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GUFIC
BIOSCIENCES LIMITED

23RD ANNUAL REPORT 2006-2007

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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. Pranav J. Choksi | - | Director |
| Dr. M. G. Dhapalapur | - | Director |

COMPANY SECRETARY

Ms. Reena Bansal

AUDITOR

Mayur Chokshi & 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

23rd Annual General Meeting

DAY & DATE

Monday, 31st March, 2008

TIME

2.30 PM.

VENUE

Hotel Parle International,
B. N. Agarwal Market,
Next to Dinanath Mangeshkar Hall,
Vile Parle (E), Mumbai - 400 057.

GUFIC BIOSCIENCES LIMITED**Directors' Report**

To,

The Members,

Your Directors have pleasure in presenting the Twenty Third Annual Report of the Company, together with the Audited Accounts for the financial year ended 31st March, 2007.

FINANCIAL RESULTS AND OPERATIONS:

| | Rs. In '000 For the year 31st March, 2007 | Rs. In '000 For the year 31st March, 2006 |
|--|---|---|
| Net Sales | 534,187 | 590,557 |
| Profit before interest, depreciation and tax | 59,331 | 75,696 |
| Interest | 25,301 | 24,135 |
| Depreciation | 17,224 | 13,124 |
| Profit before Tax | 16,806 | 38,436 |
| Provision for tax | 8,705 | 6,500 |
| Fringe Benefit Tax | 724 | 466 |
| Provision for Deferred Taxation | 378 | 4,678 |
| Profit After Tax | 6,999 | 26,791 |
| Surplus brought forward | 63,857 | 53,532 |
| Tax - Earlier Year | 134 | 111 |
| Deferred Tax - Earlier Year | | -- |
| Prior Period Expenses | | 145 |
| Balance available for appreciation | 70,722 | 80,067 |
| Appropriations: | | |
| Dividend | 3,868 | 12,376 |
| Tax on dividend | 542 | 1,736 |
| Transfer to General Reserve | | 2,100 |
| Surplus carried forward | 66,312 | 63,856 |

FINANCIAL HIGHLIGHT:

During the year under review the Sales decreased from Rs. 590557 thousand in the previous year to Rs. 534187 thousand, a decrease of 9.55%. Due to restructuring of products and some contracts that did not materialize, the profit before and profit after tax was effected. The Management is taking due measures to increase the sales of the Company.

DIVIDEND:

The Directors are pleased to recommend a Dividend of 5 % per equity share of Re.1 each for the financial year ended 31st March, 2007.

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 2007- 2008 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, 2007 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. Pranav J. Choksi, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offer himself for reappointment.

Dr. Sharat S. Gandhi, Director of the Company, retires by rotation at the ensuing Annual General Meeting and being eligible offer himself for reappointment.

Mr. Vijay Agarwal resigned as Director of the Company at the Board meeting of the Company held on 31st July 2007.

Dr. Mahalingappa G. Dhapalapur was appointed as Additional Director at the Board Meeting of the Company held on 31st July 2007. Company has received notice from a member of the Company, pursuant to provision of Section 257 of the Companies Act, 1956 along with necessary deposit signifying their intention to propose the appointment of Dr. Mahalingappa G. Dhapalapur, as Director of the Company.

AUDITORS:

Members are requested to appoint Auditors for the ensuing year. M/s. Mayur Chokshi & Co., Chartered Accountant, retires and being eligible offer themselves for appointment.

As required per proviso to Section 224(1) of the Companies Act, 1956, a written certificate has been obtained by the Company from the Auditors, M/s. Mayur Chokshi & Co., Chartered Accountant, certifying that, if they are appointed Auditors



of your Company, such appointment would be within the limits specified in Section 224(1)(B) of the Companies Act, 1956.

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, 7th March, 2008

Registered office:

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



GUFIC BIOSCIENCES LIMITED

Management Discussion & Analysis Report:

INDUSTRY STRUCTURE

The Indian Economy has registered an impressive growth of 8.4% and India is poised to join the rank of global economic super power. Sustainable growth over 8% and projected double digit growth fuel all round growth momentum in years to come. This has resulted in world wide shift in their focus towards emerging economies like India, which has become preferred destination for foreign players for due to its low costs of production, low R & D costs, innovative scientific manpower, strength of national laboratories and an increasing balance of trade, for conducting of clinical trials.

