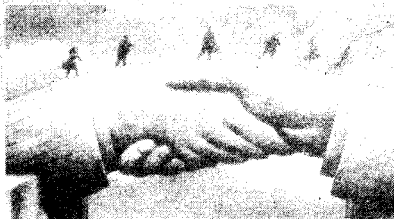


GRATEX



22nd Annual Report

2005 - 2006



Gratex Industries Limited

Mission

To be leaders in the business of Wallcoverings, Nationally and Globally, through excellence in Quality and Service, providing the best of product - mix to the market. To build up market infrastructure through Direct-marketing, Franchising, I.E.N. [Independent Entrepreneur Network] & I.K.N.* [Independent Karigar Network], so as to provide a single window "Total Interior Surface Solution" [TISS] to the Customer.

* [The I.K.N. will be drawn from socially & educationally disadvantaged youth, equipping them with technical skills and helping them earn with dignity]

Values

Leading change. Integrity. Respect for the Individual.

Excellence, Learning and Sharing.

Gratex - Hallmark of Innovation**Gratex****Board of Directors :**

Baldev Sharma (Chairman and Managing Director)
 Promila Sharma
 K.P.Bharadwaj
 Mona Menon
 Karan Sharma
 Pratap Menon
 Pradeep Nagori
 Gurvinder Singh Saggi

REGISTERED OFFICE :

109, Kakad Udyog Bhavan,
 L.J.Road, Mahim,
 Mumbai – 400 016.
 Tel : 022 2437 6001
 Fax : 022 2437 7013
 Email : gratex@bom3.vsnl.net.in

FACTORY :

Gratex House,
 TTI Industrial Area, Khairne,
 Thane – Belapur Road,
 New Bombay – 400 703.

AUDITORS :

B.H.Patel & Co.
 22, Popat Wadi, Kalbadevi Road,
 Mumbai – 400 002.

BANKERS :

Bank of Maharashtra,
 Gadkari Chowk Branch,
 Dadar, Mumbai – 400 028.

REGISTRARS & TRANSFER AGENTS

Adroit Corporate Services Pvt. Ltd
 19, Jaferbhoy Industrial Estate, Makwana Road,
 Marol Naka, Andheri (East), Mumbai – 400 059
 Tel : 022 2859 4060

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Gratex 22nd Annual Report 2005-06

NOTICE

NOTICE is hereby given that the Twenty Second Annual General Meeting of Gratex Industries Limited will be held on Wednesday, September 27th, 2006 at 12 noon at Giants International, 2nd Floor, Orient Club Bldg. No.9, Chowpatty Seaface, Mumbai – 400 007., to transact the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended March 31, 2006 and the Balance Sheet as at that date together with the Report of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. K.P.Bharadwaj, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Director in place of Mrs. Mona Menon, who retires by rotation and being eligible, offers herself for re-appointment.
4. To appoint Director in place of Mr. Pratap Menon, who retires by rotation and being eligible, offers himself for re-appointment.
5. To re-appoint M/s B.H.Patel & Company, Chartered Accountants to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting, and to authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS :

6. Appointment of Mr.Pradeep Nagori as a Director of the Company

To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution :

"RESOLVED that Mr.Pradeep Nagori who was appointed by the Board of Directors as an Additional Director of the Company with effect from March 9, 2006 and who holds office upto the date of this Annual General Meeting of the Company in terms of section 260 of the Companies Act, 1956 and in respect of whom the Company the Company has received a notice in writing from a Member under section 257 of the Act proposing his candidature for the office of Director of the Company, be and is hereby appointed a Director of the Company."

7. Appointment of Mr. Gurvinder Singh Saggu as a Director of the Company

To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution :

"RESOLVED that Mr. Gurvinder Singh Saggu who was appointed by the Board of Directors as an Additional Director of the Company with effect from March 9, 2006 and who holds office upto the date of this Annual General Meeting of the Company in terms of section 260 of the Companies Act, 1956 and in respect of whom the Company the Company has received a notice in writing from a Member under section 257 of the Act proposing his candidature for the office of Director of the Company, be and is hereby appointed a Director of the Company."

NOTES :

1. The relative Explanatory Statements pursuant to section 173 of the Companies Act, 1956, setting out material facts relating to the Special Business at Item Nos. 6 and 7 of the Notice as set out above, is are annexed hereto.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member. Proxies, in order to be effective, should be duly completed, stamped, signed and deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. The Register of Members and Share Transfer Books of the Company shall remain closed for 6 days from Friday, the 22nd September, 2006 to Wednesday, the 27th September, 2006 both days inclusive, for the purpose of AGM.
4. Members are requested to bring their copies of the Annual Report at the meeting.
5. Shareholders holding shares in physical form are requested to advise any change of address immediately to the Company's Registrar and Share Transfer Agents, M/s Adroit Corporate Services Pvt. Ltd. Shareholders holding shares in electronic form must send the advice about change in address to their respective Depository Participants and not to the Company.
6. Shareholders are kindly requested to avail of the Demat facility extended by the Company on both the Depository Participants i.e. NSDL and CDSL. This request is specifically made as majority of the Shareholders are still holding shares in physical form.

