



Hester Pharmaceuticals Limited

19th ANNUAL REPORT 2005-2006

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Corporate Information

BOARD OF DIRECTORS

Dr. Bhupendra V. Gandhi	<i>Chairman</i>
Mr. Rajiv Gandhi	<i>CEO & Managing Director</i>
Mr. Sanjiv Gandhi	
Mr. Darayus Lakdawalla	
Mr. Ravin Gandhi	
Ms. Bela Gandhi	
Mr. Vimal Ambani	
Mr. Abhinav Shukla	
Dr. Parimal Tripathi	<i>Alternate Director for Mr. Ravin Gandhi & Ms. Bela Gandhi</i>

SHAREHOLDERS' GRIEVANCE COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Sanjiv Gandhi	<i>Member</i>

REMUNERATION COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Vimal Ambani	<i>Member</i>
Dr. Parimal Tripathi	<i>Member</i>

COMPANY SECRETARY

Ms. Parul Khamar (Hirani)

AUDIT COMMITTEE

Mr. Darayus Lakdawalla	<i>Chairman</i>
Mr. Vimal Ambani	<i>Member</i>
Mr. Sanjiv Gandhi	<i>Member</i>

AUDITORS

Shah Narielwala & Co.
Chartered Accountants
608 Shitiratna
Panchvati
Ellisbridge
Ahmedabad, Gujarat 380 006

REGISTERED OFFICE

Village : Merda Adraj
Taluka : Kadi
District: Mehsana, Gujarat 382 721

CORPORATE OFFICE

16/10 Devendra Society
Naranpura
Ahmedabad, Gujarat 380 013

MANUFACTURING UNIT

Village : Merda Adraj
Taluka : Kadi
District: Mehsana, Gujarat 382 721

BANKERS

Bank of India
Navrangpura Branch
Ahmedabad, Gujarat 380 009

REGISTRAR & SHARE TRANSFER AGENTS

Pinnacle Shares Registry Pvt. Ltd.
Near Asoka Mills
Naroda Road
Ahmedabad, Gujarat 380 025

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NOTICE

NOTICE is hereby given that 19th Annual General Meeting of the Members of Hester Pharmaceuticals Limited, will be held on **Friday, the 14th July, 2006 at 11.00 a.m.** at Registered office of the Company at Village : Merda - Adraj, Taluka Kadi, District : Mehsana, Gujarat 382 721 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 and Profit & Loss Account for the year ended on that date together with the Directors' Report and Auditors' Report thereon.
2. To declare dividend on Equity shares
3. To appoint a Director in place of Mr. Darayus Lakdawalla, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Sanjiv Gandhi, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors of the Company and fix their remuneration.

SPECIAL BUSINESS

6. To re-appoint Mr. Rajiv Gandhi. CEO and Managing Director of the Company

To consider and if thought fit, to pass with or without modification(s) the following resolution as a Special Resolution :-

"RESOLVED THAT pursuant to Section 198, 269,309,310 and other applicable provisions, if any of the Companies Act, 1956, read with and in accordance with the conditions specified in Schedule XIII of the said Act, the consent of the Company be and is hereby accorded for the re-appointment of Mr. Rajiv Gandhi as a CEO & Managing Director of the Company with effect from 1st January,2006 for a period of 3 years or till the CEO & Managing Director resigns from the office of Directorship, as set out in the explanatory Statement annexed hereto".

"FURTHER RESOLVED THAT in the event of any statutory amendment or modification under the Companies Act, 1956, Board of Directors be and is hereby authorized to vary, enlarge, increase and modify the remuneration including salary, commission, perquisites, allowances, etc. within such prescribed limit or ceiling and aforesaid remuneration draft agreement between the Company Mr. Rajiv Gandhi, be suitably amended to give effect to such modification, relaxation or variation without any further reference to the Company in General meeting."

"FURTHER RESOLVED THAT Board of Directors be and are hereby authorized to take such steps as may be necessary to give effect to this Resolution."

Date : 14.06.2006 for **Hester Pharmaceuticals Limited**

Registered Office:

Village : Merda Adraj

Taluka : Kadi

District : Mehsana

Gujarat - 382 721

Rajiv Gandhi

CEO & Managing Director

Note

- Explanatory statement pursuant to section 173 (2) of the Companies Act, 1956 is annexed as a part of this notice.

