production

a Power and fuel Consumption :

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

b Consumption per unit production :

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

B. TECHNOLOGY ABSORPTION :

Research Development an Technology Absorption :

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

C. FOREIGN EXCHANGE EARNING AND OUT GO :

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



Annexure B

Compliance Report on Corporate Governance :

In compliance with Clause 49 of the Listing Agreement entered into with Over the Counter Exchange of India (OTCEI), the Company submits its report on the matters mentioned in the said Clause and lists its practices followed as under.

1. Company's Philosophy on Code of Corporate Governance. :

Mercury Laboratories Limited' philosophy on Corporate Governance envisages working towards high levels of transparency, accountability, consistent value systems, delegation, across all facets of its operations. The Company's Corporate Governance philosophy has been further strengthened through its Code of Conduct, Code of Conduct for prevention of Insider Trading as also the Code of Corporate Disclosure practices leading to sharply focused and operationally efficient growth. The business operations are conducted to benefit its all stakeholders, including shareholders, employees, customers, suppliers and statutory authorities.

2. Board of Directors. :

The Board of Directors is consisting of Five directors with a Chairman and Managing Director, Executive Director and three Independent Non Executive Directors as on 31st March, 2007. The Composition of the Board is in conformity with Clause 49 of the Listing Agreement entered into with the Over the Counter Exchange of India (OTCEI). None of the Directors on the Board is a Member of more than 10 Committees or Chairman of more than 5 Committees as specified in Clause 49, across all the Companies in which he is a Director. Necessary disclosure regarding Committee position in other Public Companies as at 31st March, 2007 has been made by the Director. A brief resume of the directors being re-appointed at the Annual General Meeting, the nature of their expertise in specific functional areas and names of companies in which they hold directorship and membership of the committees of the Board is annexed to the Notice. Whereas the names and categories of the Directors, their attendance at Board Meetings, Annual General Meetings, No of directorships in other Companies and committee meetings etc. are given below.

Name of Director	Category of Director	No. of Board Meetings attended during 2006-07	Whether attended last AGM
Rajendra R. Shah	Executive Chairman & Promoter	4	Yes
Dilip R. Shah	Executive & Promoter	3	Yes
Dr. Dinesh Shah	Independent Non executive	5	No
Dr. Tushar Shah	Independent Non executive	5	No
Suryakant B Parikh	Independent Non executive	5	Yes

None of the directors is director or member or chairman of any other domestic public limited Company.

Board Meetings :

During the year 2006-2007, the Board met Five times on 29-04-2006, 29-07-2006, 16-10-2006, 27-1-2007 and 30-03-2007. The longest gap between any two Board Meetings did not exceed four months.

None of the Directors on the Board holds the office of Director in more than 15 Companies nor are they members in Committees of the Board in more than 10 Committees or Chairman of more than 5 Committees.

None of the Non Executive Directors have any material pecuniary relationship or transactions with the Company. Necessary information as mentioned in Annexure 1A to the Clause 49 of the Listing Agreement has been placed before the Board for their consideration.

Shareholding of Directors :

Names of Directors	No. of Shares held
Shri Rajendra R. Shah	4,59,000 (6.79 %)
Shri Dilip R. Shah	3,74,103 (5.53 %)

3. Audit Committee:

The Board of Directors had constituted an Audit Committee, comprising Three Independent, Non-Executive Directors viz Serveshri Suryakant Parikh, (Dr.) Dinesh Shah and (Dr.) Tushar Shah. The Chairman of the Committee is Shri Suryakant Parikh.

The primary objective of the Audit Committee is to monitor and effectively supervise the Company's financial reporting process with a view to provide accurate, timely and proper disclosures and the integrity and quality of the financial reporting.



The constitution of Audit Committee also meets with the requirements under Section 292A of the Companies Act, 1956 and Clause 49II(D) of the Listing Agreement and the terms of reference stipulated by the Board for the Audit Committee, covers the matters specified, which are as under.

- A. The Audit Committee shall have the following powers:
1. To investigate any activity within its terms of reference.
 2. To seek information from any employees.
 3. To obtain outside legal or other professional advice.
 4. To secure attendance of outsiders with relevant expertise, if it considers necessary.
- B. The Role of the Audit Committee shall include the followings:
1. Overseeing the Company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
 2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of Statutory Auditors and fixation of audit fees.
 3. Approval of payment to Statutory Auditors for any other services rendered by the Statutory Auditors.
 4. Reviewing with the management, the annual financial statements before submission to the Board for approval, with particular reference to
 - Matters required to be included in the Directors' Responsibility Statement to be included in the Directors' Report in terms of sub-section (2AA) of Section 217 of the Companies Act, 1956.
 - Changes, if any, in accounting policies and practices and reasons for the same.
 - Major accounting entries involving estimates based on the exercise of judgment by management.
 - Significant adjustment made in the financial statements arising out of audit findings.
 - Compliance with listing and other legal requirements relating to financial statements.
 - Disclosure of related party transactions.
 - Qualification in draft Audit Report.
 5. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
 6. Reviewing with the management, the performance of Statutory and Internal Auditors, adequacy of internal control system.
 7. Reviewing the adequacy of Internal Audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of Internal Audit.
 8. Discussion with Internal Auditors, any significant findings and follow up thereon.
 9. Reviewing the findings of any internal investigations by the Internal Auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
 10. Discussion with Statutory Auditors before the Audit Commences, about the nature and scope of audit as well as post audit discussion to ascertain any area of concern.
 11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, Shareholder (in case of non payment of declared dividends) and creditors.
 12. To review the functioning of the Whistle Blower Mechanism.
 13. Carrying out such other function as may be specifically referred to the Committee by the Board of Directors and/or other Committees of Directors of the Company.
 14. To review the following information
 - The management discussion and analysis of financial condition and results of operations;
 - Statement significant related party transactions (as defined by the Audit Committee), submitted by management;
 - Management letter/letters of internal control weakness issued by the Statutory Auditors; Internal Audit Reports relating to internal control weakness; and
 - The appointment, removal and terms of remuneration of Internal Auditors.
 15. Reviewing the financial statements and in particular the investments made by the unlisted subsidiaries of the Company.
- During the year 2006-2007, Four Audit Committee meetings were held on 29-04-2006, 29-07-2006, 16-10-2006, and 27-1-2007, details of attendance of Members at the Meetings of the Audit Committees held during 2006-2007 are as under.

Name of Directors	No. of Meeting held	Meeting Attended
Shri Suryakant Parikh	4	4
Shri (Dr.) Dinesh Shah	4	4
Shri (Dr.) Tushar Shah	4	4

The Manager (Accounts and Finance) being the Chief Financial Officer attend the meetings regularly.



4. Remuneration Committee :

The Board of Directors has formed a Remuneration Committee to review and recommend the remuneration package of the whole time director, based on performance and defined criteria, which consist of Serveshri Suryakant Parikh, (Dr.) Dinesh Shah and (Dr.) Tushar Shah. The Chairman of the Committee is (Dr.) Tushar Shah.

The Remuneration Committee has been constituted to recommend /review remuneration of the Executive Director based on their performance and defined assessment criteria.

Remuneration Policy of the Company is directed towards rewarding performance, based on the review of achievements. The Remuneration policy is in consonance with the existing Industry practice.

During the year, the Remuneration Committee has meet on 30th March, 2007 and considered and recommended re-appointment of Shri Rajendra R. Shah, as the Managing Director for a period of 5 (Five) Years with effect from 1st April, 2007 and payment of remuneration to him and also revised the remuneration of Shri Dilip R. Shah, the Executive Director with effect from 1st April, 2007 till the end of his present tenure, within the Schedule XIII of the Companies Act, 1956.

The aggregate value of salary and perquisites for the year ended 31st March, 2007 paid to Shri Rajendra R. Shah the Managing Director and Shri Dilip R. Shah, the Executive Director, are as follows. (Amount in Rs.)

	Managing Director	Executive Director
Salary	4,70,000	4,70,000
Perquisites	1,23,790	33,913
Total	5,93,790	5,03,913

Subject to the approval of the Shareholders, Shri Rajendra Shah and Shri Dilip Shah, have been appointed as the Managing Director and Executive Director for a tenure of five years with effect from 1.4.2007 and 1.8.2007, respectively, under the Agreements which can be terminated by either party giving three months' notice in writing.

