

GUJARAT TERCE LABORATORIES LIMITED



TWENTYSECOND ANNUAL REPORT 2006-2007

BOARD OF DIRECTORS

Shri Natwarbhai P. Prajapati

Chairman & Managing Director

Shri Amrutbhai P. Prajapati

Whole Time Director (CFO)

Shri Kanubhai S. Patel

Director

Shri Sureshbhai P. Prajapati

Director

Shri Gordhanbhai G. Patel

Director

Shri Harisingh L. Chaughary

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 Second Annual General Meeting of the Members of Gujarat Terce Laboratories Limited will be held on Saturday, 29th September, 2007 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 2007, 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 Kanubhai S. Patel, 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 reappointment of Shri Natwarbhai P. Prajapati as Managing Director of the Company for a period of 5 [five] years with effect from 11/1/2007 upto 10/1/2012 at a remuneration of Rs 18.00 Lacs per annum and on the terms & conditions as set out in the Explanatory Statement enclosed & an agreement entered between the Company and Shri Natwarbhai P. Prajapati and initialed for the purpose of identification by Managing Director 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 Natwarbhai 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 him as minimum remuneration notwithstanding 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 Gordhanbhai Gandabhai Patel 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 Gordhanbhai Gandabhai Patel for the office of Director, be and is hereby appointed as Director of the Company.

6. To consider & if thought fit to pass with or without modifications the following resolution as an ordinary resolution.

Resolved that Shri Harisingh Lavjibhai Chaudhary 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 Harisingh Lavjibhai Chaudhary for the office of Director, be and is hereby appointed as Director of the Company.

By Order of the Board of Directors

30th June, 2007
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.

Gujarat Terce Laboratories Limited

6. The Register of Members and Transfer Book of the Company will be closed from Saturday, 22/09/2007 to Saturday, 29/09/2007 [Both days inclusive].
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 Kaunbhai S. Patel shall retire by rotation and being eligible, offer himself for reappointment. Shri Gordhanbhai Gandabhai Patel and Shri Harisingh Lavjibhai Chaudhary whose term of office as an Additional Director of the Company also expires at ensuing Annual General Meeting and also offers themselves for reappointment. Pursuant to Clause 49 of the Listing Agreement, the particulars of Directors to be reappointed are given below:

Shri Kaunbhai S. Patel

He is scholar and is in academic line since last 22 years. He does not held any shares in the Company.

Shri Gordhanbhai Gandabhai Patel

He is Commerce graduate and has 12 years experience in general administration and marketing management. He holds 21,900 equity shares of the Company.

Shri Harisingh Lavjibhai Chaudhary

He is D.Pharm and has in-depth knowledge of pharma formulation market. He has 22 years of experience in this field. He holds 100 equity shares of the Company.

EXPLANATORY STATEMENT

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

Item no 4

Shri Natubhai P. Prajapati was reappointed as Managing Director for a period of five years w.e.f. 11/1/2007 in Board Meeting dated 12/12/2006 on a remuneration of Rs 18,00,000/- 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 1, 50,000 /- p.m. or Rs 18, 00,000/- per annum.

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

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 Amrutbhai 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 Gordhanbhai Gandabhai Patel was appointed by the Board of Directors as an Additional Director of the Company on 12/12/2006 and holds office up to the date of this Annual General Meeting under Section 260 of the Companies Act, 1956. Shri Gordhanbhai Gandabhai Patel 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 concerned or interested in the said Resolution.

Item no 6

Shri Harisingh Lavjibhai Chaudhary was appointed by the Board of Directors as an Additional Director of the Company on 12/12/2006 and holds office up to the date of this Annual General Meeting under Section 260 of the Companies Act, 1956. Shri Harisingh Lavjibhai Chaudhary 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 concerned or interested in the said Resolution.

By Order of the Board of Directors

30th June, 2007

Registered office:

122/2 Ravi Estate,

Bileshwarapura, Chhatral

Dist: Gandhinagar

N.P. Prajapati

Chairman & Managing Director

DIRECTORS' REPORT

To
The Members

Your Directors presents their Twenty Second Annual Report together with the Audited Statement of Accounts of the Company for the year ended on 31st March, 2007.

