

18th

Annual Report 2004-2005

R&D Center

*"Great ability develops and
reveals itself increasingly
with every new assignment."*

Baltasar Gracian

Formulations Unit

R&D Center



Bal Pharma Ltd.,



Bal Pharma Limited**MANAGEMENT, BANKERS AND AUDITOR****Board of Directors**

Mr. Shailesh Siroya	-	Managing Director
Dr. S. Prasanna	-	Wholetime Director
Mr. Shrenik Siroya	-	Non-executive Director
Dr. G.S.R. Subba Rao	-	Independent Director
Mr. N.D. Prabhu	-	Independent Director
Mr. Arun Bhan	-	Independent Director (w.e.f. 31.05.2005)

Company Secretary

Mr. K. Mahadevan

Registered Office

21 & 22, Bommasandra Industrial Area,
Hosur Road, Bangalore - 560 099

Corporate Office

5th Floor, Lakshmi Narayan Complex,
10/1, Palace Road, Bangalore - 560052

Plant Locations**Unit I : Formulations**

21 & 22, Bommasandra Industrial Area,
Hosur Road, Bangalore - 560 099

Unit II : R & D Centre & Bulk Drugs

61/B, Bommasandra Industrial Area, Hosur Road,
Anekal Taluk, Bangalore - 560 099

Unit III : Parenterals

732/735, Off. National Highway No. 4,
Village Kenjal, Dist. Bhore,
Maharashtra.

Bankers

Canara Bank
Punjab National Bank
Corporation Bank
ICICI Bank Ltd.,
EXIM Bank
Small Industries Development Bank of India (SIDBI)

Auditor

Ostawal & Jain

Registrar & Share Transfer Agent

Tata Share Registry Limited,
Army & Navy Building, 148, M.G. Road, Fort,
Mumbai - 400 001.

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Bal Pharma Limited



NOTICE

NOTICE IS HEREBY GIVEN THAT the 18th (Eighteenth) Annual General Meeting of the members of Bal Pharma Limited will be held at 4.00 p.m. on Friday, the 23rd September, 2005, at Bharatiya Vidya Bhavan, Race Course Road, Bangalore – 560001, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as on 31st March, 2005, and the Profit and Loss Account for the financial year ended on that date and the Report of the Directors and the Auditors thereon;
2. To declare dividend;
3. To appoint a Director in place of Mr. N. D. Prabhu, who retires by rotation and being eligible, offers himself for re-appointment;
4. To appoint a Director in place of Mr. Arun Bhan, who retires by rotation and being eligible, offers himself for re-appointment;
5. To appoint Auditor and to authorise the Board to fix their remuneration;

SPECIAL BUSINESS:

6. To consider and if thought fit, to pass, with or without modification(s), the following resolutions as Special Resolution:

"RESOLVED THAT pursuant to the applicable provisions of the Companies Act, 1956, the Listing Agreement entered into with the Stock Exchanges, and the provisions in the Memorandum and Articles of Association of the Company, the Board of Directors of the Company be and is hereby authorised to determine and vary the amount of sitting fee payable to Directors for attending the meetings of the Board of Directors and the Committees thereof, with such maximum permissible limit as may be prescribed under the Companies Act, 1956, and rules made and notification issued thereunder."

By the order of the Board

Bangalore
02-08-2005

K Mahadevan
Company Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT A PROXY TO ATTEND AND ON A POLL TO VOTE ON HIS/ HER BEHALF. A PROXY NEED NOT BE A MEMBER.**

Proxy in order to be effective, must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting. Proxy Form is forwarded as detachable part of the Annual Report;

2. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of item no. 6 is annexed hereto;

