



Hester Pharmaceuticals Limited

19th ANNUAL REPORT 2005-2006





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>

AUDIT COMMITTEE

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

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

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)

AUDITORS

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

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, there by 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 over whelming 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 stat-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 Prospects**Macro**

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 to 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.

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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.

None of the Non-executive Directors has any pecuniary relationship, except Dr. Bhupendra V. Gandhi, Mr. Sanjiv Gandhi, Mr. Ravin Gandhi and Ms. Bela Gandhi who are relative of Managing Director of the Company. Non-executive Directors have no transaction with the company, except receiving sitting fees for attending Board Meetings. The details of sitting fees, commission and remuneration paid to each director appear later under the disclosure relating to Remuneration to Directors.

GENERAL PROFILE OF BOARD OF DIRECTORS:

DETAILS OF THE DIRECTORS SEEKING APPOINTMENT/REAPPOINTMENT IN FORTHCOMING ANNUAL GENERAL MEETING

Name of Director	Mr. Darayus Lakdawalla	Mr. Sanjiv Gandhi	Mr. Rajiv Gandhi
Date of Birth	18.02.1961	15.03.1965	11.07.1962
Date of appointment	01.03.1990	29.04.1987	29.04.1987
Qualifications	F.G.A (London) B. Com	Graduate of Arts in inter disciplinary Science (U.S.A.)	B.Com. Diploma in Marketing Management & Poultry Management
Expertise in specific functional areas	Financial Marketing	General Management	General Management
List of Public Ltd. Co. in which Directorship held	Hester Coatings Ltd.	Biolink Healthcare Ltd. Hester Coatings Ltd.	Biolink Healthcare Ltd. Hester Coatings Ltd.
Chairman/ Member of the Committees of the Board of Directors of the Co.	Audit Committee-Chairman Shareholders' Grievance Committee - Chairman Remuneration Committee - Chairman	Audit Committee - Member Shareholders' Grievance Committee - Member	Nil
Chairman/ Member of the committees of Directors of other Co.	Nil	Nil	Nil

REMUNERATION TO DIRECTORS:

Name of Director	Designation	Remuneration (including perquisites) paid Rs.	Sitting Fees paid Rs.	Commission paid Rs.	Total Remuneration Rs.
Dr. Bhupendra V Gandhi	Chairman	Nil	1000/-	Nil	1000/-
Mr. Rajiv Gandhi	CEO & Managing Director	16,13,961/-	Nil	Nil	16,13,961/-
Mr. Sanjiv Gandhi	Director	Nil	1500/-	Nil	1500/-
Mr. Darayus Lakdawalla	Director	Nil	1500/-	Nil	1500/-
Mr. Ravin Gandhi	Director	Nil	Nil	Nil	Nil
Ms. Bela Gandhi	Director	Nil	Nil	Nil	Nil
Mr. Vimal Ambani	Director	Nil	3500/-	Nil	3500/-
Mr. Ahhinav Shukla	Director	Nil	3000/-	Nil	3000/-
Dr. Parimal Tripathi	Alternate Director	Nil	2500/-	Nil	2500/-
Total		16,13,961/-	13,000/-	Nil	16,26,961/-

AUDIT COMMITTEE:

The Audit Committee comprises of Mr. Darayus Lakdawalla, as the Chairman of the Committee & Mr. Vimal Ambani and Mr. Sanjiv Gandhi as Members. Committee was reconstituted as on 15th November, 2005, in which Dr. Parimal Tripathi has resigned as a member of the Committee.

The above composition meets all the requirements of Clause 49 of Listing Agreement and Section 292A of the Companies Act, 1956. The CFO & Manager (Finance) acts as the Secretary of the Audit Committee.

The board terms of reference of the Committee is to review and recommend the financial statements, adequacy of internal control systems and internal audit function.

The detailed terms of reference of the Committee as approved by the Board are given below.

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1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
 - b. Changes, if any, in accounting policies and practices and reasons for the same
 - c. Major accounting entries involving estimates based on the exercise of judgment by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal requirements relating to financial statements
 - f. Disclosure of any related party transactions
 - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval
6. Reviewing, with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

In addition to the above, the Committee shall have such functions/role/powers as may be specified in the Companies Act, Listing Agreement with stock exchanges or any other applicable law.

During the year under review, 4 meeting were held on 21st April,2005, 28th July,2005, 25th October, 2005 and 10th January,2006. The chairman of Audit Committee had attended last Annual General Meeting of the company held on 15th June,2005. The Audit Committee at its meeting held on 21st April,2005, reviewed the Annual Accounts for the year 2004-05 and recommended the accounts for approvals by the Board of Directors. The Audit Committee at its meeting held on 28th July,2005, on 25th October,2005 and 10th January,2006, reviewed the unaudited financial results for the quarter ended on 30th June, 2005 and 30th September, 2005 and 31st December,2005.

Details of attendance of members of the Audit Committee is as under:

Name	Designation	Attendance
Mr. Darayas Lakdawalla	Chairman	4
Mr. Vimal Ambani	Member	3
Mr. Sanjiv Gandhi	Member	—
*Dr. Parimal Tripathi	Member	2

* Resigned w.e.f. 15/11/2005

SHAREHOLDERS' GRIEVANCE COMMITTEE :

The Shareholders Grievance Committee as a sub-committee of the Board has been constituted mainly to focus on the redressal of Shareholders / Investors Grievances, if any, like Transfer / Transmission / Demat of Shares; Loss of Share Certificates; Non-receipt of Annual Report; Dividend Warrants; etc. The committee comprises of Mr. Darayus Lakdawalla as the Chairman of the Committee and Mr Sanjiv Gandhi as Member. During the year, 3 meetings were held on 16th August,2005, 30th December,2005 & 10th March,2006. Both of them have attended all the meetings. The Company had received 9 complaints from the Shareholders, all of them have been resolved and no complaint was pending as on 31st March, 2006. The Company has no transfers pending at the close of the financial year.

Ms. Parul Khamar (Hirani), Company Secretary provides secretarial support to the Committee and is also the designated Compliance Officer for such matters.

The equity shares of the Company are compulsorily traded in electronic form on the stock exchanges and hence the handling of physical transfer of shares is minimal.

The following table summarizes the status of investor complaints received during the period. These were attended within a reasonable period of time

Sr. No.	Nature of Complaints / Requests	Received	Resolved	Pending as on 31-03-06
1.	Non-receipt of Dividend warrant	1	1	—
2.	Non-receipt of Annual Reports	2	2	—
3.	Non-receipt of shares after transfer / bonus shares	5	5	—
4.	Letters received from SEBI / ROC / Stock Exchanges	1	1	—
5.	Others	2	2	—
Total		11	11	—

REMUNERATION COMMITTEE

The Remuneration Committee as a sub-committee of the Board has been constituted mainly to determine and recommend to Board, the company's policies on remuneration packages for executive and non-executive directors. The committee comprises of Mr. Darayus Lakdawalla as the Chairman of the Committee and Mr Vimal Ambani and Dr. Parimal Tripathi as Members.

During the year under review, the committee met once on 10th January, 2006. All the members were present in the said Meeting. In that meeting, appointment and remuneration of Mr. Rajiv Gandhi, CEO & Managing Director of the Company, w.e.f. 1st January, 2006 was determined.

The Company pays remuneration to its Managing Director by way of Salary, perquisites and allowances, as approved by the members in general meeting. The details of remuneration paid to directors are provided elsewhere in this report under the head Remuneration to Directors.

