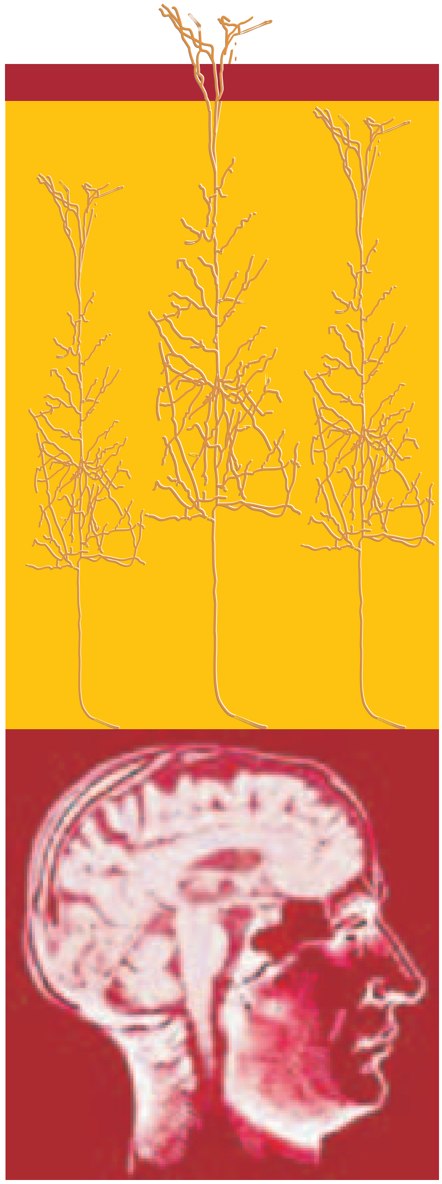


Taking flight

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

ANNUAL REPORT 2003-2004

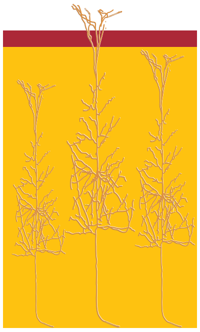
Taking flight

Taking flight

The cover shows 2 images from breakthroughs in neuroscience: a neuron, an MRI scan.

Two ideas that took learning from one field,and in an inspired moment, "a flash of lightening" showed how best they could be applied to another field, another application.

How did this happen?



Perhaps it took depth of understanding, an appreciation of fine details and meaning.But from here to be able to think beyond, this jump in imagination, this spark and the will to see it through, perhaps it takes a magical "something more".

1887. Dr Cajal's work on the basic structure of the nervous system, the neuron.Work that happened almost a hundred years ago, but has since remained unchanged.Work that upset long cherished beliefs in neuroscience.

And established that the nervous system is made up of discrete neurons.

An excited Dr Cajal wrote, " a flash of lightening..the nerves brownish black, their finest branchlets on a transparent yellow backdrop, sharp as a sketch with Chinese ink.. new facts, ideas jostled in my mind.. a fever for publication devoured me.."

As visionary was Dr Lauterbur's work on the medical application of MRI. This work that earned him and Sir Peter Mansfield the Nobel in 2003.

Yet the basic science that the MRI builds on, was known since 1946. It took till 1973 and the genius of one man for this brilliant application to be thought through.Dr Lauterbur took a chemist's technique to study solutions with magnetic fields and perfected it into a way to visualize the body. He grasped that in their study of solutions, chemists were missing out on important data; data, that could be used to put together 3 dimensional molecules.

Today, precise MRI generated images of the joints, bones and the brain make a detailed study almost routine. So that a quick and accurate diagnosis can be made.

As we move ahead to drug discovery, it is to insights such as these that we turn. In the pursuit of a special "something more". Our very own "flash of lightening".

And the insistence to see an idea through.

Mirroring optimism and a strong trend in the economy, the domestic pharma market at the end of the year to March 04 showed a growth rate in excess of 7.3%. Speciality therapy areas grew much faster, 12%, with select areas like diabetes: 24%, and cardiology: 18% growing much faster. Formulations accounted for most of our sales -domestic formulations were 60% of sales, export formulations were 6.8% of sales .

Like every year, work done at our research center, the Sun Pharma Advanced Research Center (or SPARC), helped to bring important products to market; some of these used technology modifications for a product that's easier to take.

We continue to be the fastest growing company among the top 5 companies in the country.

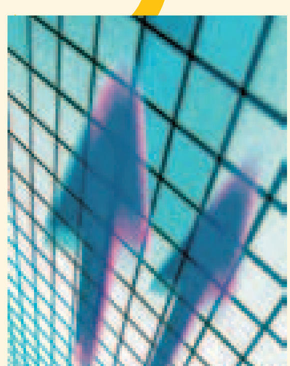
Our experience in designing and making these products for India will later help us register these products for developing markets, and eventually take these to challenging regulated markets.

At our research labs, processes for 16 bulk actives (the medically active ingredient in a tablet or capsule which is responsible for its action) were developed. For some of these bulk actives we would be among a handful in the world. Some of these bulk actives enabled us to make formulations available in the Indian market at a sensible price.