Non Executive Directors do not draw any remuneration. However, sitting fees were paid to them @ Rs.2,000/- per Board Meeting and @ Rs. 500/- per Committee Meeting, during the year under review.

Details of sitting fees paid to Non Executive Directors during the year 2006-2007.

Name of Directors	Sitting Fees (in Rs.) paid
Shri (Dr.) Dinesh Shah	14,500
Shri (Dr.) Tushar Shah	14,500
Shri Suryakant Parikh	14,500

As of now, the Company does not have any employee stock option plan..

There were no other pecuniary relationship or transactions of the Non Executive Director vis-à-vis the Company.

The Company has not granted any stock option to any of its Directors.

5. Shareholders' Grievance Committee.:

The Board of Directors had constituted a Shareholders' Grievance Committee, comprising three Independent Non-Executive Directors viz Serveshri (Dr.) Dinesh Shah, Suryakant Parikh and (Dr.) Tushar Shah. The Chairman of the Committee is Shri (Dr.) Dinesh Shah.

The Committee, inter alia, oversees and reviews all matters connected with the securities and looks into shareholders complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividend etc. The Committee oversees the performance and the working of M/s. Intime Spectrum Registry Ltd., the Registrar & Transfer Agent and of the Secretarial Department and recommends measures for overall improvement in the quality of investor services.

During the year 2006-2007, the Shareholders' Grievance Committee met on 29-04-2006, 29-07-2006, 16-10-2006, and 27-1-2007, Details of Attendance of Members at the Meetings of the Shareholders' Grievance Committees held during 2006-2007 are as under.

Name of Directors	No. of Meeting held	Meeting Attended
Shri (Dr.) Dinesh Shah	4	4
Shri Suryakant Parikh	4	4
Shri (Dr.) Tushar Shah	4	4

The Company has designated Mr. Bharat Patel as Compliance Officer.

Three complaints were received and resolved to the satisfaction of shareholders during the year under review. No complaints are outstanding and no request for transfer was pending for approval as on 31st March, 2007



6. General Body Meetings :

Particulars of the last 3 Annual General Meetings held are as under.

Date	Time	Place	Details of Special Resolution passed
24.09.2004	03.00 p.m	At the Registered Office	—
18.08.2005	03.00 p.m	At the Registered Office	—
25.09.2006	03.00 p.m.	At the Registered Office	—

No postal ballots were used for voting at these meetings as the same was not required. Presently the Company does not have any proposal that requires a postal ballot.

7. Disclosures.:

- I) Related Party transactions, comprising of contracts or arrangements with the Promoters or other Companies/entities in which the Directors are interested, are entered in the Register of Contracts and placed before Board Meeting as per Section 301 of the Companies Act, 1956. None of the transactions with any of the related parties were in conflict with the interest of the Company.
- II) There were no instances of non-compliance and no strictures and penalties have been imposed on the Company by the Stock Exchange or SEBI or any statutory authorities, on any matters related to capital markets, during the last three years.

8.1 Compliance of Mandatory Requirements :

The Company has complied with the mandatory requirements as stipulated in Clause 49 of the listing agreements with the OTC Exchange of India.

8.2 Compliance of Non Mandatory Requirements :

The Company has adopted the non-mandatory requirements as regards the provisions relating to the Remuneration Committee. The Quarterly Financial Results are extensively published in newspapers, uploaded on the Company's website and also sent to the shareholders on request. The Company affirms that no employee has been denied access to the Audit Committee. As regards the other non mandatory requirements the Board has taken cognizance of the same and shall consider adopting the same as and when necessary.

9. Means of communication :

The annual and quarterly results are regularly published by the Company in Nav Shakti (Marathi) and Free Press Journal (English), the News Papers as per the Stock Exchange requirements. In addition, these are also submitted to the Stock Exchanges in accordance with the Listing Agreement. Financial Results are supplied through E-Mail & posts to the Shareholders on demand.

The Management Discussion and Analysis (MD&A) is a part of the Annual Report.

10. General Shareholder information. :

10.1 Annual General Meeting :

- Date and time : Saturday, the 29th September, 2007 at 3.30 p.m.
- Venue : At the Registered Office at 18, Shreeji Bhuvan, 51, Mangaldas Road, Princess Street, Mumbai.

10.2 Financial Calendar :

Board Meeting to approve	Period
Unaudited Financial results for	
Quarter ending September 30 th ,2007	: By end of October,2007
Quarter ending December 31 st ,2007	: By end of January,2008
Quarter ending March 31 st , 2008	: By end of April, 2008
Quarter ending June 30 th ,2008	: By end of July, 2008
Audited Results for year 2007-08	: By end of August, 2008.

10.3 Dividend Payment Date : On or after 29th September, 2007

10.4 Details of Book Closure Dates for the purpose of dividend and AGM :

To determine the entitlement of shareholders to receive the Dividend, for the year ended 31st March, 2007 as well as for the purpose of AGM, the Register of Members and Share Transfer Books of the Company will remain closed from Monday, the 24th September, 2007 to Saturday, the 29th September, 2007 (Both days inclusive).

**10.5 Dividend Remittance:**

Dividend on Equity Shares as recommended by the Directors for the year ended 31st March, 2007 when declared at the AGM, will be paid:

- (i) to those members whose names appear on the Register of Members of the Company, after giving effect to all valid share transfers in physical form lodged with the Company on or before Saturday, the 29th September, 2007.
- (ii) In respect of shares held in electronic form to those "deemed members" whose names appear in the statements of beneficial ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) as at the end of business hours on Saturday, the 29th September, 2007

10.6 Listing of Equity Shares : At Over the Counter Exchange of India (OTCEI)

10.7 Stock Code : Not Applicable
Trading Symbol OTCEI : Not Applicable
Demat ISIN Number : INE947GO1011

10.8 Stock Market Data :

No Shares of the Company were traded at OTC Exchange during the period under review. Hence the Stock Market Data are not given.

10.9 Registrar and Share Transfer Agent :

Intime Spectrum Registry Ltd.
 308, 1st Floor, Jaldhara Complex,
 Opp. Manisha Society, Manisha Char Rasta,
 Old Padra Road, Vadodara – 390 015.
 Phone : (0265) 2250241 / 246
 E-mail: vadodara@intimespectrum.com

10.10 Share Transfer System :

Presently, the share transfers which are received in physical form are processed the Registrar and Transfer Agent and the share certificates are returned within a period of 30 days from the date of receipt, subject to the documents being valid and complete in all respects.

10.11 Distribution of Shareholding as on 31st March, 2007 :

Shareholding (No of Shares)	No. of Shareholders	% of Total	No of shares	% of Total
1 - 500	817	89.49	1,45,500	12.12
501 - 1000	40	4.38	35,900	2.99
1001 - 2500	23	2.52	40,900	3.41
2501 - 5000	15	1.64	58,500	4.88
5001 - 10000	2	0.22	15,850	1.32
10001 - 20000	16	1.75	9,03,350	75.28
20001 & above	Nil	Nil	Nil	Nil
Total	913	100.00	12,00,000	100.00

The Company has not issued any GDRs/ADRs/Warrants or any convertible instrument.

10.12 Dematerialisation of Shares :

The Shares of the Company has already been allotted ISIN INE947GO1011 by NSDL & CDSL

10.13 Plant locations : at 2/13-14 BIDD, Gorwa Industrial Estate, Baroda and
 : at Jarod, Dist. Vadodara.

10.14 Address for Correspondence for settlement of Shares related Grievances. : Intime Spectrum Registry Ltd.
 at their office addresses mentioned at 10.8, above



AUDITORS' CERTIFICATE

TO THE MEMBERS OF MERCURY LABORATORIES LIMITED

We have examined the compliance of conditions of Corporate Governance by MERCURY LABORATORIES LIMITED for the year ended on 31st March, 2007 as stipulated in clause 49 of the Listing Agreement of the said Company with OTC Stock Exchange of India.

The Compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to producers and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company. In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For, Naresh & Co.
Chartered Accountant

Anil Shah

Partner

Place : Vadodara

Date : 31/07/2007

Membership No. : 35309

Declaration regarding Compliance by Board Members and Senior Management Personnel with the Company's Code of Conduct :

This is to confirm that the Company has adopted a Code of Conduct for its employees, Non executive Directors and Executive Director, which is also available on the Company's web site.