GENERAL BODY MEETINGS:

Details of the last three Annual General Meetings are as under

AGM	Date	Time	Venue	No. of special Resolutions passed
16th AGM	30th September 2003	11.00 a.m.	Village: Merda Adraj Taluka : Kadi Dist: Mehsana Gujarat 382 721	Nil
17th AGM	26th August 2004	11.00 a.m.	Village: Merda Adraj Taluka : Kadi Dist: Mehsana Gujarat 382 721	1 (One)
18th AGM	15th June 2005	11.00 a.m.	Village: Merda Adraj Taluka : Kadi Dist: Mehsana Gujarat 382 721	1 (One)
EGM	15th December 2005	11.00 a.m.	Village: Merda Adraj Taluka : Kadi Dist: Mehsana Gujarat 382 721	4 (Four)

One Extra Ordinary General Meetings (EGM) was held as on 15th December, 2005.

The special resolutions indicated above were passed by show of hands. The Company has passed one Special Resolution for Alteration Main Object Clause of the Memorandum of Association of the Company, through postal ballot during the year under reference.

Subsidiary Company

The Company does not have any subsidiary Company.

Code of Conduct

The Board of Directors has adopted the Code of Business Conduct and Ethics for the Directors and Senior Management. The said Code has been communicated to the Directors and the Members of the senior Management.

OTHER COMPLINACES:

The Company has no materially significant related party transactions with its promoters, the directors or the management, their subsidiaries or relatives etc., that may have potential conflicts with the interests of the Company at large.

For details about related parties transactions, see Note No. 10 of Note on Accounts.

There were no instances of non-compliance or Penalties, imposed on the Company by the Stock Exchange/(s) or SEBI or any statutory authority, on any matter related to Capital Markets, during the last three years.

In preparation of the financial statements, the Company has followed the Accounting Standards issued by ICAI. The significant accounting policies which are consistently applied have been set out in the Notes to the Accounts.

Business risk evaluation and management is an ongoing process within the Organization. During the period under review, a detailed exercise on the Business Risk Management was carried out covering all aspects of business operations.

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The Company has already appointed Mr. Rajiv Gandhi, as CEO & Managing Director and Mr. Jigar Shah, as CFO & Manager Finance of the Company, in last year. Certification from the both was placed as a part of good Corporate Governance practice in the Annual Accounts of FY 2005-06.

MEANS OF COMMUNICATION:

During the year, quarterly, half-yearly and annual financial results of the Company were submitted to the stock exchanges immediately after the conclusion of the Board meetings and were also published in two newspapers, Business Standard (English) News Line(English), and Chankya (Gujarati). These results are also put on the Company's website : www.hesterpharma.co.in.

The Company also informs by way of intimation to the stock exchanges all price sensitive matters or such other matters which in its opinion are material and of relevance to the shareholders and subsequently issues a Press Release on the said matters.

SHAREHOLDERS' INFORMATION:

Registered office : Village : Merda Adraj Taluka Kadi Dist: Mehsana Gujarat 382 721
Corporate Office : 16/10, Devendra Society, Naranpura, AHMEDABAD 380 013.
Phone : 079 - 27680476, Fax : 079 - 27682250
E-mail : info@hesterpharma.co.in, Website : <http://www.hesterpharma.co.in>
Branches : Hester Pharmaceuticals limited
Old No.7 New No.17/I 1St Floor Osborne Road I Cross Bangalore 560 042
SCO 847 Cabin No.10 NAC Shivalik Enclave Manimajra Chandigarh 160101

Date, Time, Venue of Annual General Meeting

The **19th Annual General Meeting** of the members of the company is scheduled to be held on Friday, the 14th July, 2006 at 11.00 a.m at its Registered Office of the company at Village : Merda Adraj, Taluka: Kadi, District : Mehsana, Gujarat 382 721, All the members are invited to attend the meeting.

The Members / Proxies who intend to attend the meeting are requested to bring the Attendance slip sent herewith duly filed in to the meeting.

Extra- Ordinary General Meeting of the members of the company was held on Thursday, the 15th December, 2005 at 11.00 a.m at its Registered Office of the company at Village : Merda Adraj, Taluka: Kadi, District : Mehsana, Gujarat 382 721.

Financial calendar

Financial year 2005-06 (April 1, 2005 to March 31, 2006)

Results were/will be announced on	- 28th July 2005	- first quarter
	- 25th October 2005	- half year
	- 10th January 2006	- third quarter
	- 28th April 2006	- fourth quarter and annual (audited)

Financial year 2006-07 (April 1, 2006 to March 31, 2007)

Results will be announced on	- Last week of July 2006	- first quarter
	- Last week of October 2006	- half year
	- Last week of January 2007	- third quarter
	- Third week of June 2007	- fourth quarter and annual (audited)

Book closure dates : 11th July, 2006 to 14th July, 2006 (both days inclusive)

Annual General Meeting : 14th July, 2006 at 11.00 a.m.

Details of Shares Types of shares : Equity Shares

No. of paid up shares : 37,08,000

Market lot of shares : 1 share

Stock code	: Name of Stock Exchange	Code no.
	Bombay Stock Exchange	524669

Listing : The Company's shares are listed and traded on the Stock Exchanges at Mumbai. The Company has paid listing fees to Bombay Stock Exchange for financial year 2006-2007.

Stock Data Monthly share price data on BSE for the financial year 2005-06 is as under.

Month	High Rs.	Low Rs.	Average Rs.	Volumes
April '05	100.00	68.00	84.00	378965
May'05	144.30	87.00	125.65	709936
June '05	153.10	107.00	130.05	842547
July '05	159.75	133.80	146.77	491224
August'05	186.00	136.15	161.07	420261
September '05	198.00	138.50	168.25	275837
October '05	163.85	103.00	133.42	81091
November '05	151.00	104.50	127.75	117942
December '05	152.00	130.65	141.32	121641
January '06	148.35	128.00	138.17	114417
February '06	143.15	116.25	129.70	192617
March '06	129.75	96.00	112.87	175496

SHARES HELD IN PHYSICAL AND DEMATERIALIZED FORM:

The Company's shares are compulsorily traded in dematerialized mode. As on 31st March 2006, 65.06 % shares were held in dematerialized form and balance 34.94% shares were held in physical form. Those shareholders whose shares are held in physical form are requested to dematerialized the same at the earliest in their own interest. The demat security code (ISIN) for the equity shares is 1NE782E01017

Distribution of Shareholding (as on March 31, 2006)

a. On the basis of Shares held

No. of Equity Shares held (Range)	No. of share-holders	Percentage to total share-holders	No. of Shares held	Percentage to total shares held
Up to 500	4379	91.44	574866	15.50
501 - 1000	180	3.76	154288	4.16
1001 - 2000	67	1.40	101169	2.73
2001 - 3000	42	0.88	112931	3.05
3001 - 4000	34	0.71	122514	3.30
4001 - 5000	10	0.20	46539	1.26
5001 - 10000	35	0.73	253310	6.83
Above 10000	42	0.88	2342383	63.17
TOTAL	4789	100.00	3708000	100.00

b. On the basis of Category

Description	No. of members		No. of shares	
	Nos.	%	Nos.	%
Resident Individual (incl. HUF)	4563	95.28	1486605	40.09
Non Resident Individual	33	0.70	662206	17.86
Mutual Fund, Nationalized Bank etc.	3	0.06	9000	0.24
Promoters' Companies	4	0.08	201300	5.43
Domestic Companies	139	2.90	194903	5.26
Directors & Relatives	28	0.58	1147050	30.93
Any other (C. M. Pool A/c.)	19	0.40	6936	0.19
Total:	4789	100.00	3708000	100.00

ISSUE OF EQUITY SHARES ON PREFERENTIAL ALLOTMENT TO PROMOTERS:

During the year, the Company has issued 1,80,800 equity shares at a price of Rs.150/- per share to Promoter group, on Preferential basis, as approved by the members, under the SEBI Guidelines. The allotment was made on 30th December,2005.

