



BOARD OF DIRECTORS

| | | |
|---------------------------|---|------------------------------|
| Mr. Jayesh P. Choksi | - | Chairman & Managing Director |
| Mr. Khantilal N. Sanghavi | - | Director |
| Dr. Sharat S. Gandhi | - | Director |
| Mr. Ashok M. Tarale | - | Director |
| Mr. Vijay Agarwal | - | Director |
| Mr. Pranav J. Choksi | - | Director |

COMPANY SECRETARY

Mr. Sitesh Joshi

AUDITOR

S.H.R. & Co.

Chartered Accountant

BANKERS

State Bank Of India

Commercial Branch, Vile Parle (E).

**REGISTERED OFFICE &
SHARES DEPARTMENT**

Gufic House ,

Subhash Road – A,

Vile Parle (E),

Mumbai – 400 057.

REGISTRAR AND TRANSFER AGENTS

INTIME SPECTRUM REGISTRY LIMITED

C – 13, Pannalal Silk Mills Compound,

L.B.S. Road, Bhandup (W) , Mumbai 400 078.

Tel No.: 2596 3838

22nd Annual General Meeting

DAY & DATE

Thursday, 28th September, 2006

TIME

2.30 PM.

VENUE

Hotel Parle International,

B. N. Agarwal Market,

Next to Dinanath Mangeshkar Hall,

Vile Parle (E), Mumbai - 400 057.

Directors' Report

To,

The Members,

Your Directors have pleasure in presenting the Twenty Second Annual Report of the Company, together with the Audited Accounts for the financial year ended 31st March, 2006.

| FINANCIAL RESULTS AND OPERATIONS: | Rs. In '000 | Rs. In '000 |
|--|------------------|------------------|
| | For the year | For the year |
| | 31st March, 2006 | 31st March, 2005 |
| Net Sales | 590,557 | 536,122 |
| Profit before interest, depreciation and tax | 75,696 | 78,845 |
| Interest | 24,135 | 24,614 |
| Depreciation | 13,124 | 10,839 |
| Profit before Tax | 38,436 | 43,392 |
| Provision for tax | 6,500 | 8,500 |
| Fringe Benefit Tax | 466 | -- |
| Provision for Deferred Taxation | 4,678 | 3,056 |
| Profit After Tax | 26,791 | 31,836 |
| Surplus brought forward | 53,532 | 42,012 |
| Tax - Earlier Year | 111 | (54) |
| Deferred Tax - Earlier Year | -- | 2,079 |
| Prior Period Expenses | 145 | |
| Balance available for appreciation | 80,068 | 75,873 |
| Dividend | 12,376 | 17,017 |
| Tax on dividend | 1,736 | 2,224 |
| Transfer to General Reserve | 2,100 | 3,100 |
| Surplus carried forward | 63,856 | 53,532 |

FINANCIAL HIGHLIGHT:

The year 2005-06 proved to be improved for the Company. During the year under review the Sales increased from Rs. 536122 thousand in the previous year to Rs. 590557 thousand, an increase of 10.15%. However, due to initial expenses to introduce new products, expenses relating to expansion and due to heavy depreciation the Profit before Tax and Profit after Tax was effected. The management is taking due measures to maintain the profitability of the Company.

DIVIDEND:

The Directors are pleased to recommend a Dividend of 16 % per equity share of Re.1 each for the financial year ended 31st March, 2006.

LISTING:

Your Company is listed with the Mumbai Stock Exchange at P.J. Towers, Dalal Street, Mumbai 400 001, bearing script code No. 509079 and with the National Stock Exchange of India Limited at Exchange Plaza, Bandra Kurla Complex, Bandra (E),

Mumbai 400 051 bearing script code No. GUFICBIO. The listing fees for the year 2006-2007 has already been paid by the Company.

FIXED DEPOSITS:

During the year under review, your Company has not accepted any deposit from the public.

DIRECTORS' RESPONSIBILITY STATEMENT:

In terms of provisions of Section 217(2AA) of the Companies Act, your Directors' confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed;
- appropriate accounting policies have been selected and applied consistently and judgements and estimates made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st March, 2006 and of the profits of the Company for that period;
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE:

A Report on Corporate Governance alongwith a Certificate from the Auditors of the Company regarding compliances with the conditions of Corporate Governance pursuant to Clause 49 of the Listing Agreement is annexed hereto.

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

The information required under 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 is annexed hereto and forms part of this Report.

EMPLOYEES:

There are no employees drawing remuneration above the limits specified under Section 217 (2A) of the Companies Act, 1956.

DIRECTORS

Mr. Vijay Agarwal, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offer himself for reappointment.

Mr. K. N. Sanghavi, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offer himself for reappointment.