3. For the convenience of the Members and for proper conduct of the meeting, entry to the place of meeting will be regulated by an Attendance Slip, which is forwarded as detachable part of the Annual Report. Members are requested to affix their signature at the place provided in the Attendance Slip and hand it over at the entrance;
4. The Register of Members and Share Transfer Books of the Company will be closed from 13-9-2005 to 23-9-2005 (both days inclusive);
5. Members, who hold shares in dematerialised form, are requested to bring in their Client ID and DP ID nos. for easier identification of attendance at the meeting;
6. A member desirous of getting any information on the accounts or operations of the Company is requested to forward his/ her queries to the Company atleast 7 days prior to the meeting, so that the required information can be made available at the meeting;
7. Members are kindly requested to notify the change of address, if any, to the Company's Registrar and Share Transfer Agent in time to service their interests better;
8. Members holding more than one share certificate in different folios are requested to kindly apply for consolidation of the folios and send the relative share certificates to the Company's Registrar and Share Transfer Agent;
9. Dividend, if declared, will be paid on or before 22.10.2005, to those members whose names appear on the Company's Register of Members as on the date of 18th AGM. In respect of shares held in electronic form, dividend will be payable on the basis of beneficial ownership, as per details furnished by NSDL and CDSL for this purpose;
10. Members are kindly requested to bring Annual Report along with them to the Annual General Meeting since extra copies will not be supplied at the meeting;
11. In order to protect the investors from fraudulent encashment of their Dividend Warrants or Demand Drafts, the Company hereby offers Electronic Clearing Services Facility to the shareholders having Bank Accounts at Centres notified for ECS by RBI. RBI is continuously adding more centres for ECS and Members are kindly requested to check with their banker whether their place has been notified by RBI for the purposes of ECS. The ECS mandate form is forwarded as detachable part of Annual Report. The members from the ECS notified centres desirous of payment of dividend through ECS are requested to forward the ECS mandate form duly signed with the required annexures to Company's present Registrar and Share Transfer Agent, on or before 10-9-2005;
12. Pursuant to Section 205A(5) of the Companies Act, 1956, as amended, any money transferred to Unpaid Dividend Account and remaining unclaimed for a period of 7 years



Bal Pharma Limited

from the date of such transfer to the Unpaid Dividend Account shall be transferred by the Company to the Investor Education and Protection Fund established by the Central Government and thereafter the shareholders shall not be able to claim any Unpaid Dividend from the said fund or from the Company. The Company has already transferred the amount lying in the credit of Unpaid Dividend Account for the financial year 1994-95 and 1995-96 to Investor Education and Protection Fund established by the Central Government as stipulated under Section 205C of the Companies Act, 1956, read with Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001. The Company did not declare dividend for the financial years 1996-97, 1997-98 and 1998-99. The members who have not encashed the Dividend Warrants for the financial years 1999-2000 onwards are requested to write to M/s. Tata Share Registry Limited, the Registrar and Share Transfer Agent of the Company;

13. You may now avail of the facility of nomination by nominating, in the prescribed form, a person to whom your shares in the Company shall vest in the event of death. Interested members may write to the Company's Registrar & Share Transfer Agent for the prescribed form.

of fee, such sum for each meeting of the Board of Directors or Committee of the Board, attended by them, as may be determined by the Board from time to time within the limits prescribed under the Companies Act, 1956, by Central Government from time to time;

The sitting fee presently paid by the Company are within the limits prescribed under the Companies Act, 1956, by the Central Government;

Clause 49 of the Listing Agreement is proposed to be amended and amended clause requires fee/compensation payable by the listed companies to the non-executive Directors, including Independent Directors be fixed by the Board of Directors and shall require previous approval of the members;

The approval of the members is accordingly sought to empower the Board of Directors to determine/vary from time to time, the amount of sitting fee payable to the non-executive Directors within such maximum limit as may be prescribed by the Central Government or any other statutory/regulatory authority from time to time.

All the Directors other than Mr. Shailesh Siroya, Managing Director and Dr. Prasanna, Whole-time Director, may be deemed to be concerned or interested in the said resolution.

Explanatory Statement under Section 173(2) of the Companies Act, 1956:

Item No. 6:

Article 96 of the Articles of Association of the Company permits payment to the Directors of remuneration by way