- A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the company. Under the provisions of Companies Act, 1956, voting is by show of hands unless a poll is demanded by a member or members present in person, or by proxy, holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding paid-up capital of at least Rs. 50,000/-.
- The Proxies should be deposited at the Registered office of the Company not less than 48 hours before the commencement of the meeting.
- The Register of Members and Share Transfer Books of the Company shall remain closed from **Tuesday 11th July, 2006 to Friday, 14th July, 2006 (both days inclusive)**.
- The payment of Dividend as recommended by the Directors if approved at the Meeting, will be made:
 - (i) to those members whose names are on the Register of Members on 14th July, 2006 or to their mandates.
 - (ii) in respect of shares held in electronic form, to those "deemed members" whose names appears of the statement of beneficiary ownership furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd.(CDSL) at the end of business hours on **10th July, 2006**.

- Members are requested to note the following

- The Company has appointed Pinnacle Shares Registry Pvt. Ltd. as R&T agent for both Demat & Physical share transfer work, hence any documents for share transfer, transmission, transposition, change of bank account details, nomination and other communication regarding shareholding in the company should be addressed to R&T agent, as per following address.

Pinnacle Shares Registry Pvt. Ltd.

Unit : Hester Pharmaceuticals Limited

Near Asoka Mills Naroda Road Ahmedabad Gujarat 380 025

Ph. 079 - 2220 0338 / 2220 0582 Fax : 079 - 2220 5963

e-mail : gautam.shah@psrpl.com

- To quote folio no. / DP ID & CL. ID for any communication for their shareholding.
- To bring the copy of Annual Report at the meeting.
- At the ensuing Annual General Meeting, Mr. Darayus Lakdawalla & Mr. Sanjiv Gandhi, retire by rotation and being eligible offer themselves for re-appointment. Mr. Rajiv Gandhi is also proposed to be re-appointed as CEO & Managing Director of the Company. The information or details pertaining to them to be provided in terms of clause 49 of the Listing Agreement with the Stock Exchanges is furnished in the statement of Corporate Governance published elsewhere in this Annual Report.
- The copies of relevant documents can be inspected at the Registered office of the Company on any working day between 11.00 a.m. to 5.00 p.m. up to the date of A.G.M.
- **The Company has made transport arrangement for attending the Annual General Meeting for the shareholders from the Corporate office of the Company. The shareholders who intend to avail the facility may write to the company quoting their**

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folio number/DP ID & CL ID and such requisition should reach the company before 12th July, 2006.

The Company's shares are listed at Bombay Stock Exchanges. The Company has paid Listing fees to Bombay Stock Exchange for financial year 2006-2007.

EXPLANATORY STATEMENT

[pursuant to section 173 (2) of the Companies Act, 1956]

Item No.6

Mr. Rajiv Gandhi, CEO & Managing Director was appointed by the Company and his terms expired on 31st December, 2005. The Board of Directors, on the recommendation of the Remuneration Committee, at their meeting held on 10th January, 2006 has decided to reappoint him for a further period of 3 years, on the terms and conditions, as mentioned in the Remuneration draft agreement with effect from 1st January, 2006, subject to approval of the shareholders. The appointment and terms of remuneration payable to Mr. Rajiv Gandhi as a CEO & Managing Director of the Company, as mentioned below, are within the permissible limits under schedule XIII of the Companies Act, 1956. The remuneration package will be as follows

- (a) Salary Rs. 2,00,000/- p.m.
- (b) Perquisites: In addition to the salary, the following perquisites shall be allowed to the Managing Director and the total value of perquisites shall be restricted to an amount equal to the annual salary.

CATEGORY - "A"

I) Housing

The Company shall provide furnished accommodation to the Managing Director. If the Managing Director is having his own accommodation, the Company shall pay house rent allowance at the rate of Rs. 15000/- per month, subject to a limit of 20 % of his salary.

The Company shall provide equipments and appliances, furniture, fixtures and furnishing, including maintenance of all, at the residence of the Managing Director at the entire cost of the Company.