The Indian Government in its endeavor to boost the Indian Pharmaceutical Sector has taken certain significant steps in its Budget policy. The Government in its Budget policy for 2006-07 has increased allocation to healthcare and family welfare by 22%. They have reduced custom duty on certain life saving drugs and equipments and exempting them from excise duty and countervailing duty. The Government have exempted expenses on free samples of medicines distributed to doctors from fringe benefit tax.

In its endeavor to strengthen its international network and building the Company brand in the overseas markets, your Company has made application for obtaining WHO GMP Certification. Besides this your Company has also taken major steps for further upgrading its manufacturing technology in accordance with Schedule M requirement. Given this climate, the Company's core competencies are being molded to serve this growing global opportunity.

SEGMENTWISE PERFORMANCE

Sales for last 2 years is as follows:

| | Rs. in '000 2006-07 | Rs. in '000 2005-06 |
|-------------------|------------------------|------------------------|
| Formulation | 333688 | 415714 |
| Bulk Drugs | 73511 | 75867 |
| Consumer Products | 69152 | 85635 |
| Chemicals | --- | 30975 |
| Agro Products | 75744 | 10844 |
| Total | 552095 | 619035 |

OPPORTUNITY AND OUTLOOK

The Company is upgrading its manufacturing facilities as per standard requirement for getting GMP WHO Certification at its plant at Navsari, which would enable the Company to tap the untouched foreign market of South East Asian Countries and other developing as well as developed countries, with respect to the products that it already deals in. The Company is looking at different opportunities in untapped markets and also across the value chain. The fruits of the modernisation and upgradation will be earned by our Company in years to come. The Company is continuing with its endeavor to control cost thereby using its resources efficiently and effectively. During the financial year under review, we have committed significant resources towards research and development R & D activities.

Threats And Concern

The Drug Price Control Order (DPCO) in its new Pharmaceuticals policy 2006 which has not been officially passed as yet, has proposed to bring 354 essential drugs under price control. The Pharmaceutical Industry is strongly opposing this proposed new Pharmaceuticals Policy 2006 from coming into being. Our exports are principally denominated in US Dollars and any Rupee appreciation versus the US Dollar can impact the Company net sales realization. Besides this Pharma Industry is poised by counterfeit sales of medicine which is growing consistently keeping pace with the growth of the industry with improved sophistication and skills in the art of counterfeit, this might result in your Company entering into litigation to protect its brand

value, thereby increasing its legal cost. All these factors can potentially impact the overall profitability of the Company. Besides this there is continuous pressure on prices and billing rates with increasing input cost and transport freight which is eroding profit of your Company.

INTERNAL CONTROL SYSTEM

The Company has effective internal audit and control system which is commensurate with the nature and size of the organisation. Regular internal audits, reviews by management and standard policies and guidelines are the effective methods used to ensure financial and related records reliability. Effective and adequate systems are in place to ensure that the assets are safeguarded and protected. The internal audit procedures ensure to monitor the controls and communicate any feedback, positive or negative, directly to the management. The Company is always open for improvising internal control system on a continuous basis.

RISK AND CONCERN

There has been continuous 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.

HUMAN RESOURCES DEVELOPMENT

During the year, the company continued its thrust on Human Resource Development across its various locations through Communication, Training and People Involvement. The Company has conducted an organisation wide training on basic computer skills in operation of newly introduced ERP system for its junior staff with the help of departmental heads. Our Company has given emphasis to upgrading the skills of its technical and marketing personnel. Steps are being taken for effective use of available manpower. The Company's HR policy is to attract and retain the best talent.

CAUTIONARY STATEMENT

Management Discussion & Analysis Report contains forward-looking statements, which may be identified by the use of the words in that direction or connoting the same. All statement that address expectation or projection about the future are forward-looking statements. The Company's actual results, performance or achievements could thus differ materially from those projected in such forward-looking statements. The Company assumes no responsibility to public amend, modify or revise any forward-looking statements on the basis of any subsequent development, information or events.