I confirm that the Company has, in respect of the financial year ended 31st March, 2007 received from the Senior Management Team of the Company and the Members of the Board, a declaration of Compliance with the Code of Conduct as applicable to them.

For the purpose of this declaration, Senior Management Team means the Chief financial Officer, the Company Secretary and other employees in the Executive Vice President cadre as on 31st March, 2007.

Date: 31/07/2007

Place: Vadodara

Rajendra R. Shah
Chief Executive Officer

CERTIFICATE

To,
The Board of Directors,
Mercury Laboratories Ltd.

This is to certify that;

We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief: these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading, these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations, There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct we accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

We have indicated to the auditors and the Audit Committee,

- significant changes in Internal Control during the year;
- significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
- instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant rolls in the Company's internal control system.

For Mercury Laboratories Ltd.

Date: 31/07/2007

Place: Vadodara

Rajendra R. Shah
CEO & Managing Director

**ANNEXURE C**

Company Identification No. : U74239MH1982PTC026341

Authorised Capital : Rs.200 Lacs

Date of AGM : 29-09-2007

COMPLIANCE CERTIFICATE

To,
The Members
MERCURY LABORATORIES LIMITED
18, Shreeji Bhuvan, 51, Mangaldas Road,
Princess Street,
Mumbai.

I have examined the registers, records, books and papers of MERCURY LABORATORIES LIMITED as I have examined the registers, records, books and papers of MERCURY LABORATORIES LIMITED as required under the Companies Act, 1956, (the Act) and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended 31st March, 2007. In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year.

1. The Company has kept and maintained all registers as stated in Annexure "A" to this certificates as per the provisions of the Act and the rules made thereunder and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure "B" to this certificate, with the Registrar of Companies, within the time prescribed under the Act and the rules made there under.
3. The Company being Public limited Company has the minimum prescribed paid-up capital and its maximum number of members during the said financial year were 913 (Nine Hundred Thirteen only).
 - (i) has not invited public to subscribe for its shares or debentures; and
 - (ii) has accepted deposits from persons other than its members, Directors or their relatives and complied with relevant rules.
4. The Board of Directors duly meet 5 (Five) times on 29.04.2006, 29.07.2006, 16.10.2006, 27.01.2007 and 30-3-2007 in respect of which meetings proper notices were given and the proceedings including Circular Resolutions passed by the Directors, were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company closed its Register of Members from 18.09.2006 to 25.09.2006 (both days inclusive), during the financial year.
6. The Annual General Meeting for the financial year ended on 31.03.2006 was held on 25.09.2006 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. No Extra Ordinary General Meeting was held during the period under review.
8. The Company has not advanced loan to its Directors and / or persons or firms or Companies referred to under Section 295 of the Act except to a firm listed in the Register maintained under Section 301 of the Act, during the year under review.
9. The Company has duly complied with the provisions of Section 297 of the Act in respect of the Contracts specified in that Section.



10. The Company has made necessary entries in the Register maintained under Section 301 of the Act.
11. There were no instances falling within the purview of Section 314 of the Act.
12. The Company has not issued any duplicate share certificates during the financial year.
13. (i) During the year under review, the Company has not allotted any shares but registered transfer of shares as per transfer requests with duly executed valid documents received.
(ii) The Company has deposited amount of Dividend @ 12% in Separate Bank Account and paid dividend as declared, during the year.
(iii) The Company has posted warrants to all members of the Company.
(iv) The Company was not required to transfer any amount in unclaimed dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have been remained unclaimed or unpaid for the period of Seven years to Investor Education and Protection Fund and hence the same was not done.
(v) The Company has duly complied with the requirement of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted and there was no change in the Directorate during the year under review.
15. The Company, being a Public Limited Company, Provision of the Act with regard to appointment of Managing Director and an Executive Director and payment of remuneration to each of them, as are applicable, have been complied with.
16. The Company has not made appointment of any sole-selling agent during the year under review.
17. The Company was not required to obtain any approval of the Central Government, Company Law Board, Regional Director, Registrar or such authorities as may be prescribed under the various provisions of the Act.
18. The Directors have disclosed their interest in other firms/Companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder.
19. The Company has not issued any Shares, Debentures or other securities during the financial year.
20. The Company has not bought back any shares during the financial year.
21. There were no redemption of preference shares or debentures during the financial year.
22. There were no transactions necessitating the Company to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The Company has accepted deposit from public including unsecured loans falling within the purview of Section 58A during the financial year and duly complied with the provisions of the Act and relevant rules.
24. The Company, being a Public Company, the borrowing made during the year, do attract provision of Section 293(1)(d) of the Act and the Company has already complied with requirements of relevant provisions of the Act.
25. In respect of loan and guarantee provided and loan availed by the Company, necessary compliance has since been made by the Company as required in terms of Section 372A of the Act.
26. The Company has not altered the provisions of the Memorandum with respect to situation Clause of the Company's Registered Office from one State to another State during the year under scrutiny.
27. The Company has not altered the provisions of Memorandum with respect to the Object Clause of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to Name Clause of the Company during the year under scrutiny.



29. The Company has not altered the provisions of the Memorandum with respect to Share Capital Clause of the Company during the year under scrutiny.
30. The Company has not altered its Articles of Association of the Company during the year under scrutiny.
31. There was no prosecution initiated against or show cause notices received by the Company during the financial year, for offences under the Act.
32. The Company has not received any money as security from the employees during the financial year.
33. The Company has deducted and deposited contribution towards Provident Fund with appropriate authorities pursuant to Section 418 of the Act.

Place : Baroda
Date : 31.07.2007

Signature : Sd/-
Name of Company Secretary : Jayesh Vyas
C.P.NO. : 1790
F.C.S.NO. : 5072

Annexure "A"

Registers as maintained by the Company

1. Register of Charges u/s.143.
2. Register of Members u/s.150.
3. Minutes Book of Board Meetings u/s.193.
4. Minutes Book of General Meetings u/s.193.
5. Register of Disclosures of interest by Directors u/s.301.
6. Register of Contract u/s.301.
7. Register of Directors u/s.303.
8. Register of Directors Shareholdings u/s.307.
9. Register of Investment, Loans & Guarantee u/s 372A.

Annexure "B"

Forms and Returns as filed by the Company with the Registrar of Companies during the financial year ending on 31st March, 2007.

1. Annual Return filed u/s.159.
2. Balance Sheet filed u/s.220.
3. Statement in Lieu of Advertisement u/s.58A.
4. Return of Deposit u/s.58A.
5. Compliance Certificate u/s. 383A.
6. Form No.8 u/s.127



AUDITORS' REPORT

To the Members

We have audited the attached Balance Sheet of **MERCURY LABORATORIES LIMITED** as at **31st MARCH 2007** and also the Profit & Loss Account of the Company, for the year ended on that date, annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditors Report) Order, 2003 and Companies (Auditors Report) Order (Amendment) 2004 (hereinafter collectively referred to as "CARO") issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraph 4 & 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above :
 - a. We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our Audit.
 - b. In our opinion, proper books of accounts as required by the law have been kept by the Company, so far as appears from our examination of the said books.
 - c. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts of the Company.
 - d. In our opinion, the Balance Sheet & the Profit & Loss Account annexed thereto and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section 3(C) of Section 211 of the Companies Act, 1956.
 - e. On the basis of written representations received from the directors, as on 31st March, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f. In our opinion and to the best of our information and in accordance with the explanations given to us, the said Balance Sheet and the Profit & Loss Account annexed thereto and the Cash Flow Statement, read together with the Significant Accounting policies and Notes on Accounts (Schedule - O), give the information as required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India :-
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007, and
 - (ii) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date.
 - (iii) in the case of the Cash Flow Statement, of the Cash Flows of the Company for the year ended on that date

For, Naresh & Co.
Chartered Accountant

Anil L. Shah
Partner

Membership No. : 35309

Place : Vadodara
Date : 31/07/2007

**ANNEXURE TO AUDITORS' REPORT**

(Referred to in paragraph 1 or our report of even date on the accounts for the year ended 31st March 2007 of Mercury Laboratories Limited)

- (i) (a) The Company has maintained proper records showing full particulars including Quantitative Details and situation of the Fixed Assets for the last Seven years. As informed to us, the Company is in the process of updating its old records.
- (b) All the assets have not been physically verified by the management during the year but there is a regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed to us, no material discrepancies were noticed on such verification.
- (c) During the year, the Company has not disposed off any of its fixed assets.
- (ii) (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- (b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventory, we are of the opinion that the Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (iii) The Company has not granted unsecured loan to a Firm listed in the Register maintained under Section 301 of the Companies Act, 1956. Therefore requirement of clause (iii-b) (iii-c) and (iii-e) of CARO are not applicable.