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DETAILS OF DIVIDEND

The Board of Directors has recommended Dividend Rs. 1.50 per share for financial year 2005-2006. as compared to @ Rs.1.20 per share for last year. 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

DETAILS OF UNPAID DIVIDEND

As the Company has not paid any dividend in last six years, prior to the Last year's dividend @ 12% and so there is no unpaid! unclaimed dividend amount.

OUTSTANDING GDRS/ADRS/ WARRANTS/ANY OTHER CONVERTIBLE INSTRUMENTS

The Company does not have any outstanding instruments of the captioned type.

NOMINATION FACILITY

It is in the interest of the shareholders to appoint nominee for their investments in the Company. Those members who are holding shares in physical mode and has not appointed nominee or want to change the nomination, are requested to send us nomination form duly filed in and signed by all the joint holders.

APPOINTMENT OF REGISTRAR & TRANSFER AGENT

In terms of SEBI circular D&CC/FITTC/CIR-15/2002 dated December 27, 2002, the company has appointed M/s. Pinnacle Shares Registry PA. Ltd. of Ahmedabad (details as mentioned below) as our Share Transfer Agent (R&T Agent) effective from April 1, 2003 for physical as well as dematerialized shares.

CHANGE IN SHAREHOLDERS DETAILS

In case you are holding your shares in dematerialised form (e.g. in electronic mode), communication regarding change in address, bank account details, change in nomination, dematerialisation of your share certificates or other inquiries should be addressed to your DP where you have opened your Demat Account, quoting your client ID number. In case of physical holding of shares, any communication for change of any details should be addressed to our R&T agent of the company M/s. Pinnacle Shares Registry PA. Ltd., as per address mentioned below.

INVESTORS COMMUNICATION

Compliance Officer: Ms. Parul Khamar (Hirani)

Share Transfers / Dematerialisation or other queries relating to Shares of the Company should be addressed to

Pinnacle Shares Registry Pvt. Ltd.

Unit: Hester Pharmaceuticals Limited

Near Asoka Mills Naroda Road Ahmedabad Gujarat 380 025

Ph. 079 - 22204226 /22200591 Fax: 079 - 2220 2963 e-mail: gautam.shah@psrpl.com

APPOINTMENT OF REGISTRAR & TRANSFER AGENT

In terms of SEBI circular D&CC/FITTC/CIR-15/2002 dated December 27, 2002, the company has appointed Pinnacle Shares Registry PA. Ltd. of Ahmedabad (details as mentioned below) as our Share Transfer Agent (R&T Agent) effective from April 1, 2003 for physical as well as dematerialized shares.

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INVESTORS COMMUNICATION

Share Transfers / Dematerialisation or other queries relating to Shares of the Company should be addressed to

Pinnacle Shares Registry Pvt. Ltd.

Unit: Hester Pharmaceuticals Limited

Near Asoka Mills Naroda Road Ahmedabad Gujarat 380 025

Ph. 079 - 22204226 /22200591 Fax: 079 - 2220 2963 e-mail: gautam.shah@psrpl.com

DECLARATION UNDER CODE OF CONDUCT

As required under Clause 49(I)(D) of the Listing Agreement, it is hereby affirmed that all the Board members and Senior Management Personnel have complied with Code of Conduct of the Company. The Company has obtained confirmation for the compliance of Code of Conduct from the Board members and Senior Management Personnel on an annual basis.

Date : 28th April,2006

Place : Ahmedabad

Rajiv Gandhi
CEO & Managing Director

CORPORATE GOVERNANCE COMPLIANCE CERTIFICATE

Registration No. 04-22333

Nominal Capital: Rs.6,50,00,000/

To,
The Members of
HESTER PHARMACEUTICALS LIMITED

In accordance with Clause 49 of the Listing Agreement entered into by **Hester Pharmaceuticals Limited** with the Stock Exchange, I have examined all the relevant records of the Company relating to its compliance of conditions of Corporate Governance as stipulated in revised Clause 49, for the financial year ended on March 31, 2006.

The compliance of conditions of Corporate Governance is the responsibility of the Management. My examination was limited to procedures and implementation thereof, adopted by the Company, for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In my opinion and to the best of my information and according to the explanations given to me and the re-presentations made by the Directors and the Management, I certify that the Company has complied with the mandatory conditions of Corporate Governance as stipulated in abovementioned listing agreement, except Code of Conduct are yet to be placed on website of the Company.

As per the records maintained by the Company and information given to me, I have to state that there were no investor grievance remaining unattended/ pending for more than 30 days.

I further state that such compliance is neither an assurance as to the future viability of the Company nor efficiency or effectiveness with which the management has conducted the affairs of the Company.

Signature :

Place : Ahmedabad
Date : 28th April, 2006

Name of Company Secretary **Tapan Shah**
Membership No. : FCS4476
C. P. Number 2839

CERTIFICATION BY CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO) OF THE CORPORATION

We, Mr. Rajiv Gandhi, Chief Executive Officer & Managing Director and Mr. Jigar Shah, Chief Financial Officer & Manager Finance of Hester Pharmaceuticals Limited, to the best of our knowledge and belief, certify that:

1. We have reviewed the balance sheet and profit and loss account, and all its schedule and notes to the accounts and cash flow statements for the year ended 31st March, 2006 and that to the best of our knowledge and belief:

these statements do not contain any untrue statement or omit any material fact or contain statements that might be misleading;

these statement together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards , applicable laws and regulations.
2. We also certify that based on our knowledge and information provided to us, there are no transactions entered into by the Company during the year which are fraudulent ,illegal or violate the company's code of conduct.
3. We accept the responsibilities for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps taken or propose to take to rectify these deficiencies.
4. We have indicated to the Auditors and the Audit Committee
 - a. significant change in internal control during the year.
 - b. significant changes in accounting policies during the year and that the same have been disclosed in notes to the financial statements; and
 - c. instances of significant fraud of which we have become aware and involvement therein, if any, of the management or an employee having a significant role in the company's internal control system.

Ahmedabad
28th April, 2006

Rajiv Gandhi
*Chief Executive officer &
Managing Director*

Jigar Shah
*Chief Financial Officer &
Manager - Finance*

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AUDITORS' REPORT

To,
The Members,
HESTER PHARMACEUTICALS LIMITED

We have audited the attached Balance Sheet of **Hester Pharmaceuticals Ltd.** as at **31st March, 2006** and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Government of India in terms of Section 227 (4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we set out in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.

Further to our comments in the Annexure referred to above, we report that:

- i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- iii. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
- iv. In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report have been prepared, in all material respects, in compliance with the applicable accounting standards referred to in Section 211 (3C) of the Companies Act, 1956.
- v. On the basis of written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956;
- vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts gives the information required by the Companies Act, 1956, in the manner so required and given a true and fair view in conformity with the accounting principles generally accepted in India;
 - a. in the case of the Balance sheet, of the state of affairs of the Company as at 31st March, 2006
 - b. in the case of the Profit and Loss Account, of the profit for the year ended on that date and
 - c. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

for Shah Nariealwala & Co
Chartered Accountants

Place : Ahmedabad
Date : 28.04.2006

D.R. Shah
Partner
Member ship No: 36805

Annexure to the Auditors' Report referred to in Paragraph-3 of our report of even date

As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government under section 227(4A) of the Companies Act, 1956 and in terms of the information and explanations given to us and also on the basis of such checks as we considered appropriate, we further report that:

