

GUJARAT TERCE LABORATORIES LIMITED



TWENTYFIRST ANNUAL REPORT 2005-2006

BOARD OF DIRECTORS

Shri Natwarbhai P. Prajapati		Chairman & Managing Director
Shri Amrutbhai P. Prajapati	w.e.f. 01.03.06	Whole Time Director (CFO)
Shri Sureshbhai P. Prajapati	w.e.f. 13.06.06	Director
Shri Ramsinhbhai N. Chaudhari	Till 13.06.06	Director
Shri Devang G. Chaudhari	Till 20.04.05	Director
Shri Dineshbhai V. Chaudhari	Till 20.04.05	Director
Shri Pares M Chaudhari	Till 02.03.06	Director
Shri Ashok L. Prajapati		Director
Shri Ashwin N. Shah	w.e.f. 30.09.05	Director
Shri Kanubhai S. Patel	w.e.f. 30.09.05	Director

REGISTERED OFFICE/FACTORY :

122/2, Ravi Estate,
Bileshwarpura, Chhatral,
Dist. : Gandhinagar (N.G.)

COMPLIANCE OFFICE :

209, "SAMIR",
Opp. Navrangpura Municipal Market,
Navrangpura, Ahmedabad - 380 009.

AUDITORS :**M/S. UJAL S. MEHTA & ASSOCIATES**

CHARTERED ACCOUNTANTS,
25, 2nd Floor, Avani Complex,
B/h. Navrangpura Police Station,
Navrangpura, Ahmedabad - 380 009.

SECRETARIAL AUDITOR:**Pinakin Shah**

Practicing Company Secretary
C-103, Panchdhara Plaza,
Satellite Road, Ahmedabad - 380015.

BANKERS :

BANK OF BARODA
Ellisbridge Branch,
Ahmedabad.

REGISTRAR & SHARE TRANSFER AGENT:

Pinnacle Shares Registry Pvt. Ltd.
Nr. Ashoka Mills, Naroda Road,
Naroda, Ahmedabad - 380025.

NOTICE

Notice is hereby given that the Twenty First Annual General Meeting of the Members of Gujarat Terce Laboratories Limited will be held on Saturday, 30th September, 2006 at 10.00 a.m. at 122/2 Ravi Estate, Bileshwarpura, Chhatral Dist: Gandhinagar to transact the following business:

ORDINARY BUSINESS

1. To receive consider & adopt the audited Balance Sheet as at 31st March 2006, the Profit & Loss Account for the year ended on that date and the Reports of the Directors' & the Auditors' thereon.
2. To appoint a Director in place of Shri Ashwin N. Shah, who retires by rotation and, being eligible, offers himself for reappointment.
3. To appoint M/s Ujal S. Mehta & Associate, Chartered Accountants, Ahmedabad, as Auditors of the Company to hold office from conclusion of this Annual General Meeting till conclusion of next Annual General Meeting at a remuneration to be decided by the Board of Directors of the Company.

SPECIAL BUSINESS:

4. To consider & if thought fit to pass with or without modifications the following resolution as an ordinary resolution.
 "Resolved that subject to provision of Section 198, 269, 309, 310 & 311 read with schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby accords its consent and approval to the appointment of Shri Amrutbhai P. Prajapati as Whole Time Director- Finance of the Company for a period of 5 [five] years with effect from 1/8/2006 at a remuneration of Rs 3.00 Lacs per annum and on the terms & conditions as set out in the Explanatory Statement enclosed & an agreement entered between the Company and Shri Amrutbhai P. Prajapati and initialed for the purpose of identification by Whole Time Director- Finance with specific authority to the Directors to alter and vary without further reference to the Company in a general meeting, the said terms and conditions of appointment in such a manner as the Directors may decide and acceptable to Shri Amrutbhai P. Prajapati, so long as the same do not exceed the limits specified in Part I, i.e. in case of profit and Part II, in case of inadequacy of profit, of Schedule XIII of the Companies Act, 1956 or any modification or reenactment thereof and also to do all such acts, deeds, matters, and things as may be considered necessary, desirable or expedient to give effect to this resolution.
 Further Resolved That the remuneration benefits and perquisites shall be paid and allowed to her as minimum remuneration not withstanding the absence or inadequacy of profits in any year.
5. To consider & if thought fit to pass with or without modifications the following resolution as an ordinary resolution.
 Resolved that Shri Sureshbhai P. Prajapati whose term of office as an Additional Director of the Company expires at this Annual General Meeting and in respect of whom the Company has received a notice in writing under Section 257 of the Companies Act, 1956 from a Member proposing the candidature of Shri Sureshbhai P. Prajapati for the office of Director, be and is hereby appointed as Director of the Company.