The work that we have done so far in setting up marketing teams in select international markets is working well. The presence that we have created with an expert team, systematic call coverage, and brand building is beginning to earn us prescriptions and recognition as a high quality company. In most of these markets since we are a relatively small player, the opportunity ahead is tremendous; we are putting the right plans in place to grow at 40-50% for the second year in succession. This in other words means we are doubling our international formulations business every two years. Our approach of applying the same template that has worked for us in India is on the right track.

5

RANK



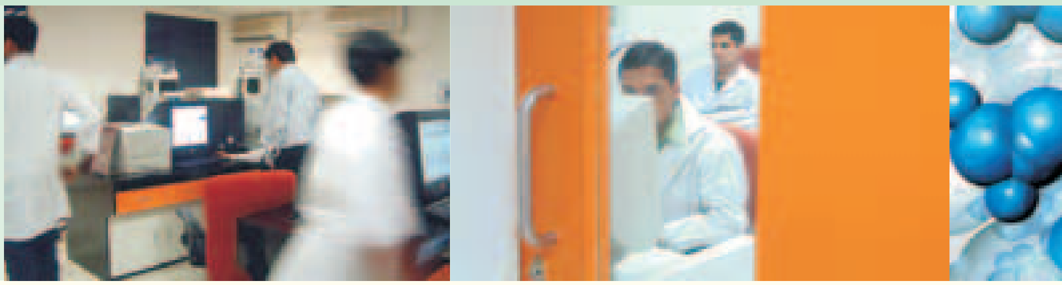
In India, against a competitive backdrop, market share increased to 3.11%, up from 2.99% last year and 0.8% at the time of our initial public offering in 1994. We continue to hold 5th rank in the prescription market; a rank that we have now been at for the 5th year in succession. We had a 12.5% rate of growth versus 7.3% for the sector (IMS- ORG Retail Chemist Audit data March 04, March 03). We continue to be the fastest growing company among the top 5 companies in the country.

Retail Store data is one measure of performance. Another important measure is how customers rate the company, and the market research tool that offers this data is the CMARC audit. The CMARC audit tracks actual live prescriptions for insight into how our customers view us and how they prescribe products in real time. Our prescription share for the March- June 2004 period is 2.09%, up from 2.03% last year.

We've done exceptionally well in cardiology, where we've reached number I slot. Our CMARC scorecard indicates that in our core therapy areas of psychiatry, neurology, cardiology, gastroenterology - areas that cover most of our turnover, we rank among the top 3 companies. In diabetes, ophthalmology, orthopedics, chest we continued to rank among the top 5 companies. In some of the newer therapy areas of gynecology, dermatology, oncology we've registered strong rank increases as we progress towards the top ranks.

Our CMARC scorecard indicates that in our core therapy areas of psychiatry, neurology, cardiology, gastroenterology- areas that cover most of our turnover, we rank among the top 3 companies.

Pharmaceutics lab view, SPARC Tandalja

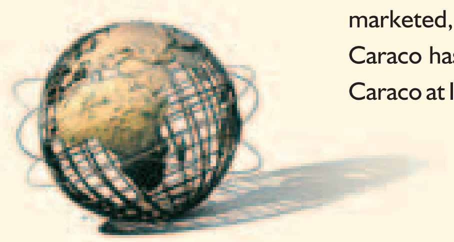


We've done exceptionally well in cardiology, where we've reached number I slot.

We've identified and built on two ways of adding market share. One of these, is specialist task force teams that focus on one disease or therapy. The other is the creation of parallel divisions. On both these fronts, we've taken a few important steps.

Brands in our core therapy areas account for a large part of our business in India. Over 72% of domestic formulation sales is from psychiatry, neurology, cardiology, diabetology, gastroenterology. Our top 15 brands accounted for about 32 % of domestic formulation sales, which means we are not greatly dependent on any single product or product range. 150 brands featured among the leading brands for that molecule. This year, 48 new products (not counting line extensions) were launched to bring the latest treatments to market. We added to our field force, and created 3 more divisions at year end. We now have 15 divisions, and with strong operational controls and systems, have built a team that is amongst the best in the country.

This year was good on the international front too. We increased our stake in our US subsidiary Caraco to over 63% by buying out stock from 3 large shareholders. Caraco is well set for a good future, with sales of over $45 mill for 2003, 14 ANDAS received and marketed, a decent pipeline of filings, and interesting products being readied for filing. Caraco has shared a forecast of 20-25% growth for 2004. A separate section talks about Caraco at length.



summary

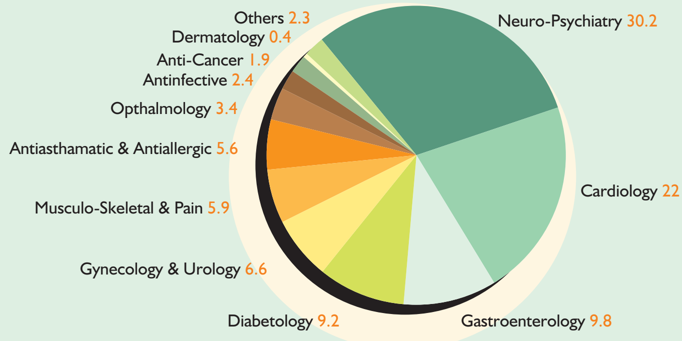
First, a brief look at how we have done financially.