- (1) (i) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (ii) ALL the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.
- (iii) In our opinion, the Company has not disposed of substantial part of fixed assets during the year and the going concern status of the Company is not affected.
- (2) (i) The inventory has been physically verified during the year by management. In our opinion, the frequency of verification is reasonable.
- (ii) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- (iii) On the basis of our examination of the records of inventory, we are of the opinion that the company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- (3) (i) The Company has taken and granted loans from! to Companies (1 Company each) and other parties (one for loan granted) listed in the register maintained under Section 301 of the Companies Act, 1956, of which loan taken outstanding at the year end was Rs. Nil while loan granted, outstanding at the year end was Rs.6,63,252/-. Maximum amounts outstanding during the year of loans taken was Rs.5,462/- while that of loans granted was Rs. 6,63,252/-
- (ii) In our opinion and according to the information and explanations given to us, the rates of interest and other terms and conditions on which loans have been granted / taken to /from companies listed in the register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
- (iii) The loans granted/taken by the Company are at call and no stipulations have been made regarding payment of interest.
- (4) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods. We have not noted any continuing failure to correct major weakness in the internal controls during the course of audit.
- (5) (i) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 have been so entered.
- (ii) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contacts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (6) The Company has not accepted any deposits from the public.
- (7) The Company does not have a formal internal audit system. In our opinion its internal control procedures involves reasonable internal checks commensurate with its size and nature of its business.
- (8) We have broadly reviewed the books of accounts, relating to materials and other items of cost maintained by the company in respect of product where pursuant to the rules made by the Central Government, the maintenance of Cost Records has been prescribed under section 209(1)(d) of the Companies Act, 1956. We are of the opinion that prima facie the prescribed accounts and records have been maintained and are being made up. The same have been examined and audited by an independent cost accountant.
- (9) (i) According to the records of the company, the company is not generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, cess and other statutory dues applicable to it.

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- (ii) According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax, wealth-tax, sales-tax, customs duty and excise duty were outstanding, as at 31st March, 2006 for a period of more than six months from the date they became payable.
- (10) The accumulated losses of the company are not more than fifty percent of its net worth. The company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.
- (11) Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.
- (12) In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.
- (13) In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.
- (14) The company is not dealing or trading in shares, securities, debentures and other investments.
- (15) The Company has not given any guarantee for loans taken by others from bank or financial institution.
- (16) As informed to us, the term loans have been applied for the purpose for which they were raised.
- (17) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except core (permanent) working capital.
- (18) Based on our examination of records and the information provided to us by management we report that the company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.
- (19) During the period covered by our audit report, the company has not issued any debentures.
- (20) During the year, the Company has not raised money by Public issue and hence the question of disclosure and verification of end use of such monies does not arise.
- (21) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the course of our audit.

for Shah Nariealwala & Co
Chartered Accountants

Place : Ahmedabad
Date : 28.04.2006

D.R. Shah
Partner
Member ship No: 36805

BALANCE SHEET AS AT 31ST MARCH, 2006

Particulars	Schedule	Current Year		Previous Year	
		Rs.	Rs.	Rs.	Rs.
A. SOURCES OF FUNDS					
1 SHAREHOLDERS' FUNDS					
a) Share Capital	1	4,93,25,000		4,93,25,000	
b) Reserve & Surplus	2	9,93,96,938		3,60,85,980	
			13,64,76,938		8,54,10,980
2 LOAN FUNDS					
a) Secured Loans	3	1,69,08,863		1,61,08,684	
b) Unsecured Loans	4	—	1,69,08,863	5,462	1,61,14,146
TOTAL			15,33,85,801		10,15,25,126
B. APPLICATION OF FUNDS					
1 Fixed Assets	5				
a) Gross Block		6,99,47,673		6,57,72,752	
b) Less: Depreciation		2,34,78,511		2,01,87,074	
c) Net Block		4,64,69,162		4,55,85,678	
d) Capital Work-in-Progress		2,32,36,294		—	
2 Current Assets, Loans & Advances	6	15,41,71,207		12,17,58,679	
Less:-					
Current Liabilities & Provisions.	7	6,25,23,809		5,68,50,511	
Net Current Assets			9,16,47,398		6,49,08,168
4 Deferred Tax					
Assets		—		—	
Liabilities		(87,42,234)	(87,42,234)	(89,68,720)	(89,68,720)
5 Miscellaneous expenditure (to the extent not written off/adjusted)			7,75,181		—
TOTAL			15,33,85,801		10,15,25,126
Notes on Accounts		15			

As per our Report of even date attached

for **Shah Narielwala & Co**
Chartered Accountants

D. R. Shah
Partner

Ahmedabad, 28th April, 2006

for and on behalf of the Board

Rajiv Gandhi

CEO & Managing Director

Sanjiv Gandhi

Director

Darayus Lakdawalla

Director

Ahmedabad, 28th April, 2006

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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED ON 31ST MARCH, 2006

Particulars	Schedule	Current Year		Previous Year	
		Rs.	Rs.	Rs.	Rs.
A. INCOME					
Sales (Net)		20,13,70,201		16,23,91,485	
Other Income	8	3,01,602		3,96,825	
Change in Inventories	9	70,22,684		92,92,523	
TOTAL		20,86,94,487		17,20,80,832	
B. EXPENDITURE					
Trading Purchases		26,10,830		52,02,604	
Rawmaterial Consumed	10	4,52,56,374		4,32,95,712	
Manufacturing Expenses	11	2,68,78,323		1,82,74,930	
Personnel Cost	12	1,51,63,970		1,38,63,442	
Selling, General & Adm. Expenses	13	2,91,59,364		2,23,50,365	
TOTAL		11,90,68,861		10,29,87,052	
OPERATING PROFIT		8,96,25,626		6,90,93,780	
Interest & Finance Charges	14	25,73,170		24,38,694	
PROFIT BEFORE DEP. AND TAX		8,70,52,456		6,66,55,086	
Depreciation		35,37,506		31,98,262	
PROFIT BEFORE EXTRAORDINARY ITEM		8,35,14,950		6,34,56,824	
Less : Extraordinay Items		1,48,73,457		—	
PROFIT BEFORE TAX		6,86,41,493		6,34,56,824	
Less : Provision For Taxation					
Current Tax		2,35,25,000		2,00,00,000	
Deferred Tax		(2,26,486)		39,40,544	
Fringe benefit Tax		8,97,600		—	
Income Tax of earlier years		—		90,000	
		2,41,96,114		2,40,30,544	
PROFIT AFTER TAX		4,44,45,379		3,94,26,280	
BALANCE BROUGHT FORWARD		40,85,980		4,65,907	
PROFIT AVAILABLE FOR APPROPRIATION		4,85,31,359		3,98,92,187	
Less :					
Proposed Dividend (Pref. Shares)		—		11,24,240	
Proposed Dividend (Equity Shares)		55,62,000		42,32,640	
Dividend Tax		8,84,421		7,00,077	
Transferred to General Reserve		3,70,53,000		2,97,49,250	
BALANCE CARRIED TO BALANCE SHEET		50,31,938		40,85,980	
Earning per Share (Basic/Diluted)		12.41		10.82	
Notes on Accounts		15			