Bangalore
02-08-2005

By Order of the Board
For **BAL PHARMA LIMITED**

K. MAHADEVAN
Company Secretary

ADDITIONAL INFORMATION ON DIRECTORS SEEKING APPOINTMENT AT THE ANNUAL GENERAL MEETING

Name of the Director	Mr. Nileshwar Damodar Prabhu	Mr. Arun Bhan
Date of Birth	29 th August, 1931	7 th September, 1949
Date of Appointment	15 th July, 2002	31 st May, 2005
Qualification	B.Com, FIIIB, CAIB (London)	Post Graduate Diploma in Business Management (Ireland)
Experience / Expertise	He is a professional Banker. Started his career as Apprentice Pupil with Canara Bank Ltd., in May 1955, and rose gradually in the hierarchy to the position of Chairman and Managing Director of Canara Bank in September, 1988. He held varied senior positions in the bank and also headed 5 subsidiaries of Canara Bank. He was also a member of Board of Directors of Tourism Development Corporation Limited, Agricultural Finance Corporation, Industrial Reconstruction Bank of India, and Indian Banks' Association.	Management Consultant for more than 3 decades
Other Directorships	1. Brescon Corporate Advisors Ltd., Chairman 2. Jumbo Bag Ltd., Chairman 3. Yokogawa Ltd., Director 4. Robot Systems Pvt. Ltd., Director 5. Self Growth Nidhi Ltd., (Section 620 Company), Chairman 6. Aqua Control Valves Pvt. Ltd., Chairman 7. Bigtech Pvt. Ltd., Chairman 8. Novastar Capital Trustee Services Pvt. Ltd., Director	NIL
Other Committee Memberships	1. Bal Pharma Ltd., (a) Audit Committee, Chairman (b) Remuneration Committee, Member (c) Shareholders & Investor Grievances Committee, Member 2. Other Companies (i) Brescon Corporate Advisors Ltd., (a) Audit Committee, Chairman (b) Investors Grievance Committee, Chairman (ii) Jumbo Bag Ltd., (a) Audit Committee, Chairman (b) Remuneration Committee Member (iii) Yokogawa Ltd., (a) Audit Committee, Chairman	NIL
Number of shares held directly or indirectly	NIL	NIL



DIRECTORS' REPORT

Your Directors have pleasure in presenting the 18th (Eighteenth) Annual Report together with the Audited Accounts of your Company for the financial year ended 31st March, 2005:

1. FINANCIAL RESULT

(Rs. in Lakhs)

Particulars	2004-05	2003-04 *
1) Total Income	5813.33	6077.96
2) Profit before Depreciation and provision for Taxation	335.29	386.21
Less:		
3) Depreciation	90.07	77.18
4) Provision for Taxation	32.38	23.81
5) Deferred Tax	55.93	49.39
6) Extraordinary/ Non recurring items	<u>25.00</u> <u>(-) 203.38</u>	<u>25.00</u> <u>(-) 175.38</u>
	131.91	210.83
Add:		
7) Profit & Loss Account balance at the beginning of the year	<u>(+) 266.01</u>	<u>(+) 261.79</u>
8) Profit made available for appropriation	397.92	472.62
Less:		
9) Dividend on Preference Shares	33.09	53.00
10) Proposed Dividend on Equity Shares	78.36	85.95
11) Transfer to Preference Shares Redemption Reserve	4.40	38.50
12) Transfer to General Reserve	-	11.00
13) Tax on Dividends	<u>14.56</u> <u>(-) 130.41</u>	<u>18.16</u> <u>(-) 206.61</u>
14) Balance Carried to Balance Sheet	267.51	266.01

*Note: Figures of 2003-04 were regrouped for comparing with figures of 2004-05

2. RIGHTS ISSUE

Members in the last Annual General Meeting and by Postal Ballot dated 28.01.2005, approved issue of further shares not exceeding 39,30,000 shares in the ratio of 3 shares for every 5 shares held. Accordingly, 39,18,000 shares were issued at a premium of Rs. 20/- per share and 39,16,224 shares were allotted on 20.06.2005 increasing, in the process, the paid-up share capital of the Company to Rs. 10,44,62,240. The said shares have been listed in the Stock Exchange, Mumbai, and trading commenced on 27-6-2005. The Board of Directors thank the members for making the Rights Issue a success.

3. DIVIDEND

In the demat scenario, it is obligatory to give pari passu status to the new shares with the old shares.

In view of the satisfactory results and keeping in view the requirement to pay dividend to the new shares on par with the old shares, the Directors are pleased to recommend payment of Dividend of 7.5% (Re. 0.75 per equity share of Rs. 10/- each) on the expanded share capital of Rs. 10,44,62,240/- as against 15% on the capital of Rs. 5,73,00,000/- in the previous year.

4. MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview and outlook

Indian Pharma industry is on the fast growth track. Today, a number of global pharmaceutical companies are closely working with Indian pharmaceutical companies to stimulate, assist and spearhead the dynamic development of the Indian pharmaceutical sector.

The compiled data on the Indian pharma industry for the financial year 2002-03, estimated the industry output as USD 6.73 billion and this represents 1.5% of the output of the global pharma industry. Bulk Drugs roughly account for one-fifth of this output. Nearly 40% of the total industry output was exported. Despite appreciation of the rupee, the industry's exports increased at an average annual rate of 11.1% during the years 1998-2003. The export destinations are quite diversified, as, US accounted for 17%, Germany 6.1%, Russia 4.2%, and Africa 13.2%.