FINANCIAL RESULTS:

	2006-07 (Rs. in Lac)	2005-06 (Rs. in Lac)
Gross Income	1156.43	881.43
Profit before Depreciation & Tax	37.43	24.72
Depreciation	14.78	14.04
Profit after Depreciation	22.65	10.68
Tax- Current	17.82	10.51
Deferred	0.51	(0.95)
Profit after tax	4.32	1.13
Profit brought forward from previous year.	27.77	26.64
Balance Carried To Balance Sheet	32.08	27.77

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 valued at \$12 billion, ranks 4th worldwide accounting for 8 per cent of the world's production (in terms of volume) and 13th in terms of value. It is estimated that by the year 2010, the Indian pharmaceutical industry has the potential to achieve over Rs.1, 00,000 crore in formulations and bulk drug production. The industry has developed Good Manufacturing Practices (GMP) facilities for the production of different dosage forms. The pharma industry exports drugs and pharmaceuticals worth over \$ 4.5 billion. It ranks 17th in terms of export value of bulk actives and dosage. Indian exports cover more than 200 countries including the highly regulated markets of USA, Europe, Japan and Australia.

At a growth rate of 9 per cent per year, the pharmaceutical industry in India is well set for rapid expansion. India's impact on the global biotechnology and pharmaceutical industry is accelerating. From quality supply of active pharmaceutical ingredients (APIs) to discovery of new chemical entities (NCEs), this sector is finally coming of age.

Industry Strengths

- Knowledge based Industry
- Large manufacturing base for high quality drugs and formulations
- Developing cost effective technologies for drug intermediaries and bulk actives without a compromise on quality
- Cost advantage in terms of drug production, maintenance of high standards in terms of purity, stability and international safety, health and environment protection
- Tremendous export potential
- Competencies in chemistry and process development

Gujarat Terce Laboratories Limited

Opportunities & threats

Opportunities:

The key to the success will be our ability to retain cost advantage while matching the quality standards. The company is looking to develop parallel marketing set up for generic formulations along with branded formulations business. The Company has launched its products in eastern U. P. and M. P. in first quarter of 2007-08.

Threats:

Availability of skilled manpower and an uncertain regulatory environment are the two legs that may affect growth plan of the Company. The Company continues to carry risks of competition in the industry.

Operational & Financial Performance

The Company has only one business segment namely formulations. During the year 2005-06 net sales increased by 31 % i.e. from Rs 881.43 lac in 2005-06 to Rs 1156.43 in 2006-07.

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. 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 provide career oriented training to its employees at all levels 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 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 Third 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.

	UNITS		AMOUNT (Rs.)		AVERAGE COST (Rs.)	
	Current Year	Previous year	Current year	Previous year	Current year	Previous year
Electricity Purchased	57810	59460	307827	324412	5.32	5.45
Consumption per Unit of Production						
			Current year		Previous year	
Electricity in Units			0.0030		0.0019	

- The Company has earned total foreign exchange of RS 4.09 Lac by way of exports in the year 2006-07 and spent RS 0.58 Lac by way of import of raw material, travelling 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. 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

30th June, 2007

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

- i. Adherence to ethical business practices.
- ii. Transparency in respect of board matters and disclosures to shareholders
- iii. 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 2007 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	7	YES	NIL	NIL	NIL
Shri Sureshbhai P. Prajapati	DIR-IND	7	YES	NIL	NIL	NIL
Shri Ashokbhai Prajapati **	DIR-IND	6	YES	NIL	NIL	NIL
Shri Ashwin N. Shah **	DIR-IND	2	YES	NIL	NIL	NIL
Shri Kanubhai S. Patel	DIR-IND	7	YES	NIL	NIL	NIL
Shri Amrutbhai P. Prajapati	WTD-FINANCE CFO	7	YES	NIL	NIL	NIL
Shri Gordhanbhai G. Patel	DIR- IND	1	NO	NIL	NIL	NIL
Shri Harisingh L. Chaudhary	DIR-IND	1	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.12/12/2006.

Details of Board Meetings held during the year 2006-07

7 (seven) 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
15/04/2006	5
13/06/2006	5
30/06/2006	5
31/07/2006	5
31/10/2006	6
12/12/2006	6
30/01/2007	6

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 30/06/2006, 31/07/2006, 31/10/2006 and 31/01/2007. The Audit Committee was reconstituted on 12/12/2006.

Name	Designation	Attendance
Shri Kanubhai S. Patel (Chairman)	Non executive Independent	4
Shri Gordhanbhai G. Patel	Non executive Independent	1 Appointed w.e.f. 12/12/2006
Shri Harisingh L. Chaudhary	Non executive Independent	1 Appointed w.e.f. 12/12/2006
Shri Ashok L. Prajapati Chairman	Non executive Independent	3 Ceased be member w.e.f. 12/12/2006
Shri Ashwin N. Shah	Non executive Independent	3 Ceased be member w.e.f. 12/12/2006

4. REMUNERATION COMMITTEE**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.