As per our Report of even date attached

for **Shah Narielwala & Co**
Chartered Accountants

D. R. Shah
Partner

Ahmedabad, 28th April, 2006

for and on behalf of the Board

Rajiv Gandhi

CEO & Managing Director

Sanjiv Gandhi

Director

Darayus Lakdawalla

Director

Ahmedabad, 28th April, 2006

SCHEDULES 1 TO 15 FORMING PART OF ACCOUNTS AS AT 31ST MARCH, 2006

Particulars	31.03. 2006		31.03 2005	
	Rs.	Rs.	Rs.	Rs.
SCHEDULE - 1 : SHARE CAPITAL				
Authorised Share Capital				
Nil Preference Share of Rs.100/- each (Prev. Yr.2,50,000shares)		—		2,50,00,000
65,00,000 Equity Shares of Rs.10/- each (Prev. Yr.40,00,000 shares)		6,50,00,000		4,00,00,000
		<u>6,50,00,000</u>		<u>6,50,00,000</u>
Issued, Subscribed and Paid up Capital				
37,08,000 Equity Shares of Rs.10/- each fully Paid-up (Prev. Yr. 35,27,200 Shares)		3,70,80,000		3,52,72,000
Preference Share Capital Nil 8% Pre.Shares of Rs.100/- each. (Prev.Yr.140530 Shares)		—		1,40,53,000
TOTAL		<u>3,70,80,000</u>		<u>4,93,25,000</u>
SCHEDULE - 2 : RESERVES & SURPLUS				
General Reserve- Opening Balance	3,00,00,000		65,32,418	
Less : Transferred to Capital redemption Res.	(1,20,53,000)		—	
Add:Transferred during the year	3,70,53,000		2,97,49,250	
Less:Adj. for the arrears of Pref. Divi.	—		(62,81,668)	
		<u>5,50,00,000</u>		<u>3,00,00,000</u>
Capital Redemption Reserve - Op. Bal	20,00,000		20,00,000	
Add : Transferred during the year	1,20,53,000	1,40,53,000	—	20,00,000
		<u>2,53,12,000</u>		<u>—</u>
Share Premium		50,31,938		40,85,980
Profit and Loss account		<u>9,93,96,938</u>		<u>3,60,85,980</u>
TOTAL		<u>9,93,96,938</u>		<u>3,60,85,980</u>
SCHEDULE - 3 : SECURED LOANS				
BANK OF INDIA				
Term Loan (Secured by Hypo. of Specific Assets)		—		8,678
Cash credit- Secured by Hypo. of Stock , book debt and other current assets		1,25,50,917		1,09,71,911
Temporary Loan (Secured by Fixed Deposits of Directors) (Above loans are further secured by first charge on Company's factory land, building, Plant & Machineries)		—		2,60,390
HP Loan from ICICI Finance Ltd. (secured by hypo. of Motor Cars)		43,57,946		48,67,705
TOTAL		<u>1,69,08,863</u>		<u>1,61,08,684</u>
SCHEDULE - 4 : UNSECURED LOANS				
Intercompany deposits		—		5,462
TOTAL		<u>—</u>		<u>5,462</u>

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SCHEDULE - 5 : FIXED ASSETS

PARTICULARS	GROSS BLOCK			Balance as on 31.03.2006	DEPRECIATION			Balance as on 31.03.2006	NET BLOCK	
	Balance as on 01.04.2005	Addition during the year	Deduction during the year		Provided Upto 31.03.2005	Provided during the year	Adjustment during the year		As on 31.03.2006	As on 31.03.2005
ASSETS										
Land & Site Development	1,660,844	—	—	1,660,844	—	—	—	—	1,660,844	1,660,844
Factory Building	12,094,768	—	—	12,094,768	3,362,698	403,965	—	3,766,664	8,328,104	8,732,069
Plant & Machineries										
— Imported	4,552,524	—	—	4,552,524	1,457,241	216,245	—	1,673,486	2,879,038	3,095,283
— Indigenous	28,985,821	2,969,240	—	31,955,061	9,575,564	1,450,153	—	11,026,317	20,928,744	19,410,257
Electrical Installation	2,944,296	—	—	2,944,296	1,156,346	139,988	—	1,296,334	1,647,962	1,787,949
Utilities	3,365,753	—	—	3,365,753	1,331,092	159,873	—	1,490,966	1,874,787	2,034,661
Furniture & Fixtures	885,347	313,425	—	1,198,772	383,645	71,962	—	455,607	743,165	501,703
Office Equipments	686,338	79,142	—	765,480	257,808	34,179	—	291,987	473,493	428,530
Vehicles	9,406,676	836,119	472,241	9,770,554	1,771,438	880,477	246,070	2,405,845	7,364,709	7,635,238
Computers	959,801	136,370	—	1,096,171	736,194	163,545	—	899,739	196,433	223,607
Dead Stock	81,970	87,094	—	169,064	74,175	7,088	—	81,263	87,801	7,796
Storage Equipment	90,934	225,771	—	316,705	47,702	7,368	—	55,070	261,635	43,232
Scooters	25,083	—	—	25,083	24,258	—	—	24,258	825	825
Dead Stock Canteen	32,598	—	—	32,598	8,913	2,063	—	10,977	21,621	23,685
Total	65,772,752	4,647,161	472,241	69,947,673	20,187,075	3,537,506	246,070	23,478,511	46,469,162	45,585,677
Previous Year's Figures	57,830,742	8,574,595	632,585	65,772,752	17,225,883	3,198,262	237,070	20,187,075	45,585,677	40,604,859
Particulars	31.03. 2006								31.03 2005	
	Rs.								Rs.	

SCHEDULE - 6 : CURRENT ASSETS, LOANS & ADVANCES

a) INVENTORIES

- Raw materials	20,14,786	24,70,695
- Work-in-process	1,64,65,941	1,15,96,620
- Packing Materials	14,62,323	7,88,310
- Trading Stock	4,07,264	17,77,641
- Finished Goods	70,98,633	35,74,893
- Stock of Diesel	20,868	17,886
TOTAL	2,74,69,815	2,02,26,045

b) SUNDRY DEBTORS

(Unsecured, Considered Good)		
- Outstanding for more than six months	2,10,08,921	3,46,56,654
- Others	6,37,15,325	4,15,21,866
- Considered Doubtful	—	5,52,365
TOTAL	8,47,24,246	7,67,30,885

c) CASH & BANK BALANCE

Cash on hand	73,478	8,33,627
Balance with Scheduled bank		
- Current Account	16,61,375	16,77,238
- Fixed Deposits	—	72,72,600
	17,34,853	97,83,465

d) LOANS, ADVANCES & DEPOSITS

(Unsecured, Considered Good)		
1 Advances recoverable in cash or kind or for value received	48,046	26,26,182
2 Deposits	18,67,288	12,23,247
3. Advance to Group Company / Relative	6,63,252	6,50,742
4 Loan to others	13,35,963	13,35,963
5 Advance Payment of Income Tax	3,63,27,744	1,00,24,056
	4,02,42,293	1,50,18,283
GRAND TOTAL (a+b+c+d)	15,41,71,207	12,17,58,679

Particulars	31.03. 2006 Rs.	31.03 2005 Rs.
SCHEDULE - 7 : CURRENT LIABILITIES & PROVISIONS		
a) CURRENT LIABILITIES		
Creditors for Goods	61,93,847	1,19,09,612
Deposit - Payable	12,57,786	—
Creditors for Expenses	22,25,068	22,96,531
Other Liabilities	28,60,813	33,97,670
Creditors for New Project	53,910	—
Creditors for Capital Exp.	65,315	5,49,278
Advances from Customers	—	63,58,795
	<u>1,26,56,739</u>	<u>2,45,11,886</u>
b) PROVISIONS		
Provision for Taxation	4,35,25,000	2,00,00,000
Provision for Taxation (Dividend Tax)	7,80,070	14,26,127
Proposed Dividend (Pref. Share)	—	66,79,858
Proposed Dividend (Equi. Share)	55,62,000	42,32,640
TOTAL (A+B)	<u>6,25,23,809</u>	<u>5,68,50,511</u>
SCHEDULE - 8 : OTHER INCOME		
Interest on Bank deposits	2,07,488	1,15,369
Miscellaneous Income	94,114	2,81,456
	<u>3,01,602</u>	<u>3,96,825</u>
SCHEDULE - 9 : CHANGE IN INVENTORY		
Closing Stock		
- Trading stock	4,07,264	17,77,641
- Finished Goods	70,98,633	35,74,893
- Work-in-process	1,64,65,941	1,15,96,620
	<u>2,39,71,838</u>	<u>1,69,49,154</u>
Opening Stock		
- Trading stock	17,77,641	5,19,131
- Finished Goods	35,74,893	27,99,208
- Work-in-process	1,15,96,620	43,38,292
	<u>1,69,49,154</u>	<u>76,56,631</u>
	<u>70,22,684</u>	<u>92,92,523</u>
SCHEDULE - 10 : RAWMATERIAL CONSUMED		
Opening Stock	24,70,695	4,30,194
Add: Purchases	4,48,00,465	4,53,36,213
	<u>4,72,71,160</u>	<u>4,57,66,407</u>
Less: Closing stock	20,14,786	24,70,695
	<u>4,52,56,374</u>	<u>4,32,95,712</u>
SCHEDULE - 11 : MANUFACTURING EXPENSES		
Power & Fuel	58,62,578	45,07,483
Consumables & Stores	15,47,701	19,80,359
Packing Expenses	72,52,234	66,46,289
Quality control & Testing Exp.	55,98,140	18,89,481
Other production expenses	66,17,670	32,51,318
	<u>2,68,78,323</u>	<u>1,82,74,930</u>