India is now being recognized as a globally competitive pharmaceutical manufacturing location. The decision of Government of India to allow 100% FDI in the pharma industry has steadily aided the growth of contract research in the country. Of course, fearing the dishonouring of patents in the country, technology transfer to 100% Indian subsidiaries of MNCs was not done on a comprehensive basis so far.

There are over 23000 units and of them only around 250 are in the organized sector. The pharma industry is research driven and innovative products drive the sales growth in the industry. From 1.1.2005, India started recognizing product patents which has both opportunities and threats. The greatest threat is that Indian Pharma industry can no longer afford to exploit fully its reverse engineering capability and consequently, drugs which were made available to patients in India and in many poor nations around the world at a fraction of the cost of the global branded drug prices, would stop and they would suffer. Smaller manufacturers with scale disadvantage could face survival concerns. The opportunity is that there would be significant investment in the industry from global players to an unprecedented scale that only software industry witnessed earlier. The effects are already visible. The largest number of USFDA approved



Bal Pharma Limited

manufacturing plants outside the US are in India today. During 2003, Indian pharma industry alone filed 113 Drug Master Files (DMF) with USFDA. To sustain and get into relentless growth mode, Indian pharma companies should now aggressively develop new molecules and install enabling infrastructure.

It is time that Indian pharma companies widen their focus and invest in critical R & D to find answers for some of the diseases peculiar to a tropical country like India and for unmet medical needs. While, globally pharma industry spend 10-16% of their turnover on R & D, we spend just around 1.9% of our turnover on R & D. We need to aggressively step up this.

Another area is contract research. We have an excellent track record of development of improved, cost-beneficial chemical syntheses for various drug molecules. We should fully exploit our strengths, say, cost-effective trials, diversity, rich scientific talent and a vast pool of educated, trained and skilled manpower. Active collaboration in the area of clinical trials will mutually benefit both the partners.

Patent expirations of global branded products have been contributing to the growth in the generic market. In the US, drugs worth USD 61 billion will go off-patent during 2004-10. Nearly 60% of all US prescriptions today are filled with generic drugs. Keeping this potential in view, Government of India should review without further delay its decision to impose MRP based excise duty on pharmaceutical formulations which virtually wiped out the generic industry in India today.

The industry on the whole is gradually witnessing consolidation. We need to arrive at right product-mix for sustained future growth, refocus and invest heavily in R & D, need to look at merger and acquisition options, get into different and newer markets to distribute risks and seek out co-marketing and licensing agreements. Sincere adherence and enforcement of IP regime and other initiatives like Government support to the industry in the form of fiscal incentives, active interaction and tie-up between Government research labs like NCL and industry would certainly help to promote the sustained growth.

5. BUSINESS OPERATIONS :

Your Company's revised Business Strategy of focusing on the business of niche APIs, with low volume and high value, has started paying off. The buoyancy in API business continued with a sales performance of Rs. 10.14 crores, registering a growth of 24% over the previous year. The new products of the Division have been very well received by the market. Following successful certification of suitability by European Directorate of Quality for Medicines (EDQM) for the API 'Gliclazide', efforts are on to get similar certification for other products also.

The Company's expansion efforts are in full stream. Land has been identified at Bangalore for the proposed API plant and in the State of Uttaranchal for the proposed Formulations plant. Both the plants are being set up keeping the USFDA requirements in view. Your Management, with your

approval, active support and co-operation, could successfully close the Rights Issue and raise Rs. 11.75 crores and this would meet 35.19% of the project cost of Rs. 33.40 crores, as stated in the Letter of Offer, and your Company has, in principle, tied-up with a leading financial institution for the balance project cost of Rs. 21.65 crores.

Government of India's decision to introduce VAT with effect from 1st April, 2005, and the traders decision to oppose it, adversely affected the business of the entire pharmaceutical industry without exception, in the last quarter of the financial year under review. The traders were not sure of reimbursement of sales tax paid on unsold stock as on 31st March, 2005, and, therefore, they stopped taking stocks from the manufacturers for the whole of the last quarter of the financial year under review. The issue has since been resolved but the industry suffered huge losses.