Place : Mumbai.
Date : July 25, 2006

Registered Office

109, Kakad Udyog Bhavan,
L.J.Road, Mahim, Mumbai – 400 016.

BY ORDER OF THE BOARD
FOR GRATEX INDUSTRIES LIMITED

BALDEV SHARMA
CHAIRMAN AND MANAGING DIRECTOR

Gratex - Hallmark of Innovation**Gratex****EXPLANATORY STATEMENT****Pursuant to Section 173(2) of the Companies Act, 1956**

As required by Section 173 of the Companies Act, 1956, the following explanatory statements set out all material facts relating to the Special Business mentioned under Item Nos. 6 and 7 of the accompanying Notice of the Annual General Meeting dated July, 25, 2006.

1. Item Nos. 6 and 7 :

Mr. Pradeep Nagori and Mr. Gurvinder Singh Saggu were appointed as Additional Directors of the Company on March 9, 2006 respectively. As per the provision of Section 260 of the Act, the two Directors hold office only up to the date of the forthcoming Annual General Meeting of the Company and are eligible for appointment. The Company has received notices under section 257 of the Act, in respect of the candidates, proposing their appointment as a Director of the Company, along with the requisite deposit.

Details regarding the persons proposed to be appointed as Directors and their brief resume have been given in the Annexure attached to the Notice. Keeping in view the experience and expertise of these person, their appointment as Directors of the Company is recommended.

Each of the Directors may be deemed to be interested in the resolution relating to his own appointment.

The Following Information is being furnished in terms of Clause 49 of the Listing Agreement in respect of Directors retiring by rotation and proposed to be reappointed.

Particulars	Mr.K.P.Bharadwaj	Mrs. Mona Menon	Mr. Pratap Menon
Date of Birth	July 10, 1933	April 26, 1975	June 12, 1973
Date of Appointment	October 1, 1994	October 1, 1995	August 10, 2004
Qualifications	Bachelor of Science degree in D.C.E and Engineering Diploma from City and Guild Institute of London	B.Com + Interior Designer	B.Com + D.M.M.
Expertise in specific functional areas	Expertise in Technology & Operations Management and General Management.	Wide experience in Marketing & Corporate Management	He has 10 years of experience in Marketing and General Management. He is heading the Dealer Market with Network spread all over India.
Directorships held in other Public Companies (excluding foreign companies)	Nil	Nil	Nil
Memberships/ Chairmanships of committees of other public companies (Includes only Audit and Shareholders / Investors Grievance Committee)	Nil	Nil	Nil
Number of Shares held in the Company	100	138200	1000

Gratex

22nd Annual Report 2005-06

DIRECTORS' REPORT

TO THE MEMBERS,

GRATEX INDUSTRIES LIMITED

Your Directors present the Annual Report of the Company together with the Audited Statement of Accounts for the year ended March 31, 2006.

1. FINANCIAL RESULTS :

	2005-06 (Rs. in lacs)	2004-05 (Rs. in lacs)
i. Income from Operations	262.28	224.72
ii. Total Expenditure	237.82	232.94
iii. Profit before Interest & Depreciation	24.46	(8.21)
iv. Interest	2.65	2.35
v. Depreciation	5.88	6.04
vi. Profit After Tax	15.93	(16.61)

2. DIVIDEND :

In view of the nominal Profit made by the Company, your Board is of the view to defer the dividend in order to consolidate the financial position of the Company.

3. OPERATIONS :

During the year under review, your Company has posted a Net Profit of Rs.15.93 lacs, as compared to the loss suffered of Rs. 16.61 in the year 2004-05. Your Company has devised an aggressive approach to Marketing, with this your Company expects to increase its market share. Your Directors are of the opinion that in order to increase the Sales it has to focus on Infrastructure, Installation and Back-up services to its Customers.

In this direction during the year your Company focused on making its base strong by extending Karigar Training Classes and Contractor / Sale Staff Training Programme by establishing a formal Gratex Academy. Your Directors are quite awake and are taking necessary steps to beat the competition and prove our competitive competence to usher in Progress and Prosperity to Gratex, its Employees and Shareholders.