The Company shall reimburse the expenses of gas, electricity, water etc. The expenditure on these, valued in accordance with the Income-tax Rules, shall not exceed **10%** of the salary.

ii) Medical Reimbursement:

Medical Expenses actually incurred for self and family shall be reimbursed by the Company under the Medclaim Policy.

iii) Leave Travel Concession

The Company shall provide leave travel fare for the Managing Director and his family once in a year.

iv) Personal Accident Insurance

The Company shall pay Personal Accident Insurance upto Rs.5000/- per annum.

i) Club Fee

The Company shall pay and / or Reimburse Fees and Expenses (excluding admission and Life membership fees) of clubs, subject to a maximum of two clubs.

CATEGORY - "B"

- i) The Company shall contribute towards Provident Fund/ Superannuation Fund/Annuity Fund provided that such contributions either singly or put together shall not exceed the tax free limit prescribed under the Income-tax Act.

- ii) The Company shall pay Gratuity at the rate not exceeding half month's salary for each completed year of service.

- iii) Leave on full pay and allowances, as per rules of the Company, but not more than one month's leave for every eleven months of service. However, the leave accumulated but not availed of will be allowed to be encashed at the end of the term as per rules of the Company.

The perquisite under this Category shall not be included in the computation of ceiling on remuneration.

CATEGORY - "C"

1. The Company shall provide a Car with Driver at the entire cost of the Company for use for the business of the Company. Use of Car for personal purposes shall be billed by the Company.
2. The Company shall provide telephone including mobile phone at the residence of the Managing Director at the entire cost of the Company. Personal long-distance calls shall be billed by the Company.
3. The Managing Director shall not be entitled to sitting fees for attending meetings of the Board of Directors or Committees thereof. He shall, however, be reimbursed the actual travelling, lodging and boarding expenses incurred by him for attending meetings of the Board of Directors and/or committees thereof.
4. The remuneration referred to above is subject to the limit of **50/0** of the annual net profits of the Company and subject further to the overall limit of **100/0** of the annual net profits of the Company on the remuneration of the Managing Director and other Executive Directors of the Company taken together. Provided, however, that in the event of absence or inadequacy of profit, the Managing Director shall be entitled to remuneration mentioned under (a) above and perquisites as above within the minimum remuneration specified in Schedule XIII to the Companies Act, 1956.
5. In the event of cessation of office during any financial year, a ratable proportion of the aforesaid remuneration shall be payable by the Company.
6. The Managing Director shall be entitled to reimbursement of all expenses incurred in connection with the business of the Company.
7. "Family" means the spouse, dependent children and dependent parents of Managing Director.
8. **Reimbursement of entertainment expenses actually and properly incurred in the course of business of the Company shall be allowed.**

Any and All expenditure actually and properly incurred on Company's business shall be reimbursed to the Managing Director. He shall however not be entitled to any Sitting Fees.

The Board recommends the resolution for approval of Shareholders. Except Mr. Rajiv Gandhi, himself and Mr. Sanjiv Gandhi and Dr. Bhupendra Gandhi, relatives of him, none of the other Directors are interested or concerned in this resolution.

Date : 14.06.2006

for **Hester Pharmaceuticals Limited**

Registered Office:

Village : Merda Adraj

Taluka : Kadi

District : Mehsana

Gujarat - 382 721

Rajiv Gandhi

CEO & Managing Director

DIRECTORS' REPORT

Dear Shareholder:

Your Directors are pleased to present the 19th Annual Report together with the Audited Accounts of the Company for the year ended 31.3.2006.

FINANCIAL RESULTS

	Current year	(Rs. In Lacs) Previous Year
Profit before Depreciation & Tax	870.52	666.55
Less : Depreciation	35.38	31.98
Profit before Extraordinary Item	835.14	634.57
Less : Extraordinary Item	148.73	0.00
Profit before Tax	686.41	634.57
Less : Provision for Tax		
Deferred Tax	(2.26)	39.40
Current Tax	235.25	200.00
Fringe Benefit Tax	8.97	0.00
Earlier Years income tax	0.00	0.90
Net Profit After Tax	444.45	394.26
Balance of Profit & Loss Account	40.86	4.66
Profit available for appropriation	485.31	398.92
Dividend on preference shares	0.00	11.24
Dividend on equity shares	55.62	42.33
Dividend Tax	8.84	7.00
General Reserve	370.53	297.49
Balance carried to Balance sheet	50.32	40.86

FINANCIAL HIGHLIGHTS

Sales

Your company continued to post superior performance during the year. Its turnover increased by 24%. From Rs. 16.24 crores in 2004-2005, it went to Rs. 20.14 crores in 2005-2006.