AUDITORS:

The retiring Auditor M/S. SHR. & Co., Chartered Accountant being eligible have shown their unwillingness to be reappointed as the Auditor of the Company at the ensuing Annual General Meeting. The Company has received a special notice proposing the appointment of M/s Mayur Chokshi & Co., Chartered Accountants to act as Auditors of the Company.

The said M/s Mayur Chokshi & Co., Chartered Accountants being eligible have consented to act to as Auditors of the company. Therefore your Directors recommend appointment of M/s. Mayur Chokshi & Co., Chartered Accountants as Auditors of the Company, to hold office from conclusion of ensuing Annual General Meeting, until the conclusion of the next Annual General Meeting in place of retiring Auditor.

APPRECIATION:

Your Directors would like to place on record their sincere gratitude to the Shareholders, Bankers, Business Associates, Medical Professionals, Customers, Government, other Regulatory Agencies for their continued support and faith in the Company. Your Directors are also happy to place on record their appreciation for the whole-hearted co-operation, commitment and contribution made by all the staff members of GUFIC FAMILY and look forward to their continued support.

By Order of the Board of Directors,

Jayesh P. Choksi
Managing Director

Mumbai, 4th September 2006

Registered office:

Gufic House,
Subhash Road- A,
Vile Parle (E),
Mumbai 400 057



Management Discussion & Analysis Report:

INDUSTRY STRUCTURE

The Indian Pharmaceutical Industry is highly organized and is estimated to be growing at about 8 to 9 per cent annually. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

Playing a key role in promoting and sustaining development in the vital field of medicines, Indian Pharma Industry boasts of quality producers and many units approved by regulatory authorities in USA and UK. It has expanded drastically in the last two decades. It is an extremely fragmented market with severe price competition and government price control.

Following the de-licensing of the pharmaceutical industry, industrial licensing for most of the drugs and pharmaceutical products has been done away with. Manufacturers are free to produce any drug duly approved by the Drug Control Authority. Technologically strong and totally self-reliant, the pharmaceutical industry in India has low costs of production, low R&D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade. The Pharmaceutical Industry, with its rich scientific talents and research capabilities, supported by Intellectual Property Protection regime is well set to take on the international market.

OPPORTUNITIES AND THREATS

Opportunities

India has a pool of personnel with high managerial and technical competence as also skilled workforce. Its track record of development, particularly in the area of improved cost-beneficial chemical synthesis for various drug molecules is excellent. It provides a wide variety of bulk drugs and exports sophisticated bulk drugs. It has a good network of world-class educational institutions and established strengths in Information Technology. For the first time in many years, the international pharmaceutical industry is finding great opportunities in India. India has a years old democracy and hence has a solid legal framework and strong financial markets. There is already an established international industry and business community.

Threats

Menace and risk posted by counterfeit drugs, which is growing consistently keeping pace with the growth of the industry with improved sophistication and skills in the art of counterfeit. Increase in the input cost, effecting the margins of Pharma companies which are already reeling under pressure on prices due to unhealthy competition from small manufacturers using unethical methods. The Pharma industry operated in a highly regulated industry and must comply with a broad range of dynamic regulatory controls, particularly in regulated markets.

SEGMENTWISE PERFORMANCE

Sales for last 2 years is as follows:

| | Rs. in '000 2005-06 | Rs. in '000 2004-05 |
|-------------------|------------------------|------------------------|
| Formulation | 415714 | 183430 |
| Bulk Drugs | 75867 | 59216 |
| Consumer Products | 85635 | 94778 |
| Chemicals | 30975 | 102718 |
| Agro Products | 10844 | 118234 |
| Total | 619035 | 558376 |

OUTLOOK

The general outlook for the Company for the year 2006-07 is positive. The Company's strategic direction is meeting with positive response from its clients and partners. It has developed scalable client relationship in its focus markets, which are expected to lead business over the next financial year. Cost control initiatives to be initiated by the company will contribute to increased profitability in the coming year. The current trends bode well for significant performance improvement going forward. Moreover the Company continues focus on Research & Development for the development of new products also happens to improve profitability of the Company.

RISK AND CONCERN

There has been continues pressure on prices and billing rates with increasing input cost and transport freight which is eroding profit of your Company. The process of consolidation, which has become a generalized phenomenon in the world pharmaceutical industry, there is a great risk in concentrating the resources on a specific segment has started taking place in India. Increase in the cost of financing the working capital requirement could squeeze the bottom line of the Company. The new policy which intends to put more items under price control ambit may have effect on prices of products marketed by the Company.

INTERNAL CONTROL SYSTEM

Your Company has strong and adequate internal audit and control system which is commensurate with the nature and size of the organisation. Strong internal controls have been designed to ensure compliance with various policies, practices and statues and to prevent the fraud and misuse of the Company's resources and to protect shareholders' interests. The internal audit procedures ensures to monitor the controls and communicate any feedback, positive or negative, directly to the management.