GUFIC BIOSCIENCES LIMITED

CORPORATE GOVERNANCE

Introduction :

Gufic Biosciences Limited (GBSL) is committed to pursue growth by adhering to the high level of standards of Corporate Governance. The Company's philosophy on corporate governance envisages an attainment of the highest level of transparency, accountability and equity in all facets of its operations and in all interaction with its shareholders, employees, government and lenders. The Company constantly endeavor to improve the business practices with the objective to achieve the best Corporate Governance. A report on the implementation of the Corporate Governance requirements of the Listing Agreement by the Company is furnished herewith:-

Board of Directors :

Composition and size of the Board

The current strength of the Board of Directors of the Company is five. The Board has 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. The Board consists of Five Directors out of which Two are Executive Directors and Three are Non-Executive Directors. The Chairman and Managing Director is an Executive Director and Three Directors on the Board are Independent Directors.

Board Meetings

Six Board Meetings were held during the financial year 2006- 2007 and the gap between two Board Meetings did not exceed 4 months. The dates on which the meetings were held are as follows :

29th April 2006 4th September 2006
5th June 2006 31st October 2006
31st July 2006 31st January 2007

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 (30.09.2006) | Number of Directorship in other Companies | No. of committee Position held in other Companies | |
|----------------------|----------------------|---|---|---|---|--------|
| | | | | | Chairman | Member |
| Mr. Jayesh P. Choksi | CMD | 6 | Yes | 7 | NIL | NIL |
| Mr. Pranav J. Choksi | ED | 6 | Yes | 5 | NIL | NIL |
| Mr. K. N. Sanghavi | NED (I) | 6 | Yes | NIL | NIL | NIL |
| Dr. Sharat S. Gandhi | NED (I) | 6 | Yes | NIL | NIL | NIL |
| Mr. Ashok M. Tarale | NED (I) | 6 | Yes | NIL | NIL | NIL |
| Mr. Vijay Agarwal | NED (I) | 6 | No | 8 | NIL | 4 |
| Mr. M.G.Dhapalapur | NED (NI) | - | - | NIL | NIL | NIL |

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.
4. Mr. Vijay Agarwal resigned from Directorship w.e.f. 25th June 2007.
5. Dr. M. G. Dhapalapur was appointed as Additional Director of the Company at the Board Meeting held on 31st July 2007 w.e.f. 1st August 2007.

• Code of Conduct

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. Ashok Tarale (Chairman), Dr. S. S. Gandhi and Mr. Vijay Agarwal, all of them are independent Director. Mr. Vijay Agarwal, resigned as Chairman of Committee w.e.f. 31st October 2006 but continued to be member of the Committee, Mr. Ashok Tarale was appointed as Chairman of the Committee in his place. The Committee was again reconstituted by appointing Mr. K. N. Sanghavi as member of Committee due to the resignation of Mr. Vijay Agarwal as the director of the Company at the Board meeting held on 31st July 2007. The representative from the Internal Auditor and Accounts Manager 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 29th April 2006, 31st July 2006, 4th September 2006, 31st October 2006 and 31st January 2007. 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

The terms of reference to this committee include recommending or reviewing the terms of remuneration paid / payable to executive directors. 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. The Committee was reconstituted on 31st July 2007, by appointing Mr. K.N.Sanghavi in place of Mr. Vijay Agarwal, due to his resignation as Director of the company at the Board meeting held on 31st July 2007

Meetings and Attendance

During the year 2006-07 the Remuneration committee Meeting was held on 29th Feb, 2008. 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 2007, 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 | 2,02,178 | Nil | Nil | 12,40,178 |

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.96,000/- 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.

Dr. M. G. Dhapalapur who was appointed as Non Executive (Non Independent) Director of the Company by the Board of Directors at its meeting on 31st July 2007 as consultant of Bulk Drug Division is being paid remuneration of Rs. 50,000 per month with entitlement of being reimbursed of travelling and hotel expenses incurred by him in and about the performance of duties as a consultant subject to approval of Shareholders at the Annual General Meeting.

The Company has made payment of sitting fees of Rs. 2500 per month to Mr. K. N. Sanghavi as Director's fees.

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.

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 2007. These were held on 29th April 2006, 31st July 2006, 31st October 2006 and 31st January 2007. All Members were present at the above meetings.