4. DIRECTORS :

During the year Mr. Pradeep Nagori and Mr. Gurvinder Singh Saggu have been appointed as Additional Directors from March 9, 2006. Both Mr. Pradeep Nagori and Mr. Gurvinder Singh Saggu are Independent Directors. As per the provisions of section 260 of the Companies Act, 1956, these Directors hold office only up to the date of the forthcoming Annual General Meeting of the Company. The Company has received notices under section 257 of the Act in respect of the above persons, proposing their appointment as a Director of the Company, along with the requisite deposit. Resolutions seeking approval of the shareholders for their appointment have been incorporated in the Notice of the forthcoming Annual General Meeting along with brief details of the candidates.

Mr. K.P.Bharadwaj, retires by rotation and being eligible has offered himself for re-appointment.

Mr. Mona Menon, retires by rotation and being eligible has offered herself for re-appointment.

Mr. Pratap Menon, retires by rotation and being eligible has offered himself for re-appointment.

5. AUDITORS :

M/s B.H.Patel & Co., Chartered Accountants of the Company, would be retiring at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

Gratex - Hallmark of Innovation**Gratex****6. FIXED DEPOSIT :**

During the financial year the Company had not accepted nor renewed any deposits from the Public within the meaning of Section 58-A of the Companies Act, 1956.

7. PARTICULARS OF EMPLOYEES :

No Employees are drawing salary in excess of the limits prescribed under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975.

8. DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to the requirement of Section 217 (2AA) of the Companies Act, 1956, and based on the representations received from the operating management, the Directors hereby confirm that :

- i. in the preparation of the Annual Accounts for the year 2005-06, the applicable Accounting Standards have been followed and there are no material departures;
- ii. they have, in selection of the accounting policies consulted the statutory auditors 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 as at the end of the financial year and of the profit of the Company for the financial year;
- iii. they have taken proper and sufficient care to the best of their knowledge and ability for the maintenance of adequate accounting records in accordance with the provisions of the Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities;
- iv. they have prepared the Annual Accounts on a going concern basis.

9. CORPORATE GOVERNANCE REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

A report on Corporate Governance is attached to this Report as also a Management Discussion and Analysis statement.

10. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGO**A. CONSERVATION OF ENERGY :**

The Company's operation do not involve substantial consumption of power, in comparison to the cost of production. However there are regulatory measures to ensure that the consumption of power is within the norms.

B. TECHNOLOGY ABSORPTION :

The Company has developed in-house technical know how.

C. FOREIGN EXCHANGE EARNING AND OUTGO :

Foreign Exchange earning of the Company during the year 2005-06 was NIL while the outgo was EURO 30,665.68, USD 6,787 and GBP 1,668.

11. ACKNOWLEDGEMENTS :

The Directors wish to convey their appreciation to all of the Company's Employees for their enormous personal efforts as well as their collective contribution during the year. The Directors would also like to thank the Employee Unions, Shareholders, Customers, Dealers, Suppliers, Bankers and all the other Business Associates for the continuous support given by them to the Company and their confidence in its management.

On behalf of the Board of Directors

BALDEV SHARMA

CHAIRMAN AND MANAGING DIRECTOR

Mumbai
July 25, 2006

Gratex*22nd Annual Report 2005-06***MANAGEMENT DISCUSSION AND ANALYSIS****INDUSTRY STRUCTURE, DEVELOPMENTS AND OUTLOOK**

Gratex Industries Limited, is the No.1 Wallpaper manufacturing Company in India and commands a market share of 60% in its segment. In addition to being well known in the Industry as a pioneer, its product commands a strong brand image. GIL has been in the forefront in launch of new designs which makes a life-style statement. Our focus is also on the Industrial Consumer and this will significantly expand the market base.

During the year, the Company has consolidated on the area of setting up the infrastructure for efficient Warehousing of Imported Stocks and Network Marketing on all India basis.

GIL is also focused on making its infrastructure strong by extending Karigar Training Classes and Contractor / Sale Staff Training Programme by establishing a formal Gratex Academy. The Company intends to train at least 50 Karigars per annum, who would enter the Wallpaper Field every year.

Significant upgradation is also made by the Company by up-grading the Adhesives used and providing technical back up support for post sales problems.

OPPORTUNITIES AND THREATS

With Imports getting cheaper, more and more persons are entering into the Wallpaper Business, due to which the flow of Imported Wallpapers is on the rise. This would open up opportunities in market thereby making it competitive.

Threat from imports, particularly from China and East Asian Countries, is foreseen in future and having regard to their large capacities, is likely to put some pressure on the prices in the domestic market. The Company is already under pressure against rising PVC, DOP & Gas fuel prices.