Similarly, Government of India's decision to introduce MRP based excise with effect from January, 2005, brought the Generics business of every leading player in the industry to a naught. Consequently, your Company's business in the Ethical Segment as well as in the Generics segment in the last quarter of the financial year under review, was adversely affected.

Aggressive efforts of our marketing team ensured that the adverse effects of the above decisions of the Government on the Company are minimum and the total turnover of the Company was Rs. 60.03 crores as against Rs. 62.04 crores in the previous year. Nonetheless, the adverse impact on the topline and the bottomline are estimated at Rs. 12 crores and Rs. 2 crores respectively. Your Management has been examining alternative strategies to revive Generics business where the adverse effect of the Government's decision to introduce MRP based excise was total.

In the Ethical segment, our focus on the drugs curing life-style disorders ensured growth both for cardiac and anti-diabetic products. The Ayurvedic Division did their best, is continuously expanding their market and added new markets during the year.

The Company has invested Rs. 2.7 crores in the installation of new equipments in the API plant keeping in mind the business potential of contract research. Another Rs. 3.0 crores was invested to install balancing equipments in Formulations Plant to comply with the revised statutory requirements with regard to GMP.

Your Company has submitted application to National Stock Exchange (NSE) for listing the Company's shares in NSE on fulfilling the required eligibility criteria on paid-up capital after the recent Rights Issue and the said application is under process.

Your Directors briefed in the last Directors Report about your Management's unsuccessful efforts to resist imposition of Entry Tax retrospectively from the year 1999-2000 even after escalating the issue to Supreme Court, giving a liability of Rs. 91.40 lakhs and consequently absorbing a part of the said liability of Rs. 25 lakhs in the last financial year. A similar quantum of Rs. 25 lakhs has been absorbed during this financial year. As the liability has already been deposited



with Government of Karnataka, there is no cash outflow during the year on account of this liability. A curative petition has been filed in the Supreme Court as the issue has inherent strength and merit in our favour.

6. AUDIT COMMITTEE:

The Audit Committee, a sub-committee of Board, consists of Mr. N D Prabhu, Dr. G S R Subba Rao, Independent Directors and Mr. Shrenik Siroya, Non-Executive Director and the said Committee has been discharging its mandate under the SEBI Guidelines read with the Listing Agreement. The said Committee is also functioning as Audit Committee under Section 292A of the Companies Act, 1956.

7. INTERNAL CONTROL SYSTEM AND ITS ADEQUACY:

Your Company has an adequate system of internal controls with clearly defined authority limits. They ensure that the Company's assets are protected against loss from unauthorised use or disposition and all transactions are authorised, recorded and reported in conformity with generally accepted accounting principles. These systems are designed to ensure accuracy and reliability of accounting data, promotion of operational efficiency and adherence to the prescribed management policies. These policies are periodically reviewed to meet current business requirements.

Internal Audit is carried out by M/s. Shankar, Sridhar & Mukund, Chartered Accountants. They interact with the Audit Committee and have reported to the Directors that there are no audit observations of major importance in respect of areas carried out by them.

8. DIRECTORS' RESPONSIBILITY STATEMENT:

In compliance to the provisions of Section 217(2AA) of the Companies Act, 1956, your Directors wish to confirm:

- (i) that in preparing the Annual Accounts, all applicable Accounting Standards have been followed;
- (ii) that the accounting policies adopted are consistently followed and the judgements or estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit and Loss Account of the Company for the financial year;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts 'on going concern' basis.

9. SUBSIDIARY COMPANY:

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Company's interest in subsidiary company is given as Annexure forming part of the Directors' Report.

10. CORPORATE GOVERNANCE:

A detailed report on Corporate Governance in terms of Clause 49 of the Listing Agreement is appended to this Report.

11. PARTICULARS OF EMPLOYEES:

A statement of particulars of employees as required under Section 217(2A) of the Companies Act, 1956, is annexed and forms part of this report.

12. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND FOREIGN EXCHANGE OUTGO:

As per provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, details relating to the Conservation of Energy and Technology Absorption and Foreign Exchange Earnings and Outgoings are given in Annexure forming part of the Directors Report.

13. PUBLIC DEPOSITS:

As on date of the Report, the Company has not accepted any public deposits.