The Company has not taken any secured or unsecured loan from Companies, Firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. Consequently, no comments are necessary on Para (iii) (e), (f) and (g) of CARO.

- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the internal controls.
- (v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to Section 301 of the Act have been entered into the register required to be maintained under that section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 and exceeding the value of five lakh rupees in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size of the Company and nature of its business.
- (viii) We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rules made by the Central Government for the maintenance



of cost records under Section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that *prima facie* the prescribed accounts and records have been maintained.

- (ix) (a) According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Income Tax, Sales Tax, VAT Tax, Custom Duty, Excise Duty, Cess, Service Tax and other material statutory dues applicable to it.

According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, VAT Tax, Customs Duty, Excise Duty, Cess, Service Tax and other applicable material statutory liabilities were outstanding, as at 31st March, 2007 for a period of more than six months from the date they became payable.

- (b) According to the records of the Company, there are no dues of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Excise Duty, Cess or other applicable statutory liabilities which have not been deposited on account of any dispute except following :

Statute	Nature of Dues	Amount (Rs. in Thousand)	Period	Forum
Sales tax	GST on Assessment	16.83	1978-79	Tribunal Appeals
Sales Tax	GST on Assessment	102.39	1979-80	Tribunal Appeals
Sales Tax	GST on Assessment	89.39	1991-92	Tribunal Appeals

- (x) The Company has no accumulated losses. The Company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.
- (xi) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to financial institutions or banks. The Company has not issued any debentures.
- (xii) As per information given to us, during the year under report, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, considering the nature of activities carried on by the Company during the year, the Company is not a Chit fund or a Nidhi / mutual benefit fund / society. Therefore, the provisions of Clause 4 (xiii) of CARO, are not applicable.
- (xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures or other investments. Accordingly, the Therefore, the provisions of Clause 4 (xiv) of CARO, are not applicable
- (xv) According to the records of the Company and based on information & explanation given to us, the Company has not given any Guarantee for Loans taken by other from Banks or Financial Institute
- (xvi) Term loans received during year have been utilized for purpose for which they were taken.
- (xvii) On the basis of review of Utilization of fund which is based on overall examination of Balance Sheet of the Company, related information as made available to us and as represented to us by management, we report that fund raised on short term basis have not been used for long term investment . Long term application of funds during the year for Investment in Fixed Assets of the Company has been financed either out of long term funds generated from Bank Loan and out of the reserve/internal accruals of the Company.
- (xviii) The Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.



- (xix) During the period covered by our audit report, the Company has not issued any debentures.
- (xx) The Company has not raised any money through public issues during the year under report.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For, Naresh & Co.
Chartered Accountant

Anil L. Shah
Partner

Membership No. : 35309

Place : Vadodara
Date : 31/07/2007

BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

DESCRIPTION	Sch.No.	31/03/2007	31/03/2006
Sources of Funds			
Shareholders Fund			
Share Capital	A	12,000.00	12,000.00
Reserves & Surplus	B	20,842.82	16,292.06
		32,842.82	28,292.06
Loan Funds			
Secured Loans	C	29,029.67	27,557.42
Unsecured Loans	D	10,527.84	9,853.30
		39,557.51	37,410.72
Deffered Tax Liability			
Deffered Tax Liability		3,991.04	3,645.51
		76,391.37	69,348.29
Application of Funds			
Fixed Assets (At Cost)			
Gross Block	E	55,599.13	46,684.72
Less : Depreciation		16,384.78	14,171.51
Net Block		39,214.35	32,513.21
Investments (At Cost)	F	63.00	63.00
Current Asstes, Loans & Advances			
Inventories	G	27,949.31	32,522.60
Sundry Debtors		39,604.42	38,209.77
Cash & Bank Balance		4,541.88	3,938.33
Loan, Advances & Deposit		12,702.38	12,304.36
		84,797.99	86,975.06
Less : Current Liabilities & Provisions			
Liabilities	H	36,898.85	42,473.71
Provisions		10,785.12	7,729.27
		47,683.97	50,202.98
Net Current Assets		37,114.02	36,772.08
		76,391.37	69,348.29

Notes forming part of the Accounts

As per our report of even date

For Naresh & Co.,

Chartered Accountants

Anil L. Shah

Partner

Membership No. : 35309

Vadodara

Date : 31/7/2007

For and on behalf of the Board,

R. R. Shah

Managing Director

Vadodara

Date : 31/7/2007

D. R. Shah

Executive Director



PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED ON 31ST MARCH 2007

RUPEES IN THOUSAND

DESCRIPTION	Sch.No.	31/03/2007	31/03/2006
Income			
Turnover	I	205,651.43	190,262.29
Less : Excise Duty		14,527.68	12,357.01
		191,123.75	177,905.28
Less : Returns		3,427.64	2,745.69
		187,696.11	175,159.59
Other Income	J	7,589.80	922.32
Total Rs.		195,285.91	176,081.91
Expenditure			
Material Consumption	K	92,210.94	90,083.11
Manufacturing Exps.	L	11,372.40	7,965.47
Employees Emoluments	M	29,853.82	24,820.46
Interest		3,916.46	3,995.04
Admn. & Selling/Distribution Exps.	N	45,637.99	40,840.12
Depreciation	E	2,213.27	1,943.21
Total Rs.		185,204.88	169,647.41
Profit Before Tax		10,081.03	6,434.50
Less : Prior Period Adjustment (Net)		-	395.69
Less : Prior Period Income tax		-	388.46
Less: Provision for Current tax		2,900.00	1,900.00
Provision for Fring Benefit tax		600.00	300.00
Provision for Deferred tax		345.54	241.54
Profit After Tax		6,235.49	3,208.81
Add : Surplus b/f from Previous year		24.55	28.87
		6,260.04	3,237.68
Available for Appropriation			
Appropriated as Under :			
Proposed Dividend		1,440.00	1,440.00
Tax on Dividend		244.73	198.13
Transfer to General Reserve		4,550.00	1,575.00
Balance c/f to Balance Sheet		25.31	24.55

Notes forming part of the Accounts

As per our report of even date

For Naresh & Co.,

Chartered Accountants

Anil L. Shah

Partner.

Membership No. :35309

Vadodara

Date : 31/7/2007

For and on behalf of the Board,

R. R. Shah

Managing Director

Vadodara

Date : 31/7/2007

D. R. Shah

Executive Director



CASH FLOW STATEMENT FOR THE YEAR ENDED ON 31ST MARCH 2007

(Pursuant to Clause 32 of the Listing Agreement)

RUPEES IN THOUSAND

Description	31/03/2007	31/03/2006
(A) Cash Flow from Operation Activities		
Net Profit before Tax and Extraordinary Items	10081.03	6434.50
Adjustment for :		
Depreciation	2213.27	1943.21
Intrest Charged	3916.46	3995.04
Bad Debts Expences	-	1897.56
Intrest Received	-85.82	-108.06
Miscellaneous Receipts	-1520.45	-332.41
Loss on Sales of Assets	-	135.98
Depericiation Recouped on Sales of Assets	-	-194.31
Operating Profit before Working Capital Changes	14604.49	13771.51
Adjustment for :		
Trade Receivables	-1394.66	-5968.73
Inventories	4573.30	-5945.22
Loans and Advances	3074.22	-120.69
Trade Payables	-6061.78	14500.36
Cash Generation from Operations	14795.57	16237.23
Interest Paid	-3916.46	-3995.04
Prior Period Ajustement (Net)	-	-395.69
Direct Taxes Paid	-3472.25	-1581.76
Net Cash from Operating Activites	7406.86	10264.74
(B) Cash Flow from Investing Activities		
Intrest Received	85.82	108.06
Miscellaneous Receipts	1520.45	332.41
Sale of Assets	-	160.00
Purchase of Fixed Assets	-8914.40	-7893.10
Net Cash Generated from Investing Activities	-7308.13	-7292.63
(C) Cash Flow from Financing Activities		
Unsecured Loans	674.54	792.53
Secured Loans	1472.24	-176.39
Dividend Paid	-1641.96	-1369.12
Net Cash Generated from Financing Activities	504.82	-752.98
Net Cash Increase/Decrease in Cash & Cash Equivalents	603.55	2219.13
Opening Balance of Cash & Cash Equivalents	3938.33	1719.20
Closing Balance of Cash & Cash Equivalents	4541.88	3938.33