By Order of the Board of Directors

31st July, 2006

Registered office:

122/2 Ravi Estate,

Bileshwarpura, Chhatral Dist: Gandhinagar

N.P. Prajapati

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 PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. Share transfer documents and all correspondence relating thereto, should be addressed to Registrar and Share Transfer Agents of the Company, M/s Pinnacle Shares Registry Private Ltd., Nr. Ashoka Mills, Naroda Road, Naroda, Ahmedabad-380 025, Tel.: 079-22204226, 22200591, 22200582, Fax: +91-79-2220 29 63 E-mail gautam.shah@psrpl.com
4. Members who hold shares in physical form are requested to notify immediately any changes in their addresses to the Registrar and Share Transfer Agents at the above address and to their depository participants, in case shares are held in electronic mode.
5. Shareholders/proxies are requested to produce the attendance slip at the entrance of the Meeting Hall.
6. The Register of Members and Transfer Book of the Company will be closed from Friday, 22/09/2006 to Saturday, 30/09/2006 [Both days inclusive].

Gujarat Terce Laboratories Limited

7. Shareholders desiring any information as regards the Accounts are requested to write to the Company at least five days in advance of the Annual General Meeting to enable the Management to keep the information ready at the meeting.
8. An Explanatory Statement as required under Section 173(2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.
9. At the ensuing Annual General Meeting, Shri Ashwin N. Shah shall retire by rotation and being eligible, offer himself for reappointment. Shri Sureshbhai P. Prajapati whose term of office as an Additional Director of the Company also expires at ensuing Annual General Meeting and also offers himself for reappointment. Pursuant to Clause 49 of the Listing Agreement, the particulars of Directors to be reappointed are given below :

Shri Ashwin N. Shah

Shri Ashwin N. Shah, B.Pharm, is a businessman having experience in pharmaceutical business.

Shri Sureshbhai P. Prajapati

Shri Sureshbhai P. Prajapati is businessman and is associated with marketing.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item no 4

Shri Amrutbhai P. Prajapati was appointed as Whole Time Director- Finance for a period of five years w.e.f. 1/8/2006 in Board Meeting dated 31/7/2006 on a remuneration of Rs 300,000/- per annum.

The remuneration proposed is within the norms of Part II of the Schedule XIII of the Companies Act, 1956 as amended and reproduced here below.

Salary : Rs 25,000/- p.m. or Rs 3,00,000/- per annum.

It is clarified that the salary mentioned herein is maximum payable to Whole Time Director- Finance. The first year salary and subsequent years salary shall be fixed by the Board in the overall limit in consultation with Whole Time Director- Finance.

Perquisites :

Category A : Medical reimbursement, Leave and Leave Travel
Concession for self and family and Personal Accident Insurance shall be in accordance with the rules of the Company.

Category B : The Company's contribution to Provident Fund, Superannuation Fund and Gratuity shall be in accordance with the rules of the Company.

Category C : The Company shall provide a car, driver, mobile phone and telephone facility at residence for business use.

The Company has not made any default in repayment of any of its debts or interest payable thereon till date. The remuneration is subject to provisions of the Income Tax Act, as applicable from time to time.

The Directors commend the Resolution for approval of Members. None of the Director of the Company other than Shri N. P. Prajapati and Shri Suresh P. Prajapati concerned or interested in the said Resolution.

The Resolution and Explanatory Statement may also be treated as the abstract and memorandum in terms of Section 302 of the Companies Act, 1956.

Item no 5

Shri Sureshbhai P. Prajapati was appointed by the Board of Directors as an Additional Director of the Company on 13/6/2006 and holds office up to the date of this Annual General Meeting under Section 260 of the Companies Act, 1956. Shri Sureshbhai P. Prajapati is eligible for reappointment and in respect of whom the Company has received notice in writing under Section 257 of the Companies Act, 1956 from a Member proposing his candidature for the Office of Director.