14. DIRECTORS:

The Board on date consists of 6 Directors, 4 of whom are non-executive Directors and 3 of whom are Independent Directors. Dr. C. N. Manjunath resigned from the Board with effect from 31-05-2005. The Board places on record its sincere appreciation of the valuable guidance and assistance rendered by him. Mr. Arun Bhan was appointed as Director in the casual vacancy caused by the resignation of Dr. C N Manjunath and Mr. Arun Bhan shall hold office till the date by which Dr. C N Manjunath would retire by rotation. Mr. N. D. Prabhu and Mr. Arun Bhan retire by rotation at this Annual General Meeting of the Company and, being eligible, offer themselves for reappointment. Your Directors have pleasure in recommending their reappointment.

15. AUDITORS:

M/s. Ostawal & Jain, Chartered Accountants, Auditors of the Company, retire at the Annual General Meeting and are eligible for reappointment.

16. APPRECIATION:

The Directors place on record their appreciation of the cooperation and guidance provided by Canara Bank, Punjab National Bank, Corporation Bank, ICICI Bank Ltd., Exim Bank, Small Industries Development Bank of India (SIDBI), and other Banks and financial institutions, members of the medical profession, customers, suppliers, media and other business associates. Your Directors also place their appreciation of the good work rendered by all the employees. The Directors express confidence reposed in the Management.

For and on behalf of the Board of Directors

Bangalore
2nd August, 2005

Dr. S. Prasanna
Director

Shailesh Siroya
Managing Director



Bal Pharma Limited

ANNEXURE I

Information under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, and forming part of Directors' Report for the financial year ended 31st March 2005:

1. Conservation of Energy

A. Power and Fuel Consumption		2004-05	2003-04
1. Electricity			
(a) Purchased Unit	(kwhr)	1,449,055	17,48,057
Total Amount	(Rs.)	6,141,883	73,41,406
Rate/Unit	(Rs.)	4.24	4.20
(b) Own Generation			
(i) Through Diesel Generator Units	(kwhr)	324,707	1,24,708
Units per ltr of Diesel	(kwhr)	3.32	3.56
Cost/unit	(Rs.)	8.67	5.16
(ii) Through Steam Turbine/Generator		Nil	Nil

Note : There is no usage of power generated by coal, furnace oil and other internal generation.

B. Consumption per unit of production

Standards * (if any)	2004-05**	2003-04**
(i) Electricity		
(ii) Furnace Unit		
(iii) Coal		
(iv) Others		

* Owing to the range of products manufactured and the ever changing product mix, it has not been possible to establish standards relating to consumption of energy per unit of production.

** For the same reasons and as per the Records and Books, maintained by the Company, under the Companies Act, 1956, the Company is not in a position to furnish the required information in the prescribed format for the current year and the previous year.

2. Disclosure of particulars with respect to technology absorption:

1. Research and Development (R & D)	
(a) Specific areas in which R & D is carried out by the Company	The Company's research activities are focused towards developing new molecules/active pharmaceutical ingredients (APIs) as medicines.
(b) Benefits derived as a result of the above R & D	R & D team has been successful in introducing newer products in the previous financial years.
(c) Future plan of action	Keeping pace with the development and the opportunities the R & D team has taken up several projects including a project on NCE.
(d) Expenditure on R & D during the financial year ended 31-3-2005:	
	(Rs. in Lakhs)
(i) Capital	35.21
(ii) Recurring	87.13
(iii) Total	122.34
(iv) Total R & D expenditure as a percentage of total turnover	2.1

3. Technology Absorption, Adaptation and Innovation:

(i) Efforts in brief made towards technology absorption, adaptation and innovation	Continuous efforts are under way to improve quality and yield and add more products.
(ii) Benefits derived as a result of the above efforts e.g., product improvement, cost reduction, product development, import substitution, etc.,	Cost saving, improvement in yield, product development and increased turnover.
(iii) In case of imported technology (imported during the last 5 years from the financial year) following information may be furnished:	
(a) Technology imported:	Nil
(b) Year of import:	Nil
(c) Has the technology been fully absorbed	Not applicable
(d) If not fully absorbed, areas where this has not taken place, reason therefore and future plan of action:	Not applicable

4. Total Foreign Exchange Earnings and Outgo:

	2004-05	2003-04
	Rs.	Rs.
Total Foreign Exchange Earnings	115,765,539	161,470,903
Total Foreign Exchange Outgo		
(a) Raw Materials	73,989,394	48,931,433
(b) Other foreign currency payments		
(i) Travelling Expenses	959,591	498,359
(ii) Export Promotion Expenses	1,980,951	Nil
(iii) Others - Capital import	13,701,123	1,565,947