HUMAN RESOURCES DEVELOPMENT AND INDUSTRIAL RELATIONS

Management considers personnel as vital part of the Company. Our Company strive for continuous up gradation of its Human Resources at all level at all functions. Company always ensures optimum utilization of available manpower. Company strongly believe in "Care for Employee", philosophy to ensure, to attract, to retain and upgrade best talent.

CAUTIONARY STATEMENT

Statements in this Management Discussion & Analysis describing the company's objectives, projections, estimates and expectations may be forward looking statements within the meaning of applicable laws and regulations. All though we believe our expectation are based on reasonable assumptions, these forward-looking statements may be influenced by numerous risk and uncertainties that could cause actual outcomes and results to be materially different from those expressed or implied.

CORPORATE GOVERNANCE

Introduction :

During the year 2005-06 Clause 49 of the Listing Agreement which pertains to Corporate Governance was revised and the date for its implementation and ensuring compliance thereof was revised to 1st January 2006. Your Company has begun compliance in all material respects with the revised Clause 49 of the Listing Agreement. A report on the implementation of the Corporate Governance requirements of the Listing Agreement by the Company is furnished herewith :-

Company's Philosophy on Code of Corporate Governance :

At GBSL we are committed to pursue high standards of governance norms. We keep high values towards our commitments and adopt best Corporate Governance practices. GBSL is always committed to corporate policies and timely compliances and disclosures to all the stakeholders and authorities.

The Company ensures that the Board and Management of the Company are fully appraised of the affairs of the Company which is aimed at assisting them in the efficient conduct of Company's business so as to add value towards all stakeholders of the Company.

The Company reaffirms its commitment to adhere to Corporate Governance in its relentless pursuit to attain highest standards of Corporate values and ethics. This is done with the objective of generating long-term economic value for the stakeholders.

Board of Directors :

Composition

As per Clause 49 of the Listing Agreement the Board of Directors of the Company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the Board of Directors comprising of non-executive directors. It also prescribes that where the Chairman of the Board is an Executive Director, at least half of the Board should comprise of independent directors.

The composition of the Board at GBSL is in accordance with the requirements set forth by Clause 49 in this regard. The Board consists of 6 Directors out of which 2 are Executive Director and 4 are NonExecutive Directors. The Chairman and Managing Director is an Executive Director and four Directors on the Board are Independent Directors. Two out of six directors are from Promoter group.

Board Meetings

Eight Board Meetings were held during the financial year 2005 2006 on the following dates :

| | | |
|-----------------|--------------------|--------------------|
| 30th April 2005 | 1st September 2005 | 31st January 2006 |
| 8th June 2005 | 29th October 2005 | 27th February 2006 |
| 29th July 2005 | 30th December 2005 | |

The names of members of the Board of Directors, their attendance at the Company's Board Meetings and last Annual General Meeting, the number of Directorship / Committee Membership in other Companies are given below :

| Name of Director | Category of Director | No. of Board Meeting attended during the year | Attendance at the last AGM (30.09.2005) | Number of Directorship in other Companies | No. of committee Position held in other Companies | |
|----------------------|----------------------|---|---|---|---|--------|
| | | | | | Chairman | Member |
| Mr. Jayesh P. Choksi | CMD | 8 | Yes | 5 | NIL | NIL |
| Mr. Pranav J. Choksi | ED | 2 | No | 3 | NIL | NIL |
| Mr. K. N. Sanghavi | NED (NI) | 8 | Yes | NIL | NIL | NIL |
| Dr. Sharat S. Gandhi | NED (I) | 8 | Yes | NIL | NIL | NIL |
| Mr. Ashok M. Tarale | NED (I) | 8 | Yes | NIL | NIL | NIL |
| Mr. Vijay Agarwal | NED (I) | 7 | Yes | 9 | NIL | 5 |

Notes :

1. Category of Directorship :
 CMD Chairman and Managing Director
 NED (NI) Non-Executive and Non Independent
 NED (I) Non-Executive and Independent
2. Membership in only Audit Committee and Shareholders' grievances Committee have been considered for committee positions as per Listing Agreement.
3. None of the Directors is a member in more than 10 committees and is not a Chairman in more than 5 Committees across all companies in which he is a Director.

• Code of Conduct

The Board has laid down a Code of Conduct applicable to all the Board members and senior management of the Company. The Code is also posted on the website of the Company.

A declaration by CEO affirming compliance to the Code of Conduct by Board Members and Senior Management Executives is also annexed separately at the end of this Report.

3. Audit Committee:

The Audit Committee, consists of three Directors, namely Mr. Vijay Agarwal (Chairman), Dr. S. S. Gandhi and Mr. Ashok Tarale, all of them are independent Director. The representative from the Internal Auditor and Vice President Finance are invitees to the Committee meetings. The Company Secretary, acts as a Secretary to the Committee.