The Board commends the Resolution in the interest of the Company.

None of the Director of the Company other than Shri N. P. Prajapati and Shri Amrutbhai P. Prajapati concerned or interested in the said Resolution.

By Order of the Board of Directors

31st July, 2006

Registered office:

122/2 Ravi Estate,

Bileshwarpura, Chhatral Dist: Gandhinagar

N.P. Prajapati
Chairman & Managing Director

DIRECTORS' REPORT

To
The Members

Your Directors presents their Twenty First Annual Report together with the Audited Statement of Accounts of the Company for the year ended on 31st March, 2006.

FINANCIAL RESULTS:

	2005-06 (Rs. in Lac)	2004-05 (Rs. in Lac)
Gross Income	881.43	726.26
Profit before Depreciation & Tax	24.72	18.59
Depreciation	14.04	14.17
Profit after Depreciation	10.68	4.42
Tax- Current	10.51	2.68
Deferred	(0.95)	(2.91)
Profit after tax	1.13	4.65
Profit brought forward from previous year.	26.64	21.99
Balance Carried To Balance Sheet	27.77	26.64

CORPORATE GOVERNANCE

A detailed Report on Corporate Governance system of the Company is provided in the Annual Report.

MANAGEMENT DISCUSSION & ANALYSIS

This Report includes discussion on the following matters within the limits set by the Company's competitive position:

Industry Structure & Development

The Indian pharmaceutical industry is expected to grow at around 11 per cent driven primarily by exports to regulated markets like the US and Europe. With around \$65 billion worth of drugs going off patent by 2008-09, exports are expected to grow at around 18 per cent. Indian companies, which enjoy the advantage of lower research and manufacturing costs vis-à-vis their international counterparts, are also expected to consider the generics and contract manufacturing businesses. With the implementation of the product patent regime from January 1, 2005, the domestic formulations market slowed down in growth, as the introduction of new products through the reverse engineering route has become difficult. In the domestic formulations market, the growth rate slipped to 5.5 per cent from 14.5 per cent. The slowdown in growth can be attributed to increased regulatory uncertainty in terms of excise duty payments and the implementation of VAT, which has reduced the off take of medicines. Besides, decreasing prices, owing to competition among domestic formulations market players, has also put pressure on the growth rates. CRIS INFAC expects the growth rate to stabilize at 5-6 per cent till 2006-07. This growth is expected to be sustained through the increase of prescription share in the market, though pricing is expected to be flattish to downwards. Thus, players focusing only on the Indian markets are expected to lose out in the race.

Opportunities & threats**Opportunities:**

The Company will step up investment in market development activities. The stress on branded formulations business is going to be the key for success. The Company has launched its products in Punjab and will launch in U.P. on bigger scale during current year.

Threats:

The Company continues to carry risks of competition, litigation, and regulatory & legislative reforms in the industry.

Gujarat Terce Laboratories Limited

Operational & Financial Performance

The Company has only one business segment namely formulations. Net sales increased by 21% from Rs 726.05 lac in 2004-05 to Rs 882.42 in 2005-06. During the first quarter of the current year, net sales increased by 26%.

RISK & CONCERNS

The Company has adopted risk management approach with an objective to balance risk & cost. The policy lays down a detailed structure for risk management & control in the company. There are few risk factors that are relevant to the business of your Company. The Company operates in a highly regulated industry & must comply with a broad range of dynamic regulatory controls, particularly in the regulated markets.

Internal Control System

The Internal Control System of the Company is adequate. The Company has set up detailed systems & procedure in all-important areas which act as guideline to its employees. The recommendations of the auditors on the efficacy of the internal control are implemented. Audit committee constituted by the Board of Directors continuously reviews the reports of the internal audit team. The shortcomings observed in the system are regularly monitored for corrections as well as prevention.

Human Resource

The Human Resource Development is an integral part of the Company's Corporate Philosophy. The Company is committed to accelerate initiatives, career and success planning, with an added impetus to build leaders. The company continues to have extremely cordial personnel relations.

Cautionary Statement

Statement in the Management Discussion & Analysis Report describing the Company's objective, expectations or predictions may be forward looking within the meaning of applicable Securities Laws & Regulations. Actual performance may differ from those expressed or implied depending upon the economic conditions, the Government Policies & the other incidental/related factors.