Profitability

Your company's PBT for the year ended 31.03.2006 is recorded at Rs. 6.86 crores, after deducting a one time extraordinary item for Rs. 1.49 crores. This extra ordinary item includes one time (non recurring) Special Incentive passed on to the customers during the last two quarters of the year.

Net Profit for the year is recorded at Rs.4.43 crores, which is 12.47% higher than that of the previous financial year.

Earning per share

EPS is at Rs. 12.41 as on 31.3.2006 as compared to Rs. 11.18 as on 31.3.2005.

Dividend

Your Directors have recommended a dividend payment of Rs. 1.50 per equity share of Rs. 10 each for the financial year 2005-06, as against Rs.1.20 per equity share for the last year. This dividend is subject to approval by the share holders at the ensuing AGM.

OPERATIONS

Your company is catagorised as a 100% biotech company. Hester is ranked 33rd in India in terms of turnover derived from biotechnology. (Source: Biospectrum magazine www.biospectrumindia.com)

Continuous focus on quality improvement and enhancing operational efficiencies has contributed significantly to your company's performance.

Redemption of preference share capital with cumulative dividend

On the basis of the resolution passed by the shareholders in the 18th AGM, your company has redeemed the 1,40,530 cumulative redeemable preference shares of Rs. 100 each. The redemption was done during the first quarter of the financial year.

Capacity utilisation

Against the installed capacity of 1200 million doses, your company produced 1389.96 million doses of poultry vaccines. This was achieved due to the implementation of a change in the product mix, as well as due to producing vaccines in higher dose sizes per vial.

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Marek's disease vaccine

Due to import bottle necks, and recessionary condition in the poultry industry since February 2006, the desired turnover from Marek's vaccine could not be achieved. Nonetheless, we are confident of growing 3 folds in Marek's vaccine sales in 2006-2007. This vaccine is being imported from Merial, USA, whom we represent exclusively in India. Medal is the world's largest manufacturer of Marek's vaccine. It has over 80% market share in USA for Marek's vaccine. Further, we have signed a MOU with Merial to manufacture Marek's vaccine in India.

Avian Influenza (Bird Flu) in India and the impact on Hester

Avian Influenza (AI), more commonly known as Bird Flu, was first detected in India on 18.2.2006. Besides many chicken being destroyed (which led to heavy losses to the poultry farmers), the demand for chicken meat suddenly dropped, thereby putting the poultry industry into a sudden recessionary condition. Like all other inputs to the poultry industry, poultry vaccines saw a sudden drop in demand. This condition prevailed upto May 2006. From June, with over 3 months gone since AI was detected, and with no incidences occurring now for over a month, the poultry industry is on a recovery track. Your directors wish to state that the effect of AI on the Indian poultry industry is temporary, not having any long term negative implications on your company. Your company has applied to the Government of India to allow import of AI vaccines for the chicken, as well as to allow the manufacturing of the vaccine. If permitted to manufacture, your company has the technical ability. The expansion embarked on by your company has the provision to manufacture vaccines against AI. Currently, we are awaiting the Government of India's decision on AI vaccines for poultry.

GMP and ISO certification

We continue to be a GMP and an ISO 9001-2000 certified company.

Proposed Expansion

Due to the on-going overwhelming market demand, your company embarked on an expansion program, to increase its capacity from 1200 million doses to 4800 million doses. This expansion program was commenced in January 2006 and is slated to be completed by September 2006, with commercial production commencing in October 2006. It will be a state-of-the-art facility, incorporating all parameters to ensure certification from international regulatory authorities of various countries in the non-regulated as well as the regulated markets. The new facility will have distinct manufacturing areas for chick embryo origin, tissue culture and bacterial vaccines.

Details of current Manufacturing facility and the expansion :

	Current	Expansion	Total
Land (Hectares)	2.90	2.20	5.10
Production area (square Meters)	1236	4713	5949
Annual capacity for vaccines (Million Doses)	1,200	3,600	4,800

Cost of expansion:

The total cost for the expansion is estimated at Rs. 23.50 crores.

The application of funds is as follows:

(in Rs.)