During the financial year under review, five meetings of the Audit Committee were held i.e. on 30th April 2005, 29th July 2005, 1st September 2005, 29th October 2005 and 31st January 2006. The following are the details of attendance :

| Name of Director | Chairman / Member | Category | No. of Meeting attended |
|-------------------|-------------------|-------------------------------|-------------------------|
| Mr. Vijay Agarwal | Chairman | Non-Executive and Independent | 5 |
| Dr. S. S. Gandhi | Member | Non-Executive and Independent | 5 |
| Mr. Ashok Tarale | Member | Non-Executive and Independent | 5 |

Terms of reference

The term of reference of Audit Committee are quite comprehensive and include all that is mandated under Clause 49 and section 292A of the Companies Act, 1956. The Committee focused its attention on overseeing and monitoring the financial reporting system within the Company, considering quarterly, half-yearly and annual financial results of the Company and submitting its observations to the Board of Directors before its adoption by the Board, review of annual budgets, annual internal audit plans, legal compliance reporting system, review of internal control system, audit methodology and process, major accounting policies and practices, compliance with accounting standards, risk management and risk disclosure policy. The Audit Committee also continued to advise the management on areas to be taken up for audit. These were based on the Committee's discussions and review of the observations of the reports submitted by the Company's Internal Audit Department on systems and controls, cost control measures and statutory compliance in various functional areas.

The Audit Committee reviews, besides other items, the Management Discussion and Analysis Report, report on significant related party transactions, letter on internal controls and weaknesses by the statutory auditors, internal audit reports.

4. Remuneration Committee :**Terms of reference**

Its scope of work ranges from nominating Directors on the Board, evaluating performance of Executive Director and laying down guidelines for their remuneration package or compensation.

Composition

The Remuneration Committee of the Company consists of Dr. S. S. Gandhi (Chairman), Mr. Ashok Tarale and Mr. Vijay Agarwal. All the members of the committee are Non-Executive and Independent Director.

Meetings and Attendance

During the year 2005-06 the Remuneration committee Meeting was held on 8th June, 2005. All the members of the Committee attended the Meeting.

Details of Remuneration to Directors

The details of the remuneration paid to the Managing Director during the year ended 31st March 2006, is given below.

| Name of the Director | Position Held | Salary | Perquisites | Provident Fund | Bonus | Commission | Performance linked | Sitting fees incentive | Total |
|----------------------|---------------|----------|-------------|----------------|-------|------------|--------------------|------------------------|-----------|
| Mr. Jayesh P. Choski | CMD | 6,00,000 | 3,60,000 | 72,000 | 6,000 | 4,38,286 | Nil | Nil | 14,76,286 |

INDEPENDENT DIRECTORS

None of the Independent Directors have any pecuniary relationship or transactions with the Company, its Promoters, its Directors, its senior management and associates companies except for professional fees paid by associates concern of Rs.84,000/- during the year to Dr. S. S. Gandhi for professional services rendered to associate company. The quantum of professional fees received by Dr. S. S. Gandhi forms a very small proportion of the associate company and therefore does not effect the independence of the Director.

The Company has made payment of sitting fees of Rs.3,750 to Mr. K. N. Sanghavi for each Board Meeting attended by him.

SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

Composition

The Shareholders/Investors Grievance & Transfer Committee comprises of the following :

| Name | Position held | Category |
|--------------------|---------------|--|
| Mr. K. N. Sanghavi | Chairman | Non-Executive Director |
| Dr. S. S. Gandhi | Member | Non-Executive and Independent Director |

Notes:

Company Secretary, is the Compliance Officer of the Committee.

Mr. Vijay Agarwal resigned as chairman and member of the committee with effect from 1st April, 2005. Dr. S. S. Gandhi was appointed as member of the committee from 1st April, 2005.

Terms of reference

The Shareholder / Investor Grievance & Transfer Committee was constituted with a purpose of speedy disposal of investor complaints and to give specialized attention to it so that easy and faster disposal of the same is achieved. The broad terms of reference are:-

- Resolution of investor grievances/complaints.
- Review the existing investor redressal system and suggest measures for improvement.
- Approving physical transfer and other requests from shareholders are processed by the Registrar and Transfer Agents viz Intime Spectrum Registry Limited Transfer of Shares.

The Company had held four Investor Grievance & Transfer Committee meetings during the year ended on 31st March 2006. These were held on 30th April 2005, 29th July 2005, 29th October 2005 and 31st January 2006. All Members were present at the above meetings.

During the year, the Company received 28 complaints from shareholders, relating to matters regarding non receipt of dividend warrants posted by the Company, change of address and bank details, request for revalidation of expired dividend warrants and all of these have been attended to the highest satisfaction of complainant. At the close of the financial year there