Notes forming part of the Accounts

As per our report of even date

For Naresh & Co.,

Chartered Accountants

Anil L. Shah

Partner

Membership No. : 35309

Vadodara

Date : 31/7/2007

For and on behalf of the Board,

R. R. Shah

Managing Director

Vadodara

Date : 31/7/2007

D. R. Shah

Executive Director

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

Particulars	31/03/2007	31/03/2006
Schedule (A)		
Share Capital :		
Authorised		
2000000 Shares of Rs. 10 each	20,000.00	20,000.00
Issued, Subscribed & Paid Up Capital		
1200000 Equity Shares of Rs, 10 each	12,000.00	12,000.00
Fully Paid up in Cash		
Total Rs.	12,000.00	12,000.00
Schedule : (B)		
Reserves & Surplus :		
General Reserve		
Balance b/f from Previous year	12,667.51	11,092.51
Add : Set aside this year	4,550.00	1,575.00
	17,217.51	12,667.51
Share Premium Reserve	3,600.00	3,600.00
Profit & Loss A/c		
Surplus at the end of the year	25.31	24.55
Total Rs.	20,842.82	16,292.06
Schedule : (C)		
Secured Loan		
From small industrial dev.bank ltd.	4,444.88	4,861.30
From ICICI Ltd.	391.80	624.22
(Against Hyp. Of Motor Car)		
	4,836.68	5,485.52
From State Bank of India		
- Export Packing Credit	912.59	-
- Term Loans	-	218.19
- Cash Credits	3,405.40	21,853.72
- FCNRB Loan	19,875.00	-
	24,192.99	22,071.90
Total Rs.	29,029.67	27,557.42
Schedule : (D)		
Unsecured Loan		
From Public	3,280.00	2,183.00
From Others - Trade Deposit	7,247.84	7,670.30
Total Rs.	10,527.84	9,853.30

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

SCHEDULE : (E) Fixed Assets

RUPEES IN THOUSAND

Sr No	Fixed Assets	Gross Block				Depreciation			Net Block		
		As on 01.04.06	Addition	Deduction & Adjustments & Amortization	As on 31.03.07	As on 01.04.06	Recouped	For the year 2006-07	As on 31.03.07	As on 31.03.07	As on 31.03.06
1	Land	0.00	4460.22	0.00	4460.22	0.00	—	0.00	0.00	4460.22	0.00
2	Building	12892.18	1793.99	0.00	14686.17	2597.92	—	438.34	3036.26	11649.91	10294.25
3	Plant & Machinery	13931.23	998.49	0.00	14929.72	4719.87	—	652.54	5372.41	9557.31	9211.37
4	Laboratory Instruments	4367.88	484.50	0.00	4852.38	1206.26	—	205.92	1412.18	3440.20	3161.62
5	Air Condition & Equipment	4932.70	1043.31	0.00	5976.01	873.56	—	242.61	1116.17	4859.84	4059.15
6	Furniture, Fixtures & Dead stock	7852.33	133.89	0.00	7986.22	4147.55	—	503.16	4650.71	3335.51	3704.78
7	Vehicles	2708.40	0.00	0.00	2708.40	626.35	0.00	170.70	797.05	1911.35	2082.05
	TOTAL	46684.72	8914.40	0.00	55599.13	14171.51	0.00	2213.27	16384.78	39214.35	32513.21
	Previous Year	39281.91	7893.10	490.29	46684.72	12422.61	194.31	1943.21	14171.51	32513.2	26859.30



SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

Particulars	31/03/2007	31/03/2006
Schedule : (F)		
Investment At Cost		
Long - Term Investment		
Non Trade Investment		
Trade (Quoted)		
50000 Equity Shares of Rs.10 each of Mercury Phytochem Ltd. (Net of Provision for diminution in value) (Market Value - Not Available)		
Trade (Unquoted - At Cost)		
63 Equity Shares of Rs.1000 each in Baroda Industrial Development Corp.	63.00	63.00
Total Rs.	63.00	63.00
Schedule : (G)		
Current Asstes, Loans & Advances		
(A) Current Assets :		
(1) Inventories :		
(As valued & certified by Management)		
Raw Material	3,171.79	4,342.52
Work in Process	1,127.01	1,671.99
Packing Materials	2,501.49	2,415.73
Finished Goods	21,149.02	24,092.36
	27,949.31	32,522.60
(2) Sundry Debtors :		
(Unsecured)		
O/s for More than 6 Months		
- Considered Good	4,974.98	1,922.84
- Considered Doubtful	0.00	0.00
	4,974.98	1,922.84
Others		
- Considered Good	34,629.44	36,286.93
	39,604.42	38,209.77
(3) Cash & Bank Balance		
Cash on Hand	196.98	273.52
Money in Transit	0.00	0.00
Balances with Scheduled Banks		
- In Current A/c.	3,652.77	3,337.43
- Fixed Deposit	0.00	327.38
- Margin deposit	692.13	0.00
	4,344.90	3,664.81
	4,541.88	3,938.33
Total Current Assets	72,095.61	74,670.70

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

Particulars	31/03/2007	31/03/2006
(B) Loan, Advances & Deposit :		
(Unsecured, Considered Good, unless otherwise specified)		
Advances Receivable in Cash or Kind or for value to be received		
- Considered Good	7,376.05	10,602.82
- Considered Doubtful	0.00	0.00
	7,376.05	10,602.82
Balance with Excise & Customs Dept.	155.35	2.80
Tax Paid in Advance	5,170.98	1,698.74
	12,702.38	12,304.36
Total Rs.	84,797.99	86,975.06
Schedule : (H)		
Current Liabilities & Provisions :		
Liabilities		
Sundry Creditors	36,856.95	42,431.56
Interest Accrued but not due on Loans	41.90	42.15
	36,898.85	42,473.71
Provisions		
Provision for Taxation	5,700.00	2,200.00
Provision for Proposed Dividend & Tax thereon	1,684.73	1,641.96
Provision for Gratuity and Leave Encashment	3,400.39	3,887.31
	10,785.12	7,729.27
Total Rs.	47,683.97	50,202.98
Schedule : (I)		
Sales		
Indigenious Sales	154,730.42	148,542.75
Export Sales	50,170.01	40,821.64
Export Incentives	751.00	897.90
Total Rs.	205,651.43	190,262.29
Schedule : (J)		
Other Income :		
Processing Charges	5,983.53	481.85
Interest Earned	85.82	108.06
Misc. Receipts	1,520.45	332.41
Total Rs.	7,589.80	922.32

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

Particulars	31/03/2007	31/03/2006
Schedule : (K)		
Material Consumption		
Raw Materials		
Op. Stock of Raw Materials	4,342.52	3,527.46
Add : Purchases	35,175.47	37,823.52
	39,517.99	41,350.98
Less : Cl. Stock of Raw Materials	3,171.79	4,342.52
Raw Materials Consumed (a)	36,346.20	37,008.46
Packing Materials		
Op. Stock of Packing Materials	2,415.73	2,443.39
Add : Purchases	16,105.42	18,606.43
	18,521.15	21,049.83
Less : Cl. Stock of Packing Materials	2,501.49	2,415.73
Packing Materials Consumed (b)	16,019.64	18,634.10
Finished Products Purchased (c)	36,356.76	39,598.37
Increase/ (Decrease) in Stock		
Stock at Commencement		
Work in Process	1,671.99	3,763.34
Finished Goods	24,092.36	16,843.19
	25,764.35	20,606.53
Less : Closing Stock		
Work in Process	1,127.01	1,671.99
Finished Goods	21,149.02	24,092.36
	22,276.03	25,764.35
Increase/ (Decrease) in Stock (d)	3,488.32	-5,157.82
Total Rs.	92,210.94	90,083.11
Schedule : (L)		
Manufacturing Expenses :		
Manufacturing Labour Charges	521.74	766.68
Power & Fuel	3,604.21	1,962.66
Repairs & Maintenance (Plant & Machinery)	1,096.55	934.28
Repairs & Maintenance (Building)	2,112.09	1,154.49
Repairs & Maintenance (Others)	473.07	570.86
Stores & Spares	2,137.74	1,595.00
Laboratory Expenses	1,427.00	981.50
Total Rs.	11,372.40	7,965.47