Land / site Development	28,00,000
Buildings and civil works	6,40,00,000
Plant and Machinery	7,07,00,000
HVAC, utilities and electrical installations	8,54,00,000
Contingency	94,00,000
Rights issue expenses	27,00,000
Total	23,50,00,000

Means of finance:

EQUITY	Number of Shares	Face Value (Rs.)	Premium (Rs.)	Total (Rs.)
Preferential allotment to Promoters (already allotted on 30.12.2005)	1,80,800	10	140	2,71,20,000
Upcoming Rights issue (2 shares for every 5 shares held)	14,83,200	10	60	10,38,24,000
Internal Cash Accruals retained profit				40,56,000
DEBT - Term Loan				10,00,00,000
TOTAL				23,50,00,000

Future ProspectsMacro

1. Biotechnology is an emerging field in India as well as world over.
2. India is emerging as a major biological supplier to the world. The Indian economy and the Indian technical intellect have put India on the focus of international companies to look at India as a sourcing country for human as well as veterinary biologicals.
3. Poultry business is fast growing in India as well as in the emerging economies of the world, thereby establishing a growing demand for poultry vaccines.

Micro

1. Production efficiencies are currently very high with your company. With the expansion, economies of scale due to larger batch sizes will further increase production efficiencies.
2. Your company already has the technical ability to manufacture large animal vaccines. The proposed expansion covers the scope for manufacturing certain large animal vaccines.
3. Export prospects are very bright. We have the ability to manufacture poultry vaccines for international companies for their markets, besides us directly marketing our brands. To avail advantages of lower costs of production, many international companies are in talks with your company for getting poultry as well as other large animal vaccines manufactured by us. With the completion of the expansion program, we are confident of concluding agreements, which will give your company a tremendous boost in its capacity utilization, thereby improving the bottom line.

DIRECTORS:

Dr. Herry Shinkoi has resigned from the Board w.e.f. 21st April, 2005. Your Directors appreciated the valuable technical inputs given by him during tenure.

Mr. Abhinav Shukla was appointed as Non - Executive Independent Director as on 21st April, 2005. On the same day Dr. Parimal Tripathi was appointed as an alternate Director for Mr. Ravin Gandhi and Ms. Bela Gandhi.

Mr. Rajiv Gandhi, CEO & Managing Director of the Company was re-appointed for the further period of three years, w.e.f. 1st January, 2006. The approval of members is required.

In accordance with the provisions of the Articles of Association and of the Companies Act, 1956, Mr. Darayus Lakdawalla and Mr. Sanjiv Gandhi, Directors retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

PUBLIC DEPOSITS:

The company has not invited or accepted any deposits under Section 58A of the Companies Act, 1956, from the public, during the year.

FINANCE:

The Bankers have sanctioned Fund based working capital facilities and Term Loan during the financial year. Means of Finance for the proposed expansion project are already covered in the report.

CORPORATE GOVERNANCE:

The Company has adopted Corporate Governance practices and has complied with all the mandatory requirements as specified under clause 49 of the Listing Agreement by SEBI. As required under the listing agreement, a separate Report on Corporate Governance forms part of this Annual Report. The certificate from a Practicing Company Secretary of the Company regarding compliance of conditions of Corporate Governance is part of this report and is annexed.

The Board of Directors supports the basic principles of corporate governance. In addition to this, the board lays strong emphasis on transparency, accountability and integrity.

FORMATION OF VARIOUS COMMITTEES:

Details of various committees constituted by the Board of Directors are given in the Corporate Governance Report annexed and forms part of this report.

DEPOSITORIES:

The company's shares are being compulsorily traded in dematerialised form. The connectivity with NSDL and CDSL has been obtained. Shareholders of the Company, who are still holding the shares in physical form, are requested to dematerialise their shares, immediately.

PREFERENTIAL ALLOTMENT OF EQUITY SHARES TO PROMOTERS:

The Company has allotted 1,80,800 equity shares to promoters and the promoter group company, on preferential basis, on 30.12.2005, as per the approval given by the members in their meeting held on 15.12.2005. This allotment was made at a price of Rs.150.00 per share (including a premium of Rs.140.00), totaling to Rs. 271.20 lacs.

Out of the total amount of Rs. 271.20 Lacs, the Company has utilized Rs. 143.38 Lacs till 31.3.2006, towards Capital Expenditure for the ongoing expansion project.