DIRECTOR'S RESPONSIBILITY STATEMENT:

Pursuant to sub-Section (2AA) of Section 217 of Companies Act 1956 the Board of Directors of the Company hereby state and confirm that:

- (i) in preparation of Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) We have selected such accounting policies and applied them consistently and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at end of the financial year and of the profit or loss of the Company for that period;
- (iii) We 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) We have prepared the annual accounts on a going concern basis.

AUDITORS AND AUDITORS' REPORT:

The retiring Auditors M/s Ujal S. Mehta & Associate, Chartered Accountants, Ahmedabad has indicated their willingness to continue as auditor of the Company. It is proposed to reappoint M/s Ujal S. Mehta & Associate, Chartered Accountants, Ahmedabad as auditors of the Company till the conclusion of Twenty Second Annual General Meeting. The Company has received certificate from the auditors to the effect that the reappointment if made, would be within prescribed limit under Section 224 (1-B) of the Companies Act, 1956.

FIXED DEPOSITS:

The Company has not accepted any deposits from the public.

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

Particulars required to be furnished by the Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988:

- Part A and B pertaining to conservation and technology absorption is not applicable to the Company. The operations of the Company are not energy intensive. However the Company endeavored to conserve energy consumption wherever feasible. The details of power and fuel consumption are given below.

(a) Power and Fuel consumption: Units and Amount.

	UNITS		AMOUNT (Rs.)		AVERAGE COST (Rs.)	
	Current Year	Previous year	Current year	Previous year	Current year	Previous year
Electricity Purchased	59460	80786	324412	427112	5.45	5.29
Consumption per Unit of Production						
					Current year	Previous year
Electricity in Units					0.0019	0.0025

- The company has earned total foreign exchange of Rs. 6.68 Lac by way of exports in the year 2005-06 and spent Rs. 0.89 by way of import of raw material, traveling expenses and other matters.

PARTICULARS OF EMPLOYEES:

The information as required under Section 217(2A) of the Companies Act. 1956 read with Companies (Particulars of Employees) Rules, 1988 as amended from time to time is nil.

ACKNOWLEDGMENTS:

The Board expresses their appreciation for continued co-operation and support extended to the Company by Bank of Baroda and customers. The Board also records its deep appreciation of the creditable services rendered by the Company's employees at all levels.

For and on behalf of Board of Directors

31st July, 2006
Registered office:
122/2 Ravi Estate,
Bileshwarpura, Chhatral Dist: Gandhinagar

N.P. Prajapati
Chairman & Managing Director

Gujarat Terce Laboratories Limited**CORPORATE GOVERNANCE-GUJARAT TERCE LABORATORIES LIMITED**

(As required by clause 49 of the Listing Agreement with the stock exchange)

MANDATORY REQUIREMENTS**1. Company's Philosophy & Code of Governance**

The Company believes in setting good and ethical corporate governance practices. The Company is managed by the Managing Director under the supervision and control of Board of Directors. The Managing Director is assisted by a team of qualified and experienced professionals.

Your Company's corporate governance policy is directed towards

- Adherence to ethical business practices.
- Transparency in respect of board matters and disclosures to shareholders
- Maximizing sustainable values to all its stakeholders including shareholders, customers, and employees.

2. Board of Directors**Composition of Board:**

The composition of the Board is in conformity with clause 49 of the Listing Agreement. The Board consists of 6 [Six] members. The Company has an Executive Chairman and the number of Independent Director is one half of the total number of Directors. None of the Directors on the Board is a member on more than 10 Committees and Chairman of more than 5 Committees (as specified in clause 49), across all the Companies in which he is a Director. The Directors have made the necessary disclosures regarding Committee positions.