As far as Gratex is concerned, inspite of threats and pressures a healthy growth of 16.71% in sales is seen during 2005-06 over the previous year.

RISKS AND CONCERNS

During the year, the prices of fuel gas rose by 25%, thereby creating a significant impact on the cost of Wallpapers. The increased input costs at present are to be absorbed due to lower cost of importation.

The Company has taken up measures like raising the minimum run production quantity, running 3 shifts with full load for continuous production, which has helped in cost control upto 12% thereby retaining the competitive level.

Profit after tax is seen in the Balance Sheet due to increase in production and consequently some stock built-up, but the profit is not real cash gain, but in kind.

INTERNAL CONTROLS

Your Company has a system of Internal Controls to ensure that all its assets are properly safeguarded and not exposed to risks arising out of unauthorized use. The Internal Control system is supplemented by a programme of Internal Audits to ensure that the assets are properly accounted for and the business operations are conducted to adhere to laid down policies and procedures.

The Company has an Audit Committee of the Board of Directors which meets regularly to review, inter alia, risk management policies, adequacies of internal controls and the audit findings on the various segments of the business.

FINANCIAL PERFORMANCE

Discussion on financial performance with reference to operation performance has been dealt with in the Directors' Report which should be treated as forming part of this Management Discussion and Analysis.

HUMAN RESOURCES

Your Company has arrived at an amicable settlement with the Union with all arrears concerning wage revision being paid. Peace and harmony between Employer and Employee prevailed during the year.

In order to optimize the contribution of the employees to the Company's business, several incentive and development programmes for all levels of employees have been conducted. Occupational Health and Safety are given utmost importance. Emphasis was placed on in-house technical training of the employee to upgrade their operating skills.

RESOURCES AND LIQUIDITY

The Company finances its working capital requirements by internal sourcing. The Company avails of Cash Credit facility for Working Capital in the range of Rs.15 to Rs.20 lacs, whereas the Banks C.C. limit is Rs.35 lacs. Even thro' the Company turnover is marginal the Debt Equity Ratio continues to be high very favourable, since there are hardly any debts.

CAUTIONARY STATEMENT

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statement" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that would make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments with India and the countries in which the Company conducts business and other incidental factors.

Mumbai, July 25, 2006

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2005-06**1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE**

The Company believes that good corporate governance practices should be enshrined in all activities of the Company. This would ensure efficient conduct of the affairs of the Company and help the Company achieve its goal of maximizing value for all its stakeholders. The Company will continue to focus its resources, strengths and strategies to achieve its vision of becoming a truly No.1 Wallpaper Company while upholding the core values of transparency, honesty and accountability, which are fundamental to the Company.

The Company is in compliance with the requirements of the revised guidelines on corporate governance stipulated under clause 49 of the Listing Agreement with the Stock Exchanges, and with the adoption this year, of a Code of Conduct for Non-Executive Directors, the Company has moved further in its pursuit of excellence in corporate governance.

2. BOARD OF DIRECTORS :

- i) The Board of Directors is headed by an Executive Chairman, Mr. Baldev Sharma and is composed of committed persons with considerable professional experience in varied fields and comprises a majority of Non-Executive Directors. The composition of the Board of Directors meets the requirement of Clause 49-I(A) of the Listing Agreement. The details are given below :

Director	Category	No. of Board Meeting during the year 2005-06		Whether attended last AGM held on September 29, 2005
		Held	Attended	
Mr. Baldev Sharma	Chairman – Executive	9	9	Yes
Mrs. Promila Sharma	Non-Independent, Executive	9	7	Yes
Mr. K.P.Bharadwaj	Independent, Non-Executive	9	8	Yes
Mrs. Mona Menon	Non-Independent, Executive	9	7	Yes
Mr. Karan Sharma	Non-Independent, Executive	9	9	Yes
Mr. Pratap Menon	Non-Independent, Non-Executive	9	9	Yes
Mr. Pradeep Nagori	Independent, Non-Executive	9	1	N.A. Appointed after the AGM
Mr. Gurvinder Singh Saggi	Independent, Non-Executive	9	1	N.A. Appointed after the AGM

NOTES :

- a. Mr. Pradeep Nagori, an Independent Non-Executive Director, was appointed w.e.f. September 9, 2006
- b. Mr. Gurvinder Singh Saggi, an Independent Non-Executive Director, was appointed w.e.f. September 9, 2006

BOARD MEETINGS AND AGM :

9 Board Meetings were held during the year under review. The dates on which the meeting were held are May 5, 2005; May 16, 2005; June 23, 2005; July 25, 2005; August 3, 2005; September 9, 2005; November 11, 2005; February 2, 2006; March 3, 2006.

The AGM was held on September 29, 2006.