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Particulars	31.03. 2006 Rs.	31.03 2005 Rs.
SCHEDULE - 12 : PERSONNEL COST		
Directors' Remuneration	16,13,961	10,03,156
Contribution To Provident Fund	6,50,104	7,60,915
Salaries & Wages	1,22,47,233	1,14,92,984
Staff Welfare	6,52,672	6,06,388
	<u>1,51,63,970</u>	<u>1,38,63,443</u>
SCHEDULE - 13 : OFFICE, ADMINISTRATION & SELLING EXPENSES		
Postage, Telephone & Telegram Expense	14,66,168	16,06,603
Insurance Expenses	10,25,750	3,69,436
Legal, Professional & Consultancy	18,92,388	11,78,032
Auditors Remuneration	3,15,720	1,95,880
Printing & Stationery	5,88,222	4,47,385
Travelling & Conveyance Expenses	20,46,917	23,07,630
Directors' Travelling	19,07,427	12,84,499
Rent, Rates & Taxes	8,31,408	6,07,157
Repair & Maintenance	79,533	—
Vehicle & Petrol Expenses	13,14,768	8,66,490
Electric Charges	2,77,517	2,04,924
Selling Expenses	1,44,24,523	70,44,649
Sales Tax Exp.	5,27,776	87,957
Bad Debts written off / creditors written back	4,48,549	22,66,532
AGM, Board meeting & Share transfer Exp.	1,77,071	49,892
Loss on Sale of Fixed Asset	1,86,171	2,34,515
Donations	31,000	1,51,000
Miscellaneous Expenses	15,92,998	15,32,059
Preliminary exp. written off	—	5,16,618
Exchange P & L	25,460	—
Loss due to Exchange rate diff (Pref. Sh.)	—	1,80,000
Loss on Damaged Goods	—	12,19,107
TOTAL	<u>2,91,59,364</u>	<u>2,23,50,365</u>
SCHEDULE - 14 : INTEREST & FINANCE CHARGES		
Term Loan Interest	11,193	4,03,442
Bank Interest	13,23,920	13,55,537
Bank Commission & Charges	7,84,776	4,73,400
Lease Rental	84,583	—
Other Interest	64,350	—
HP Finance Charges	3,04,348	2,06,314
TOTAL	<u>25,73,170</u>	<u>24,38,694</u>

SCHEDULE - 15 NOTES FORMING PART OF ACCOUNTS AS AT 31-03-2006
SIGNIFICANT ACCOUNTING POLICIES:

1. The accounts are prepared under the historical cost convention and materially comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The significant accounting policies followed by the Company are as follows:
 - a) **USE OF ESTIMATES**
The preparation of financial statements in conformity with GAAP requires the management to make estimates and assumption that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in current and future period.
 - b) **REVENUE AND EXPENDITURE RECOGNITION:**
Revenue and expenditure are recognized on accrual basis.
 - c) **FIXED ASSETS:**
All Fixed Assets are stated at historical cost less depreciation. The Company has provided depreciation on assets on Straight Line Method, at the rates and in the manner prescribed under Schedule XIV of the Companies Act 1956.
 - d) **INVENTORIES:**
Inventories are valued at lower of cost or market value.
Cost of work -in-progress and finished goods is ascertained considering direct costs plus a share of manufacturing overheads. Cost of raw materials and packing materials is arrived at, by using FIFO Method.
 - e) **CONTINGENT LIABILITIES:**
All liabilities have been provided for in the accounts except liabilities of contingent nature, which have been disclosed at their estimated value in the attached notes to accounts.
 - f) **FOREIGN CURRENCY TRANSACTIONS:**
Expenditure/Income in foreign currencies are translated into Indian rupees at the rates prevailing on the date of occurrence of the transaction. At the year end all monetary foreign currency assets and liabilities are related to closing exchange rates. Gains or losses on settlement of foreign currency transactions during the period and from the year end restatement referred to above, are recognized in the Revenue account.
 - g) **PRELIMINARY EXPENDITURE:**
Outstanding Balances in Preliminary & Public Issue expenses have been changed to revenue.
 - h) **RETIREMENT BENEFITS:**
Liability is provided for retirement benefits of provident fund, gratuity and leave encashment in respect of eligible employees of the Company. Contribution under approved provident fund plans and gratuity! superannuation schemes of the LIC of India are charged to revenue.
 - j) **TAXATION:**
Provision for current tax is made on the basis of estimated taxable income for the current accounting year in accordance with the Income Tax Act, 1961.
2. Figures are rounded off to nearest rupee and previous year's figures have been regrouped wherever necessary.
3. Contingent Liabilities not provided for:- Rs. Nil (Previous year Nil)
4. In the opinion of the Board of directors, loans and advances are of the value stated in the Balance Sheet, to be realized in the normal course of business and provision for all known liabilities have been made in the books of accounts which are adequate and not in excess of the amount reasonably required.
5. The management of the company, has during the year carried out technical evaluation for identification of impairment of assets, if any in accordance with the Accounting Standard (AS) 28, issued by the Institute of Chartered Accountants of India. Based on the judgement of the management and as certified by the directors, no provision for impairment of the asset is considered necessary in respect of any of the assets of the company.
6. The amount of loans and advances include Rs.5,13,252/- (P.Y. Rs.5,00,742/-) loans to companies, Firms and persons as listed in the register maintained under Section 301 of the Companies act, 1956. Maximum outstanding during the year was Rs. 5,14,118/- (P.Y. Rs. 10,88,961/-).
7. Balance of Debtors, Creditors and loans and advances are as per books and subject to confirmation from respective parties.
8. It is not possible to identify SSI undertakings from amongst Sundry Creditors. Hence details of dues to SSI undertakings are not given.

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9. Deferred taxation

The net deferred tax liabilities at the end of the year comprise of tax effect of following timing differences:

Particulars	2005-06	2005-05
Deferred tax liability		
- Excess of Net block over Written Down value as per provisions of I.T. Act	(87,42,234)	(89,68,720)
	(87,42,234)	(89,68,720)

10. Related Party Disclosures :

(i) List of Related Parties :

Related parties with whom transactions have taken place during the year.