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

RUPEES IN THOUSAND

Particulars	31/03/2007	31/03/2006
Schedule : (M)		
Employees Emoluments		
Salaries, Wages, Bonus & Incentives	27,676.26	22,691.08
Contribution to Pf and other funds	747.44	729.36
Employees' State Insurance Scheme	337.12	400.39
Workmen & Staff Welfare Expenses	1,093.00	999.63
Total Rs.	29,853.82	24,820.46
Schedule : (N)		
Administrative & Selling/ Distribution Expenses :		
Rent	137.96	136.65
Rates & Taxes	183.87	132.50
Insurance Premium	400.77	333.52
Packing & Forwarding Expenses	6,998.13	6,306.86
Selling Expenses	6,410.47	4,574.43
Commission & Discount	7,019.85	6,922.91
Travelling & Conveyance	15,199.17	11,903.97
General Expenses	6,441.84	5,513.84
Advertisement & Publicity	146.15	96.08
Legal Fees & Professional Charges	948.87	630.16
Auditors Remuneration	65.00	65.00
Directors Fees	43.50	28.50
Directors Remuneration	940.00	720.00
Donation	23.50	0.00
Loss on Expiry, Spoilage & Breakage	678.91	1,442.16
Loss on Sales of Vehicals	0.00	135.98
Bad - Debts	0.00	1,897.56
Total Rs.	45,637.99	40,840.12

**SCHEDULE "O"****NOTES FORMING PART OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ANNEXED THERETO :****A. SIGNIFICANT ACCOUNTING POLICIES :****1. Method of Accounting:**

- a. The accounts of the Company are prepared under the Historical Cost Convention and using the accrual method of accounting unless otherwise stated hereinafter. The accounts are prepared to comply in all material aspects with the applicable accounting principles in India and the mandatory accounting standards issued by the Institute of Chartered Accountants of India.
- b. Accounting Policies, not specifically referred to, are consistent and in consonance with generally accepted accounting principles.

2. Fixed Assets :

- a. Fixed Assets are stated at their cost of acquisition less accumulated depreciation. The cost of acquisition includes freight, installation cost, duties, taxes and other incidental expenses, identifiable with the asset, incurred during the installation / construction stage in order to bring the assets to their working condition for intended use.
- b. The Company takes Modvat Credit for the excise duty element in the cost of the Fixed Assets purchased. Furthermore, the Company also receives subsidies against purchase and installation of new plant and machinery in some cases. The cost of assets purchased which is disclosed under the head "Fixed Assets" and for the purpose of depreciation is after deducting the excise duty element as well as the subsidies received.

3. Depreciation:

- a. Depreciation on assets is being provided on the Straight Line Method in accordance with the provisions of Section 205(2)(a) and according to the classification and at the rates specified in Schedule XIV to the Companies Act, 1956 as amended via circular no. 14/93 dt. 20.12.93. As per the option given by the Circular, depreciation has been provided at old rates in respect of the Assets existing on the effective date of amendment and at new rates on the additions made subsequent to that date.
- b. No depreciation is being provided on the assets sold during the year. On the additions during the year, depreciation has been provided pro-rata on the basis of number of days for which the asset was used during the year.

4. Inventory:

- a. Raw Materials and Packing Materials are valued 'at Cost' on FIFO basis. 'Cost' includes all duties, taxes and other expenses incurred to bring the inventories to their present location and condition, except duties and taxes which are subsequently recoverable from the taxing authorities.
- b. Finished goods produced by the Company are valued at lower of cost or net realisable value.



- c. Semi-Finished goods have been valued at Raw Material cost increased by a proportion of overheads in consonance with the stage of completion as certified by the management.
- d. Stock of goods purchased for resale purposes are valued at their acquisition cost inclusive of all duties and taxes.

5. Retirement Benefits :

- a. Contributions to Provident Fund and Employees' State Insurance are accounted on accrual basis and charged to the Profit & Loss account for the year.
- b. Provisions for Gratuity (for employees with more than five years of services) and Leave encashment are being made by the Company on accrual basis and charged to the Profit & Loss account for the year.

6. Sales/Turnover and Income Recognition:

- a. Sales Income for the year includes domestic and export sales as well as export incentives.
- b. Revenue is recognized on transfer of property in goods or on transfer of significant risks and rewards of ownership to the buyer, for a consideration, without the seller retaining any effective control over the goods.
- c. Sales are accounted on dispatch of goods (which generally coincides with the transfer of ownership) and are inclusive of excise duty but net of sales tax.
- d. Export sales are accounted at their CIF value based on the actual realisation in Indian Rupees.
- e. Export Incentives include advance license benefits as well as income on sales of import licenses. Advance license benefit is also recognised on accrual basis on the licenses on hand with the Company as at the year end
- f. Other items of income including interest are accounted on accrual basis (depending on certainty of realisation) and disclosed under the head "Other Income".

7. Foreign Currency Transactions :

Transactions in foreign currency are recorded in Indian Rupees at the exchange rate prevailing on the date of the transactions. Exchange gains or losses on settlement, if any, are treated as income or expenditure respectively in the Profit and Loss Account except those relating to acquisition of fixed assets, if any, which are adjusted in the cost of such assets. Liabilities in foreign currency as well as receivables in foreign currency as on the date of the Balance Sheet have been restated at the rates of exchange prevailing as on the date of Balance Sheet. However, if the liabilities / receivable have been actually realised subsequently, the same have been recorded at that value.

8. Borrowing Costs:

According to AS-16 Borrowing costs, issued by the Institute of Chartered Accountants of India, borrowing costs that are directly attributable to the acquisition of qualifying assets are



to be capitalized for the period until the asset is ready for its intended use. A qualifying asset being, an asset that necessarily takes a substantial period of time to get ready for its intended use. Other borrowing costs are to be recognized as an expense in the period in which they are incurred. No borrowing costs were eligible for capitalization during the year.

9. Government Grants:

Government Grants / Subsidies received during the year relating to specific fixed assets have been reduced from the cost of the asset.

10. Investments:

Long Term Investments are valued at Cost. Provision for diminution, if any, in the value of Investments is made to recognise a decline, other than temporary.

11. Accounting for Taxes on Income:

- a. Provision for taxation for the year under report include provision for current tax as well as provision for deferred tax.
- b. Provision for Current tax is made, based on tax estimated to be payable as computed under the various provisions of the Income Tax Act, 1961.
- c. Deferred tax is recognised, subject to prudence, on timing differences between taxable income and accounting income that originate during the year and are capable of being reversed in one or more subsequent periods. Deferred tax assets are recognised only to the extent that there is a reasonable certainty that future taxable income will be available against which such deferred tax assets can be realised.
- d. Deferred Tax Liabilities / Assets are quantified using the tax rates and tax laws enacted or substantively enacted as on the balance sheet date.

B. NOTES ON ACCOUNTS :

1. a. Contingent Liabilities not provided for in respect of: (Rs. in Thousand)

	31.03.2007	31.03.2006
Bank Guarantees pending to be redeemed	250.00	NIL
Guarantee given to SBI for a Limited Company	NIL	NIL
Sales tax matters in dispute	208.61	208.61
Central Excise duty matter in dispute	NIL	NIL
 - b. There is no claim against Company to be acknowledged as debt.
 - c. Estimated amount of contracts to be executed on capital account not provided for Rs. NIL.
- 2 In cases where letters of confirmation have been received from the parties, book balance have been generally reconciled and adjusted. In other cases, balances in the account of sundry debtors, sundry creditors and loans and advances or deposits are taken as per the books of accounts.
 - 3 In case of Sundry Debtors and Loans & Advances which are considered good, the Company holds no security other than the personal security of the parties.