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PARTICULARS OF EMPLOYEES:

Particulars with regard to employees under section 217(2A) of the Companies Act, 1956, is not applicable.

Energy Conservation

(Information under section 217(1)(e) of the Companies Act, 1956.)

The company has a continuous focus on energy conservation. Regular studies are conducted to analyses quantitative energy conservation patterns, and variances are rigorously scrutinized. The company regularly benchmarks its energy conservation levels and consistently works towards improving efficiencies, towards getting the cost of energy down for every unit produced.

Total energy consumption and energy consumption per unit of production:

(A) Power and Fuel Consumption:

		<u>31-03-2006</u>	<u>31-03-2005</u>
Electricity :			
(a) Purchased			
Units	Kwh	10,32,885.00	6,95,400.00
Total Amount	Rs.	47,23,273.00	33,48,427.28
Rate/ Unit	Rs.	4.57	4.81
(b) Own Genration through Diesel Genset			
Units	Kwh	23,221.00	22,114.00
Unit per liter of Diesel Oil	Kwh	3.30	2.42
Cost/Unit	Rs.	10.62	11.70

(B) Consumption per Unit of Production:

Electricity consumed per vial (in units)	0.89	0.78
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Research & Development and Technology absorption

We continue to work towards increasing our production yields and reducing production cycles to achieve higher productivity.

With the new expanded capacity, part of the current production area will be transformed into a R&D centre. This proposed R&D centre will work in many directions, one of them being towards the development of recombinant vaccines. This centre will also have a small pilot plant to enable transforming laboratory production scales to commercial production scales.

FOREIGN EXCHANGE EARNINGS & OUTFLOW

Foreign exchange earning during the year was Rs.32.48 lacs (Previous Rs.18.27Lacs) towards sale of goods. Total outflow of foreign exchange during year was Rs.20.32 lacs, towards purchase of Materials, Traveling expenses, as compared to Rs.12.61 lacs during the previous year.

DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to Section 217 (2AA) of the Companies Act, 1956 I would like to state the following:

In the preparation of the Annual Accounts, the applicable accounting standards have been followed.

The Directors 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 the end of the financial year ended on 31st March, 2006.

The Directors 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.

The Directors have prepared the attached statements of accounts for the year ended 31st March, 2006 on a going concern basis.

AUDITORS & AUDITORS REPORT:

M/s. Shah Narielwala & Co.; Chartered Accountants, retire at the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if re-appointed.

Notes forming part of the accounts are self explanatory and therefore, do not require any further comments.

ACKNOWLEDGEMENT:

The Directors express their appreciation to Bank of India, Employees at all levels and customers for their sustained support. The directors also appreciate the support extended by Bankers of the Company.

Last but not the least, the directors convey their gratitude to the esteemed shareholders whose dauntless support has been the main source of inspiration.

By order of the Board

28th April, 2006
Ahmedabad

Rajiv Gandhi
CEO & Managing Director

MANAGEMENT DISCUSSIONS AND ANALYSIS

Outlook for the Industry

The growth in the broiler segment of the poultry industry is forecasted to be slower than earlier projections. This is mainly due to the Bird Flu outbreak in the recent past.

Here, your Directors wish a state that the government of India took immediate and effective steps in controlling Bird Flu. This has helped the industry to get back on track very quickly.

The broiler segment is undergoing further changes. Broiler integration is picking up. With this change, the production efficiency of the poultry industry has gone up tremendously. Indian chicken meat is able to compete internationally vis-à-vis quality and price.

The layer segment remains to be fragmented. But the growth in this segment continues.

With regards to the poultry vaccine industry, though the ban is lifted on 4 live vaccines and all inactivated vaccines, imports still remain to be irregular due to the difficulty in maintaining stocks of the wide product mix in poultry vaccines. It has always remained difficult for importers to maintain stocks of all vaccines all the time. If some vaccines get exhausted, import of small quantities become more expensive due to heavy freight costs. Import of large quantities has the risk of expiry.

Outlook for the Company

Business continues to grow with a temporary small slow down due to Bird Flu.

But this situation has also given rise to opportunities like working with the Government of India in their programs for the prevention of Bird Flu. Your company has submitted an application for the permission to manufacture the Bird Flu vaccine for the poultry. This application is under consideration by the Government.