(a) Associates / Individual Relatives :

1. Hester Info Tech Pvt.Ltd.
2. Hester Diagnostics Pvt.Ltd.
3. Hester Coatings Pvt.Ltd.
4. Sinsui Inc.
5. Sinsui (India) Pvt.Ltd.
6. Biolink Healthcare Ltd.
7. Diagnostic India.
8. Zubin Lakdawala

(b) Key Management Personnel :

Rajiv D.Gandhi - CEO & Managing Director

(ii) During the year following transactions were carried out with related parties in the ordinary course of business and at arms length:

Sr. No.	Nature of Transactions	Associates Individual Relatives	Key Management Personnel
1.	Advance Repaid	20,877 (984,883)	— (Nil)
2.	Advance Given	12,510 (670,494)	— (278,131)
3.	Advance Recovered	— (717,224)	— (Nil)
4.	Outstanding Balance Included Loans & Advances	6,63,252 (650,742)	— (278,131)
5.	Outstanding Balance Included in Unsecured Loan	— (5,462)	— (Nil)
6.	Loss on Damaged Goods	— (1,219,107)	— (Nil)
7.	Amount W/Off	1,194 (Nil)	— (Nil)
8.	Purchase of Materials	— (624,120)	— (Nil)
9.	Local Sales	— (Nil)	— (Nil)
10.	Director's Remuneration	— (Nil)	16,13,961 (10,03,156)
11.	Rent- MD's Residence	1,80,000 (1,80,000)	— (23,100)

Note : Disclosure is made of only those related parties with whom transactions have taken place during the year or there is balance at the end of the year.

10. Auditor' Remuneration include:

	31.3.2006	31.3.2005
a. Audit fees	1,90,000	1,54,280
b. Tax Audit and Taxation matters	90,000	41,600
c. Other Services	35,720	15,800

11. Additional Information as required under Para 3, 4C an 4D of part II Schedule VI of the Companies Act, 1956 are as under:

A. Installed capacity of Poultry Vaccines: (in million doses)

<u>Installed</u>	<u>Actual Production</u>
1200 (1200)	1389.96 (916.71)

Note : Actual Production comprises of 58,272(Prev.Yr. 49,746)Bottles of Killed Vaccines and 8,58,335 (Prev. Yr.405,181) Vials of Live Vaccines.

B. Quantity and Sales Value of each class of goods dealt with by the Company.

Class of Goods	U.O.M	31. 03.2006		31.03.2005	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
(i) Manufacturing					
Killed Vaccines	Bottles	61688	6,79,28,708	56947	74,936,130
Live Vaccines	Vials	1039701	12,86,16,197	774648	83,006,099
(ii) Trading					
Kits	Nos.	62	12,24,848	47	1,349,431
Vaccines	Bottle	3537	36,00,447	2516	30,99,825

C. Value and Quantitative break-up in respect of opening and closing stock of each class of goods traded. (Previous year's figures are given in brackets)

Class of Goods	U.O.M	Opening Stock		Closing Stock	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
(i) Manufacturing :					
Killed Vaccines	Bottles	2507 (1185)	10,38,199 (5,61,868)	3466 (2507)	17,18,991 (10,38,199)
Live Vaccines	Vials	77641 (74,114)	23,74,122 (21,82,474)	104366 (77641)	52,70,280 (23,74,122)
Diluents	Vials	67964 (27,533)	1,62,572 (54,865)	27600 (67964)	1,09,362 (1,62,572)
(ii) Trading					
Vaccines	Bottle (81)	1490 (303,388)	14,44,457 (1490)	399 (1,444,457)	3,77,055
Kits	Nos.	15 (8)	3,33,184 (2,15,743)	1 (15)	30,209 (3,33,184)

Note: 10 Kits are used for own in house consumption. (P.Y :7 Kits)

D. Value and Quantitative break-up of purchase of goods traded in :

Class of Goods	U.O.M	31. 03.2006		31.03.2005	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
Kits	Nos	46	8,67,702	64	1,420,204
Vaccines	Bottle	2011	17,43,128	3993	3,782,400

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E. Raw Material Consumption :

Class of Goods	U.O.M	31. 03.2006		31.03.2005	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
Growth Media	Nos	2080610	3,51,38,770	1584800	3,71,67,162
Other Chemicals			1,01,17,604		61,28,550
Total			4,52,56,374		4,32,95,712

F. CIF value of Import of Goods/Raw Materials Rs. 1,11,12,304/- (Previous Year Rs. 1,36,77,281/-)

	31. 03.2006		31.03.2005	
	Percentage	Value (Rs.)	Percentage	Value (Rs.)
a. Imported	24.55	1,11,12,304	35.35	1,53,03,734
b. Indigenous	75.45	3,41,44,070	64.65	2,79,91,978

12. Expenditure in Foreign Currency for

Particulars	31.3.2006 Value (Rs.)	31.3.2005 Value (Rs.)
Purchase / Materials	1,58,53,516	1,22,74,890
Travelling	2,70,895	3,33,117
Others	20,31,685	—

13. F.O.B. value of exports Rs. 32,47,856/- (Previous Yr. Rs. 18,27,210/-)

14. Earnings per Share :

Calculation of Net Profit (including extraordinary item) available for Equity Shareholders :

	31-03-2006	31-03-2005
A. Net Profit After Tax	4,44,45,377	39,426,280
Dividend on Cumulative Pref. Shares	—	1,271,164
Profit available to Equity shareholders	4,44,45,377	38,155,116
B. Weighted Average No. of Eq. Shares of Rs. 10/- each	35,72,400	35,27,200
C. Basic and diluted Earning per share	12.41	10.82
D. Earning per share before preference Dividend	12.41	11.18

Calculation of Net Profit (excluding extraordinary item) available for Equity Shareholders :

A. Net Profit After Tax	5,93,18,834	39,426,280
Dividend on Cumulative Pref. Shares Including Dividend Tax	Nil	1,271,164
Profit available to Equity shareholders	5,93,18,834	38,155,116
B. Weighted Average No. of Eq. Shares of Rs. 10/- each	35,72,400	3,527,200
C. Basic and diluted Earning per share	16.60	10.82
D. Earning per share before preference Dividend	16.60	11.18