5. Statement pursuant to Section 212 of the Companies Act, 1956 :

(1) Name of the Company	Novosynth Research Labs Pvt. Ltd.,
(2) The financial year of the subsidiary company ended	31 st March, 2005
(3) Date from which it became subsidiary	10-8-2001
(4) Number of shares held by Bal Pharma Ltd., with its nominees in the subsidiary company at the end of the financial year of the subsidiary company.	Rs.2,00,000/- (200 shares of Rs.1000/- each)
(5) Extent of interest of holding company at the end of the financial year of the subsidiary company	100%
(6) Net aggregate amount of the subsidiary company's profits(loss) so far it concerns the members of holding company	
a. Not dealt within the holding Company's accounts :	
(i) for the financial year ended 31-3-2005	Nil
(ii) for the previous financial years	Nil
b. Dealt within the holding Company's Accounts :	
(i) for the financial year ended 31-3-2005	Nil
(ii) for the previous financial years	Nil

ANNEXURE II

Statement pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975

Sl No.	Name & Designation	Qualification	Age	Gross Remuneration (Rs.)	Date of Commencement	Total Experience	Last Employment
1.	Shailesh Siroya, Managing Director	M.B.A.	39	30,00,000	01.08.1994	13 years	Business

for and on behalf of the Board of Directors

Bangalore
2nd August, 2005

DR. S. PRASANNA
Director

SHAILESH SIROYA
Managing Director

**REPORT ON CORPORATE GOVERNANCE FOR THE FINANCIAL YEAR 2004-05****1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:**

The Company is committed to customer satisfaction and enrichment of shareholders' value and strongly believes that good Corporate Governance and best Corporate Practices are the key tools for increasing the value and wealth of the shareholders.

2. BOARD OF DIRECTORS:

The Board comprises of 6 (six) Directors with a Managing Director, a Whole-time Director, 4(four) non-executive Directors, 50% of the Board comprises of independent Directors. During the financial year under review, 6 (Six) Board meetings were held on 30-04-2004, 31-07-2004, 23-09-2004, 07-10-2004, 31-10-2004 and 31-01-2005. Composition of the Board, attendance of the members of the Board at the Board meetings and Annual General Meeting along with their chairmanship / membership on Boards / Committees during the financial year 2004-05 are as given below:

Sl No	Name of the Director	Category	Attendance at		Total Number of Directorships in Boards of Public Limited Companies on the date of this report (including Bal Pharma Limited)	Total Number of memberships in Committees of Public Limited Companies on the date of this report (including Bal Pharma Limited)	
			Board Meetings	Last AGM		As Chairman	As Member
1	Mr. Shailesh Siroya	Executive	6	Yes	2	-	3
2	Dr. S Prasanna	Executive	6	Yes	1	-	-
3	Mr. Shrenik Siroya	Non-executive	5	Yes	1	-	2
4	Dr. G S R Subbarao	Independent	5	Yes	1	2	1
5	Mr. N D Prabhu	Independent	6	Yes	5	5	3
6	Dr. C N Manjunath ¹	Independent	5	Yes	N.A.	N.A.	N.A.
7	Mr. Arun Bhan ²	Independent	N.A.	N.A.	1	NIL	NIL

1. Resigned effective from 31.05.2005

2. Inducted effective from 31.05.2005

3. AUDIT COMMITTEE

3.1 The Audit Committee consists of the following members:

Sl No.	Name of the Member	Category
1	Mr. N D Prabhu, Chairman	Independent Director
2	Mr. G S R Subba Rao, Member	Independent Director
3	Mr. Shrenik Siroya, Member	Non-executive Director

3.2 The Audit Committee meetings were held during the year 2004-05 on 30.04.2004, 31.07.2004, 31.10.2004 and 27.01.2005 and the attendance of the members are as given below:

Sl No.	Name of the Member	Number of meetings attended
1	Mr. N D Prabhu, Chairman	4
2	Mr. G S R Subba Rao, Member	3
3	Mr. Shrenik Siroya, Member	3

3.3 The terms of reference of the Committee also cover the matters specified under Section 292A of the Companies Act, 1956.