With our expansion slated to be completed in September 2006 and commercial production on way in October 2006, your company would have one of the most modern plants in the world. With this in place, exports would become the focus area. We would be focusing on registration activities throughout the world.

We also foresee ourselves in becoming a big sourcing agent for animal vaccines for many international companies.

The focus of your company remains to be on animal biologicals. Any growth or expansion envisioned, would be in that direction.

Internal Control Systems

The company has budgetary control systems and performance review programs. The organization structure is very compact, thereby enabling the company to have the highest sale: employee ratio amongst other poultry vaccine manufacturers in India.

Financial performance Vs Operational performance

The financial performance of the company for the year 2005-06 is described in the Director's report.

Human Resources

Work Culture programs are regularly embarked upon. The company has continued to give special attention to human resources development.

Industrial relations continued to remain cordial at all levels.

REPORT ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) ushered in a format code of corporate governance practices by introducing the new Clause 49 in the Listing agreement with the Stock Exchanges. Clause 49 lays down several corporate governance practices that Listed companies are required to adopt. Most of the practices laid down in Clause 49 require mandatory compliance and there are some more provisions which are voluntary for adoption. Your Company has achieved all the compliance with the mandatory requirements of Clause 49 of the listing agreement. This report sets out the compliance status of the Company for the financial year 2005-06 with respect to the conditions of corporate governance set out in Clause 49, effective from 1st January, 2006.

Philosophy On Code Of Corporate Governance:

The Philosophy on Corporate Governance aims at attainment of the highest levels of transparency, accountability and equity in the functioning of the Company vis-a-vis interactions with employees, shareholders, creditors and customers. The objective of the Company is not only to meet the statutory requirements of the code but also go well beyond it by instituting such systems and procedures as are in accordance with the latest global trend of making management completely transparent and institutionally sound.

Board of Directors:

The Company's board comprises of 9 Directors (including alternate Directors) with a mix of executive/non-executive and promoter/independent directors. The composition of Board complies with the requirements of the Corporate Governance code with more than 50% of the directors being non-executive directors and at least 1/3 of the directors being independent directors.

9 Board meetings were held during the financial year 2005-2006. The dates on which Board Meetings held are 21st April, 2005, 28th July, 2005, 16th August, 2005, 25th October, 2005, 15th November, 2005, 15th December, 2005, 30th December, 2005, 10th January, 2006 and 10th March, 2006. The 18th Annual General Meeting was held on 15th June 2005 and Extra Ordinary General Meeting was held on 15th December, 2005.

The table below provides the composition of the Board, their attendance at Board meetings, AGM & EGM and number of other directorship, chairmanship/membership of other companies.

Name of the Director & Designation	Category	No. of other Directorship held in public companies in India	No. of other Board committees of which Member(M)/Chairman (C)	Board meeting attended	Attendance at the last AGM	No. of Shares held (of the Company)
Mr. Bhupendra V Gandhi Chairman	Non Executive Non Independent Director	0	0	2	No	2, 14,200
Mr. Rajiv Gandhi CEO & Managing Director	Executive Non Independent Director	2	0	9	Yes	2,20,450
Mr. Sanjiv Gandhi Director	Non Executive Non Independent Director	2	0	4	Yes	2,36,400
Mr. Darayus Lakdawalla Director	Non Executive Independent Director	1	0	8	Yes	14,000
Mr. Ravin Gandhi Director	Non Executive Non Independent Director	0	0	-	No	1,62,600
Ms. Bela Gandhi Director	Non Executive Non Independent Director	0	0	-	No	1,62,500
Mr. Vimal Ambani Director	Non Executive Independent Director	2	0	7	Yes	1,655
Mr. Abhinav Shukla Director	Non Executive Independent Director	0	0	6	Yes	-
Dr. Parimal Tripathi Alternate Director to Mr. Ravin Gandhi & Ms. Bela Gandhi	Non Executive Non Independent Director	0	0	5	No	-

Notes

1. This number excludes the directorships/committee memberships held in private companies and also of the Company.
2. As required by the Companies Act, 1956 and Clause 49 of Listing Agreement, none of the directors hold directorship in more than 15 public companies, membership of board committees (audit /remuneration/investors grievance committees) in excess of 10 and chairmanship of board committees as aforesaid in excess of 5.