- 4 The Finances from State Bank of India are secured by way of hypothecation charges on all types of stocks, whether lying in the premises of the Company or elsewhere, books-debts, inland and Foreign bills in course of collection. The loans are further secured by way of first charge on the Plant & Machinery, equipments and all other movable assets, both present or future and also by way of Equitable Mortgage of Company's Land & Building at Vadodara and also the Building at Jarod. These loans are also personally guaranteed by the Directors of the Company.
- 5 In the opinion of the Board, the Current Assets, Loans & Advances, are expected to realize at least the amount at which they are stated, if realised in the ordinary course of business and provision for all known liabilities has been adequately made in the accounts.
- 6 Sundry Creditors for Goods includes Rs.5943.89 in Thousand (P.Y.Rs.5788.06 in Thousand) outstanding to Small scale & ancillary undertaking to whom the Company owes a sum which is outstanding for More than 30 days are : AIDS MARKETING, AYURLAB HERBALS P.LTD., ADMAC FORMULATION, FARMSONS ANALGSICS, HEENA ROTO PRINT, MARUTI PRINTERS, MAK AMPOULES P.LTD., MAK POLYPLAST P.LTD., N.J.PHARMA, PHARMA PRINTS, PARAS ENTERPRISES, PERFECT PROTINS P.LTD., SHREE RAJ CHEM, SARPIN PHARMACAL P.LTD., VAISHALI PHARMACHEM, ZEAL CORRUGRATION P.LTD.

7 Segment Reporting:

With respect to Accounting Standard 17 on Segment Reporting issued by the Institute of Chartered Accountants of India, the management is of the view the products of the Company can be classified into only one category i.e. "Pharmaceutical Formulations". Thus, the business of production and sales of pharmaceutical products belong to one segment only.

8 Deferred Taxes :

In compliance with Accounting Standard 22 on Taxes on income issued by the institute of Chartered Accountants of India, the Company has disclosed net deferred tax liability of Rs.3991.04 in Thousand for the year ended 31st March 2007 after charging net deferred tax liability for the year under report of Rs.345.53 in Thousand to the Profit and Loss Account.

The break up of the net deferred tax liability as is as under: (Rs. in Thousand)

	31.03.2007	31.03.2006
▲ Deferred tax liability on account of difference between accounting and tax depreciation	5041.95	4953.98
▲ Deferred tax asset on account of Liabilities provided in the books but allowable for tax purpose only when actually paid (prov. for Gratuity & PL encash.)	1050.91	1308.47
▲ Net Deferred tax liability as at 31st March	3991.04	3645.51

9. Earning Per Share :

	31.03.2007	31.03.2006
▲ Amount used as Numerator-Profit After Taxation	6235.49	3208.81
▲ Amount used as Denominator Weighted Average number of Equity Shares	1200.00	1200.00
▲ Nominal Value of Share	Rs. 10.00	Rs. 10.00
▲ Basic / Diluted Earnings per Share	Rs. 5.20	Rs. 2.67



10. The disclosures required under Accounting Standard 18, issued by the Institute of Chartered Accountants of India are as under:

- ▲ Remuneration and Perquisites to Mr. R.R.Shah, Managing Director Rs. 593.79 Thousand
- ▲ Remuneration and Perquisites to Mr. D.R.Shah, Executive Director Rs. 503.91 Thousand
- ▲ Rent paid to Smt. Kusumben R. Shah, relative of Directors Rs. 90.00 Thousand
- ▲ Transactions with Mercury Antibiotics P. Ltd., an enterprise managed by the relatives of directors Purchases Rs. 24313.07 Thousand, Sales Rs. 24.53 Thousand, Service Charges Recovered Rs. 60.00 Thousand. Balance as at 31st March 2007 Rs. 2507.38 Thousand (Cr.) (p.y. Rs. 1342.81 Thousand Cr.)
- ▲ Transactions with Bio-med India, a concern in which directors are partners Sales Rs.868.05 Thousand & Purchases Rs. NIL. Balance as at 31st March 2007 Rs.77.34 Thousand(Cr.) (P.Y.Rs.162.16 Thousand Cr.)

No amounts have been written off or written back during the year under report in respect of debts due from the above parties. As on the date of Balance Sheet, there is no provision for doubtful debts due from the above parties.

11 Impairment of Assets:

In accordance with the requirement of Accounting Standard - 28 on "Impairment of Assets". the Company is in the process of obtaining technical assistance for establishing any impairment of its assets. Meanwhile, in absence of any indications, external or internal, as to any probable impairment of assets, no provision has been made for the same during the year under report.

12 Contingencies\Provisions :

Contingencies which can be reasonably ascertained are provided for, if in the opinion of the Management,there is a probability that it will result in an outflow for the Company in the future. Other Contingencies,the outcome of which is not certain, have been disclosed in these notes as Contingent Liabilities. Contingent Assets have not been provided for.

13. Payment to Auditors.

	2006-2007 (Rs. in Thousand)	2005-2006 (Rs. in Thousand)
i) As Auditors	72.95	72.95
ii) In other capacity	Nil	Nil



14. Raw Materials and Packing Materials Consumption and Finished Products Purchased

(a) Break-up of Raw Materials Consumed		2006-2007		2005-2006	
		Quantity (Kg.)	Rupees in Thousand	Quantity (Kg.)	Rupees in Thousand
Raw Materials					
(i)	Tetracycline Hcl	2547.270	1945.26	3708.430	2630.49
(ii)	Labetalol	104.638	951.44	100.314	1241.24
(iii)	Ciprofloxacin	1073.357	1373.86	1847.461	2783.59
(iv)	Tranexamic Acid	704.556	2588.65	744.462	3325.12
(v)	Mefipristone	5.000	680.58	10.000	1546.40
(vi)	Mycophenelate Mofetil	302.000	9098.00	210.700	8573.17
(vii)	Misopreosttal	31.000	2308.22	2.000	155.00
(viii)	Paracetamol	9397.675	1380.15	4993.372	879.32
(vii)	Others(Including E.G. Capsules, none of which individually accounts for more than 5% of total consumption)		16020.04		15874.13
TOTAL			36346.20		37008.46

(b) Break-up of Finished Products Purchased		2006-2007		2005-2006	
		Quantity	Rupees in Thousand	Quantity	Rupees in Thousand
Class of Goods	Unit of Measures				
Tablet	Million Nos.	6.090	3115.94	5.077	2593.06
Liquids	Litres	187227.965	24971.56	200961.810	21669.74
Capsules	Million Nos.	9.690	4530.16	23.210	12271.97
Oinements	kgs.	300.000	183.00	148.500	37.27
Injection	Litres	15123.310	2821.82	1973.000	1140.44
Others			734.28		1885.89
TOTAL			36356.76		39598.37

(c) Imported and Indigenous Raw Materials consumed		2006-2007		2005-2006	
		Rupees in Thousand	Percentage	Rupees in Thousand	Percentage
Imported		1495.73	4.12	55.83	0.15
Indigenous		34850.47	95.88	36952.63	99.85
TOTAL		36346.20	100.00	37008.46	100.00

(d) Imported and Indigenous Packing Materials consumed		2006-2007		2005-2006	
		Rupees in Thousand	Percentage	Rupees in Thousand	Percentage
Imported		-	-	-	-
Indigenous		16019.64	100.00	18634.10	100.00
TOTAL		16019.64	100.00	18634.10	100.00



15. Managerial Remuneration
Profit and Loss Account also includes payments
and provisions on account of

	<u>2006-2007</u> (Rs. in Thousand)	<u>2005-2006</u> (Rs. in Thousand)
(1) Managing Director		
Remuneration	470.00	360.00
Other perquisites	123.79	113.97
TOTAL	593.79	473.97
(2) Executive Director		
Remuneration	470.00	360.00
Other perquisites	33.91	23.00
TOTAL	503.91	383.00

No Commission is paid to Director, Remuneration within the limits U/s 198 of the Companies Act, 1956

16. CIF value of Imports, Expenditure and
Earnings in Foreign Currencies

	<u>2006-2007</u> (Rs. in Thousand)	<u>2005-2006</u> (Rs. in Thousand)
(a) CIF Value of Imports		
Raw Materials	1306.75	467.05
(b) Expenditure in Foreign Currencies		
Travelling Expenses	429.97	293.89
Book & Periodical	—	—
Registration Fees	—	166.61
(c) Earning in Foreign Currencies		
FOB value of exports	46858.29	38337.17