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

		2	2	3	3	3
--	--	---	---	---	---	---

 State Code

					0	4
--	--	--	--	--	---	---

Balance Sheet Date

3	1
---	---

0	3
---	---

2	0	0	6
---	---	---	---

Date Month Year

II. Capital Raised during the year (Rs. in thousands)

Private Placement

				N	I	L
--	--	--	--	---	---	---

III. Position of Mobilisation and Deployment of Funds (Rs. in thousands)

Total Liabilities

	1	5	3	3	8	6
--	---	---	---	---	---	---

 Total Assets

	1	5	3	3	8	6
--	---	---	---	---	---	---

Sources of Funds

Paid-up Capital

		3	7	0	8	0
--	--	---	---	---	---	---

 Reserves & Surplus

		9	9	3	9	7
--	--	---	---	---	---	---

Secured Loans

		1	6	9	0	9
--	--	---	---	---	---	---

 Unsecured Loans

						—
--	--	--	--	--	--	---

Application of Funds

Net Fixed Assets

		4	6	4	6	9
--	--	---	---	---	---	---

 Net Current Assets

		9	1	6	4	8
--	--	---	---	---	---	---

Work-in-process

		2	3	2	3	6
--	--	---	---	---	---	---

 Deferred tax

			(8	7	4	2)
--	--	--	----	---	---	----

Misc. Expenditure

				7	7	5
--	--	--	--	---	---	---

IV. Performance of Company (Rs. in thousands)

<p>Total Turnover</p> <table border="1" style="margin: auto;"><tr><td></td><td>2</td><td>0</td><td>1</td><td>3</td><td>7</td><td>0</td></tr></table>		2	0	1	3	7	0	<p>Other Income</p> <table border="1" style="margin: auto;"><tr><td></td><td></td><td></td><td></td><td>3</td><td>0</td><td>2</td></tr></table>					3	0	2	<p>Total Expenditure</p> <table border="1" style="margin: auto;"><tr><td></td><td>1</td><td>1</td><td>9</td><td>0</td><td>6</td><td>9</td></tr></table>		1	1	9	0	6	9
	2	0	1	3	7	0																	
				3	0	2																	
	1	1	9	0	6	9																	
<p>Profit before Tax</p> <table border="1" style="margin: auto;"><tr><td></td><td></td><td>6</td><td>8</td><td>6</td><td>4</td><td>1</td></tr></table>			6	8	6	4	1		<p>Profit after tax</p> <table border="1" style="margin: auto;"><tr><td></td><td></td><td>4</td><td>4</td><td>4</td><td>4</td><td>5</td></tr></table>			4	4	4	4	5							
		6	8	6	4	1																	
		4	4	4	4	5																	
<p>Earning per share in Rs.</p> <table border="1" style="margin: auto;"><tr><td></td><td></td><td>1</td><td>2</td><td>.</td><td>4</td><td>1</td></tr></table>			1	2	.	4	1		<p>Dividend Rate</p> <table border="1" style="margin: auto;"><tr><td></td><td></td><td></td><td></td><td>1</td><td>5</td><td>%</td></tr></table>					1	5	%							
		1	2	.	4	1																	
				1	5	%																	

V. Generic Names of Three Principal Products/Services of Company

Product Description : Item Code No. (ITC Code)

(a) Veterinary Vaccines

3	0	0	2	3	9	0	0
---	---	---	---	---	---	---	---

15. Schedule 1 to 15 are attached to and form part of accounts for the year ended on 31st March, 2006.

Signatures to Schedules 1 to 15

As per our Report of even date attached

for **Shah Narielwala & Co**
Chartered Accountants

D. R. Shah
Partner

Ahmedabad, 28th April, 2006

for and on behalf of the Board

Rajiv Gandhi

CEO & Managing Director

Sanjiv Gandhi

Director

Darayus Lakdawalla

Director

Ahmedabad, 28th April, 2006

Annual Report 2005-2006

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	31/03/2006		31/03/2005	
	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit/(Loss) before tax and extraordinary items		8,60,88,119		6,58,95,518
Adjustments for :				
Loss on sale of asset	1,86,171		2,34,515	
Depreciation	35,37,508		31,98,262	
Interest and other income	(3,01,602)		(3,96,825)	
Prior period items	—		(90,000)	
Extra Ordinary Item	(1,48,73,457)		—	
Preliminary & Preoperative Exps.	—		5,16,618	
		(1,14,51,381)		34,62,570
		7,46,36,738		6,93,58,088
Operating Profit/(Loss) before Working Capital Charge				
Adjustment for :				
Trade & Other Receivables	(79,93,360)		(3,68,74,296)	
Inventories	(72,43,769)		(1,18,16,204)	
Trade Payables	(1,18,55,146)		1,28,43,938	
Loans & Advances	10,79,678		(1,05,98,765)	
Bank borrowings for working capital	13,18,616		95,880	
		(2,46,93,982)		(4,63,49,447)
Cash Generated from operating Activity		4,99,42,756		2,30,08,641
Interest Paid		(25,73,170)		(24,38,694)
Net Cash from operating Activity		4,73,69,586		2,05,69,947
B. CASH FLOW FROM INVESTMENT ACTIVITIES				
Purchase of Fixed Assets		(46,47,161)		(85,74,595)
Purchase of Fixed Assets (Capital WIP)		(2,32,36,294)		—
Sales of Fixed Assets		40,000		1,61,000
Interest and other income		3,01,602		3,96,825
Misc. Exp. Capitalised		(7,75,180)		—
Net Cash Used in Investing Activities		(2,83,17,033)		(80,16,772)
C. CASH FLOW FROM FINANCING ACTIVITY				
Proceeds from Long Term Borrowings		—		25,70,912
Repayment of Long Term Financing		(5,18,437)		(19,69,610)
Repayment of Other Loans		(5,462)		(15,98,989)
Increase in Share Capital & Premium		2,71,20,000		—
Redemption of Preference Capital		(1,40,53,000)		—
Payment of Tax for		(2,87,31,766)		(22,20,000)
Dividend		(1,09,12,498)		—
Net Cash Flow from Financing Activity		(2,71,01,163)		(32,17,687)
Net Increase in Cash & Cash Equivalents		(80,48,612)		93,35,488
Cash & Cash Equivalent as at (Op. Balance)		97,83,465		4,47,977
Cash & Cash Equivalent as at (Cl. Balance)		17,34,853		97,83,465

As per our Report of even date attached

for **Shah Narielwala & Co**
Chartered Accountants

D. R. Shah
Partner

Ahmedabad, 28th April, 2006

for and on behalf of the Board

Rajiv Gandhi

Sanjiv Gandhi

Darayus Lakdawalla

CEO & Managing Director

Director

Director

Ahmedabad, 28th April, 2006

Hester Pharmaceuticals Limited

Registered Office : Village : Merda Adraj, Taluka : Kadi, District : Mehsana, Gujarat - 382721.

ATTENDANCE SLIP

Members or their proxies are requested to present this for admission, duly signed in accordance with their specimen signatures registered with the Company. The admission will, however, be subject to verification of signatures and such other checks, as may be necessary.

NAME & ADDRESS OF THE SHAREHOLDER	Ledger Folio No.	No. of Shares held

I hereby record my presence at the 19th ANNUAL GENERAL MEETING of the Company held on Friday, the 14th July, 2006 at 11.00 a.m.

SIGNATURE OF THE SHAREHOLDER OR PROXY

Hester Pharmaceuticals Limited

Registered Office : Village : Merda Adraj, Taluka : Kadi, District : Mehsana, Gujarat - 382721.

PROXY FORM

L. F. No.

I, We _____

of _____ being a member/members of **Hester Pharmaceuticals Limited**

hereby appoint _____ of _____

as my/our proxy to vote for me/us and on my/our behalf at the 19th Annual General Meeting of the Company to be held at 11.00 a.m.

on Friday, the 14th June, 2006.

As witness my/our hand(s) this _____ day of _____ 2006.

Affix a
30 Paisa
Revenue
Stamp

Signature(s) of the Shareholder(s)

NOTE : The proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the aforesaid Meeting.

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





Hester Pharmaceuticals Limited

Expansion

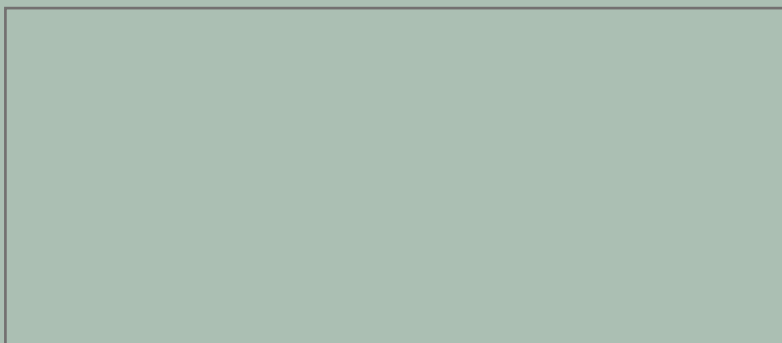
Date of Photograph: 01.06.2006



Current Production Facility

Book-Post

To,



"CONTINUE THE CONFIDENCE IN YOUR COMPANY."

Rajiv Gandhi
CEO & Managing Director



Hester Pharmaceuticals Limited

www.hesterpharma.co.in

If undelivered, please return to :
Hester Pharmaceuticals Limited
Corporate Office :
16/10 Devendra Society,
Naranpura, Ahmedabad 380 013