The Composition of the Board as on 31st March 2006 was as under:

Directors	Category	Attendance Particulars		Other Director ships	Other Committee Membership	
		No. of Board Meeting	Last AGM		Member	Chairman
Shri Natwarbhai P. Prajapati	CM & MD Executive	9	YES	NIL	NIL	NIL
Shri Ramsinhbhai N. Chaudhari	WTD Executive	4	NO	NIL	NIL	NIL
Shri Ashokbhai Prajapati	DIR-IND	9	YES	NIL	NIL	NIL
Shri Ashwin N. Shah	DIR-IND	5	YES	3	NIL	NIL
Shri Kanubhai S. Patel	DIR-IND	5	YES	NIL	NIL	NIL
Shri Amrutbhai P. Prajapati	DIR-NON IND	1	NO	NIL	NIL	NIL
Shri Devang G Chaudhari *	DIR- IND	NIL	NO	NIL	NIL	NIL
Shri Dineshbhai V Chaudhari *	DIR-IND	NIL	NO	NIL	NIL	NIL
Shri Paresh M Chaudhari **	DIR-NON IND	NIL	NO	NIL	NIL	NIL

CM- Chairman, DIR-IND- Director Independent, MD- Managing Director, DIR-NON IND- Director Non Independent, WTD- Whole Time Director.

* Resigned w.e.f.20/04/2005

** Resigned w.e.f.01/03/2006.

Details of Board Meetings held during the year 2005-06

9 (Nine) Board Meetings were held during the year and the gap between two meetings did not exceed four months.

- Leave of absence was granted by the Board to the Directors who were absent at the respective Board Meeting(s).

Date of Meeting	No. of Directors Present
20/04/05	3
25/05/05	3
30/06/05	3
31/07/05	3
15/10/05	4
31/10/05	4
31/01/06	4
25/02/06	4
01/03/06	5

The information as required under annexure I to clause 49 is being made available to the Board.

3. AUDIT COMMITTEE**Terms of Reference:**

The terms of reference, role and scope are in line with those prescribed by clause 49 of the Listing Agreement executed with the Mumbai Stock Exchange. The Company also complies with the provisions of Section 292A of the Companies Act, 1956 pertaining to Audit committee and its functioning.

The Board delegated the following powers to the Audit Committee:

- i. To investigate any activity within its terms of reference.
- ii. To seek information from any employee.
- iii. To obtain outside legal or other professional advice.
- iv. To secure attendance of outsiders with relevant expertise, if it considers necessary.
- v. Compliance with accounting standards.

The role of Audit Committee:

- a. Overseeing the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- b. Recommending the appointment/removal of external auditors, fixing audit fees and approving payments for any other services;
- c. Reviewing with the management the quarterly/annual financial statements before submission to the Board;
- d. Reviewing with the management, the adequacy of Internal control system;
- e. Discussing with the external auditors before the audit commences, the nature and scope of audit as well as have post audit discussions to ascertain any area of concern;
- f. Reviewing the Company's financial & risk management policies;
- g. To look into the reasons for substantial defaults in the payment to the creditors.

Review of information:

- a. Management discussion and analysis of financial condition and result of operations.
- b. Statement of significant related party transactions, as defined by the Committee, submitted by the management.

Composition:

The Audit Committee comprises of 3 Non Executive Directors & majority of them are independent. The members of Audit Committee have adequate financial/accounting knowledge.

The Audit Committee met four times during the year under review on 30/06/2005, 31/07/2005, 31/10/2005 and 31/01/2006. The Audit Committee was reconstituted on 15/10/2005.

Name	Designation	Attendance
Shri Devang G. Chaudhari	Nonexecutive Independent	NIL Ceased to be member w.e.f. 15/10/05
Shri Paresh M. Chaudhari	Non executive Non Independent	2 Ceased to be member w.e.f. 15/10/05
Shri Ashok L. Prajapati	Non executive Independent	4
Shri Ashwin N. Shah	Non executive Independent	2 Appointed w.e.f. 15/10/05
Shri Kanubhai S. Patel	Non executive Independent	2 Appointed w.e.f. 15/10/05

4. REMUNERATION OF DIRECTORS**Terms of Reference:**

- Reviewing the overall compensation policy, service agreements and other employment conditions of Managing/Whole Time Directors.
- Reviewing performance of the Managing /Whole Time Director and recommending to the Board, the quantum of annual increments and annual commission.

Composition:

Remuneration Committee was formed in the Board Meeting held on 15/10/2005. Its composition is as under:

Name Of The Director	Position	Category
Shari Ashwin N. Shah	Chairman	Independent- Non Executive
Shri Kanubhai S. Patel	Member	Independent- Non Executive
Shri Ashok Prajapati	Member	Independent- Non Executive