17. Quantities and sales value in respect of each class of goods
dealt with by the Company. (Rs. in Thousand)

Class of Goods	Unit of Measures	<u>2006-2007</u>		<u>2005-2006</u>	
		Quantity	Value	Quantity	Value
Tablet	Million Nos.	47.055	72584.18	40.735	61526.84
Capsules	Million Nos.	13.323	23408.69	20.209	38681.67
Liquids	Litres	206434.275	37635.35	172421.005	40369.65
Injection	Litres	25324.661	34020.08	18269.359	26888.37
Oinements	kgs.	6827.695	4333.71	11390.180	5832.05
Mycopiolate tab.	kgs.	450.000	25755.05		—
Others			7914.37		16963.71
	TOTAL		205651.43		190262.29



18. Quantitative details and value in regard to Finished goods. (Rupees in Thousand)

Class of Goods	Unit of Measures	31-3-2007		31-3-2006	
		Quantity	Value	Quantity	Value
Tablet	Million Nos.	17.434	12179.11	12.221	11218.80
Capsules	Million Nos.	4.619	1643.31	5.326	4353.10
Liquids	Litres	8641.925	2532.13	12697.480	3219.98
Injection	Litres	3183.156	3903.00	2094.554	2987.28
Oinements	kgs.	3069.750	891.47	4283.515	1013.20
Others			0.00		1300.00
TOTAL			21149.02		24092.36

19. Quantitative information in regard to class of goods manufactured by Company (Including processed by outsiders)

Class of Goods	Unit of Measures	2006-2007	2005-2006
Tablets	Million Nos	66.306	42.590
Capsules	Million Nos	3.475	4.960
Liquids	Litres	232.200	4349.650
Injectables	Litres	15154.783	14594.234
Ointments	Kgs.	6274.485	-

20. Accounting Ratios

	31-03-2007	31-03-2006
(a) Sales to Total Assests	1.39	1.32
(b) Operating Profit (before Interest, Dep.& tax) to Capital Employed	49.29	43.73
(c) Return (profit after tax) on net worth %	18.96	11.34
(d) Profit (before tax) to Sales %	5.16	3.65

21. Previous year's figures have been regrouped and rearranged wherever necessary, in order to confirm to this year's presentation.

Notes forming part of the Accounts

As per our report of even date

For Naresh & Co.,

Chartered Accountants

Anil L. Shah

Partner

Membership No. : 35309

Vadodara

Date : 31/7/2007

For and on behalf of the Board,

R. R. Shah

Managing Director

Vadodara

Date : 31/7/2007

D. R. Shah

Executive Director



BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE
1. REGISTRATION DETAILS

Registration No.	:	U74239MH1982PTC026341
State Code	:	11
Balance Sheet Date	:	31.03.2007

2. CAPITAL RAISED DURING THE YEAR

(Amount in Rs. Thousand)

Public Issue	:	NIL
Right Issue	:	NIL
Bonus Issue	:	NIL
Private Placement	:	NIL

3. POSITION MOBILISATION AND DEVELOPMENT OF FUNDS

(Amount in Rs. Thousand)

Total Liabilities	:	76391
Total Assets	:	76391

SOURCES OF FUNDS

Paid-up Capital	:	12000
Reserves & Surplus	:	20843
Secured Loan	:	29030
Unsecured loan	:	10527
Deferred Tax Liabilities	:	3991

APPLICATION OF FUNDS

Net Fixed Assets	:	39214
Investments	:	63
Net Current Assets	:	37114

4. PERFORMANCE OF COMPANY

(Amount in Rs. Thousand)

Turnover	:	195286
Total Expenditure	:	185205
Profit Before Tax	:	10081
Profit After Tax	:	6235
Earning per share in Rs.	:	5.20
Dividend Rate %	:	12%

5. GENERAL NAMES OF THREE PRINCIPAL PRODUCTS OF COMPANY (As per monetary terms)

Item Code No. (ITC Code)	:	30042013
Product Discription	:	Gentamycin Formulation thereof in capsules, injections, eye drops etc.
Item Code No. (ITC Code)	:	30044007
Product Discription	:	Formulation of ergot preparator
Item Code No. (ITC Code)	:	30048008
Product Discription	:	Multivitamin containing vitamin A,B - Group, C, D



Date : 31-07-2007

Dear Member,

Sub : Dematerialisation of Shares & Unpaid dividend

We have pleasure to inform that National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) have allotted **ISIN No. INE947GO1011** to the Equity Shares of the Company.

As you are aware that shares held in Demat form would not only be convenient in holding but also facilitate you in dealing with the shares of the Company. We therefore recommend and request you to take the advantage of Demat of Shares.

Further, in case you are still holding your shares of the Company in physical form of Counter Receipts, we again request you to obtain the physical shares certificate/s in exchange from **Intime Spectrum Registry Ltd.**, the Registrar and Transfer agent, by sending / lodging the counter receipts to them at any of the following address :

Intime Spectrum Registry Ltd.
308, 1st Floor, Jaldhara Complex,
Opp. Manisha Society,
Manisha Char Rasta,
Old Padra Road, Vadodara – 390 015.
Phone : (0265) 2250241 / 246
E-mail:vadodara@intimespectrum.com,

Intime Spectrum Registry Ltd.
C-13, Pannalal Silk Mills Compound,
L.B.S.Marg, Bhandup (West),
Mumbai - 400 078.
Phone : 25923837, Fax : 25672693
E-mail : isrl@intimespectrum.com

You may thereafter surrender the share certificates to your Depository Participant/s for demat of your shares.

If there is a change of your Address, please write us to register the same to help us to serve you better.

Further in case you have not received any dividend declared by the Company for any of past financial years, from 2000-2001, till the last year, you may write to the Secretarial Department of the Company at Baroda for the same, for the payment.

You may also write about any of your queries for redressal, to our Secretarial Department at Baroda.

Thanking you and assuring our best services at all times.

For Mercury Laboratories Ltd.

Rajendra Shah
Chairman and Managing Director

MERCURY LABORATORIES LIMITED

Registered Office : Shreeji Bhavan, 51, Mangaldas Road, Princess Street, Mumbai - 400 002.

ATTENDANCE SLIP

Please complete this Attendance slip and hand it over at the entrance of the Meeting Place.

L.F. No. (S) _____ No. of Shares held _____

Name & Address of the Member _____

I/We, hereby record my/our presence at the **26th Annual General Meeting** held on Saturday, the 29th September, 2007 at 3:30 p.m. at the Registered Office of the Company at 18, Shreeji Bhuvan, 51, Mangaldas Road, Princess Street, Mumbai - 400 002.

NOTES :

SIGNATURE OF SHAREHOLDER/PROXY

- Members / Proxy holders are requested to bring their copies of the Annual Report with them at the Meeting.
- Please carry with you this Attendance Slip and hand over the same duly signed at the space provided at the entrance of the Meeting Place.

-----Tear here -----

MERCURY LABORATORIES LIMITED

Registered Office : Shreeji Bhuvan, 51, Mangaldas Road, Princess Street, Mumbai - 400 002.

PROXY

L.F.No. (s) _____ No. of shares held _____

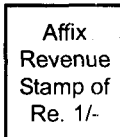
I/We _____ of _____

_____ being a member/members of MERCURY LABORATORIES LIMITED hereby appoint _____ of _____

_____ or failing him/her _____

of _____ as my/our Proxy to vote for me/us and on my/our behalf at the **26th Annual General Meeting** held on Saturday, the 29th September, 2007 at 3:30 p.m. at the Registered Office of the Company at 18, Shreeji Bhuvan, 51, Mangaldas Road, Princess Street, Mumbai - 400 002 or at any aournment thereof.

Dated this _____ day of September, 2007.



- NOTES: (1) The Proxy duly completed must be returned so as to reach the Registered office of the Company not less than 48 hours before the time of holding the meeting.
- (2) The Proxy Form should be signed across the stamp.

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MERCURY LABORATORIES LIMITED

2/13 & 2/14

Baroda Industrial Estate,

Gorwa Road,

Vadodara - 390 016.