4. REMUNERATION COMMITTEE AND REMUNERATION TO DIRECTORS:

4.1 Remuneration Policy: The managerial remuneration to Executive Directors of the Company is paid in terms of all applicable provisions / schedules of the Companies Act, 1956, and the rules made thereunder;

4.2 Remuneration Committee was constituted on 26-4-2003 and is presently functioning with the following members:

Sl No.	Name of the member	Category
1	Dr. G S R Subba Rao, Chairman	Independent Director
2	Mr. N D Prabhu, Member	Independent Director
3	Mr. Shrenik Siroya, Member	Non-Executive Director
4	Dr. C N Manjunath*, Member	Independent Director

* Resigned effective from 31.05.2005



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- 4.3 The terms of reference of the Committee cover the matters specified under Clause 49 of the Listing Agreement with the Stock Exchange, Mumbai. The Committee also functions as 'Remuneration Committee' under Schedule XIII of the Companies Act, 1956 and as 'Compensation Committee' under SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;
- 4.4 During the year, one meeting of the Committee was held on 31.07.2004, which was attended by all the members of the Committee, wherein reappointment and remuneration of the Managing Director was recommended;
- 4.5 The remuneration paid to Mr. Shailesh Siroya, Managing Director, Dr. Prasanna, Whole-time Director and sitting fee paid to non-executive Directors and independent Directors are as under:

Sl No	Particulars	Mr. Shailesh Siroya Rs.	Dr. S Prasanna Rs.	Mr. Shrenik Siroya Rs.	Mr. N D Prabhu Rs.	Dr. G S R Subba Rao Rs.	Dr. C N Manjunath Rs.	Mr. Arun Bhan Rs.
1	Salary & Perquisites	30,00,000	11,16,000	N.A.	N.A.	N.A.	N.A.	N.A.
2	Sitting Fees	N.A.	N.A.	7,000	32,000	26,000	4,000	N.A.
	Total	30,00,000	11,16,000	7,000	32,000	26,000	4,000	N.A.

5. SHAREHOLDERS AND INVESTORS' GRIEVANCES COMMITTEE:

- 5.1 The Committee consists of the following members of the Board:

Sl No.	Name of the Member	Category
1	Dr. G S R Subba Rao, Chairman	Independent Director
2	Mr. N D Prabhu, Member	Independent Director
3	Mr. Shailesh Siroya, Member	Managing Director

- 5.2 The terms of reference of the Committee cover the matters specified under Clause 49 of the Listing Agreement with the Stock Exchange;
- 5.3 The Committee regularly meets every fortnight to dispose of the matters under its reference;
- 5.4 Name and designation of the Compliance Officer: Mr. K Mahadevan, Company Secretary;
- 5.5 Investor complaints handled:

Year	Opening balance as on 01.04.2004	Received	Resolved	Pending as on 31.03.2005
2004-05	NIL	187	187	NIL

6. GENERAL BODY MEETINGS:

- 6.1 The last three Annual General Meetings were held as under:

Financial Year	Date	Time	Location
2001-02	19-09-2002	14.30 hrs	Registered Office
2002-03	17-09-2003	12.00 noon	Bharatiya Vidya Bhavan, Race Course Road, Bangalore – 560001.
2003-04	23-09-2004	16.00 hrs	Bharatiya Vidya Bhavan, Race Course Road, Bangalore – 560001.

- 6.2 The special resolutions passed by the Company at its 15th, 16th and 17th Annual General Meeting(s) held on 19th September, 2002, 17th September, 2003, and 23rd September, 2004, respectively, are as under:

Date of AGM	AGM No.	Business Transacted by Special Resolution
19.09.2002	15	NIL
17.09.2003	16	<ol style="list-style-type: none"> 1. Amendment to Article 3 (Capital Clause) of Articles of Association; 2. Issue of 2,00,000, 12.5% Redeemable Preference Shares of Rs. 100/- each with or without warrants attached to it to Promoter Directors in partial settlement of unsecured loans received from them; 3. Revision in remuneration of Mr. Shailesh Siroya, Managing Director; 4. Reappointment and revision in remuneration of Dr. S Prasanna, Whole-time Director; 5. Delisting from Bangalore Stock Exchange;
23.09.2004	17	<ol style="list-style-type: none"> 1. Reappointment of Mr. Shailesh Siroya, Managing Director; 2. Amendment to Article 3 (Capital Clause) of Articles of Association; 3. Issue of a maximum of 10,30,000 Equity Shares of Rs. 10/- each at a price not less than the price arrived at in accordance with Chapter XIII of SEBI (Disclosure and Investor Protection) Guidelines, 2000, on preferential basis;