- Considering Sun Pharma standalone (without counting the turnover of the subsidiaries) for 2003-2004, turnover was Rs. 9597.5 mill.
- Domestic formulation was Rs. 5603 mill.
- International formulations or the brands that we sell outside India was Rs. 609 mill, the second year of robust growth.
- International bulk was Rs. 1533 mill. Most sales were to regulated markets.

TWO ACHIEVEMENTS

Our bulk active plant at Panoli received USFDA and Australian TGA approval this year. Our tabletting facility at Halol received USFDA approval. This takes the total number of USFDA approved sites to 3.

Plant 1, Panoli



THERAPY WISE BREAK-UP (%)

We'd begun to build a worldclass manufacturing facility at Jammu last year, and this is now operational. With manufacturing capacity for 1000 mill tabs/ year, this 90,000 sq ft international class plant is being used to address increasing domestic demand. From start to finish, this plant was put up in less than 14 months.

We also applied these manufacturing and project scale up skills to new markets. Our Bangladesh plant, our first joint venture overseas, is now close to beginning commercial production. In the last 3 years, with these new sites at Dadra and Jammu, and additional manufacturing capacity at Panoli and Halol, takes the total manufacturing capacity to 528 KL of bulk actives and 6000 mill tabs/ year.

Speciality bulk actives at Rs 2683 mill accounted for 30% of sales. 60% of this was to the regulated markets.

Both the international and domestic bulk segments grew well, and both contributed equally to our total turnover. 16 bulk actives were taken from lab to plant and scaled up. Our tally of international regulated market approvals for bulk actives crossed 6 drug master files and 6 certificate of suitability approvals. We are doubling the size of our Panoli bulk active site by adding 270,000 sq ft or 130 KL capacity. The first phase of this expansion is likely to be completed by early 2005.

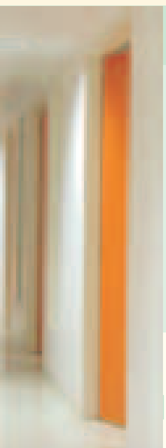
At these bulk active sites we have also put into place special manufacturing suites with extensive controls for steroids, hormones, oncologicals and peptides. These will enable us to enter the high value end of the bulk active business.

Our dosage form exports now reach 26 markets. Approvals were recently received from two important markets- Brazil and Mexico. Product registrations in the Bangladesh joint venture have also been received, these new international markets will add to our growth.

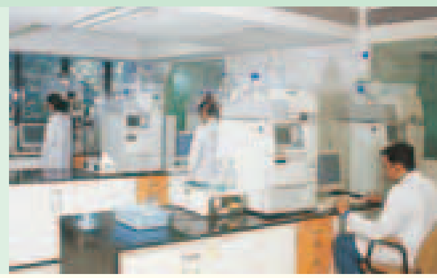
In existing markets, our brand building effort, with well planned marketing strategy, 249-person strong field force, regular doctor coverage, promotional cycles and marketing inputs is beginning to fetch results.

We've taken our experience with technically complex products one step ahead. In the Indian market we've launched several products like Lupride Depot, a depot dosage form that is prescribed in prostate cancer/endometriosis. The technology used in this product is such that the drug releases gradually over a month. We have now begun the process of registering these products in key markets like China. We are also participating more actively in these markets with participation in events, conferences, doctor group meetings, CMEs, exhibitions, in order to build company image.

With this framework in place, we expect a robust rate of growth to be maintained over the next two years and beyond.



In process analysis, Pharmaceutics labs, SPARC Tandalja; SPARC Mahakali



Research and Development

R&D expense increased from Rs. 657.mill to Rs. 1077 mill , up 64%. Cumulatively, our spend is now is excess of Rs. 2934 mill. Of the spend this year, revenue R&D increased 63% from Rs. 294 mill to Rs. 479 mill. Total R&D expense was 12.83% of sales, (9.14% last year).

We commissioned a new R&D site in Baroda, and a new product development center in Mumbai. Our new site in Baroda, SPARC Tandalja, is spread over 200,000 sq ft across 16 acres and offers a world class environment for R&D. This team works on innovation based projects, both in new chemical entity (NCE or new molecule) and novel drug delivery systems (NDDS or a way of using technology to deliver an older medicine in a manner that is more convenient or patient friendly).

The US market is very important in our long-term plans. We shifted our Mumbai R&D product development center from a 6000 sq ft lab to new premises with over 50,000 sq ft We'll be increasing the number of scientists to 125 over the next year. This lab is dedicated for the US market

Across projects- both innovation and reverse engineering, our tally of patent filed stands at 321, with 33 patents received. In all, 48 new products (not including line extensions) were launched in the domestic market. 21 used a different delivery system or technology. 5 ANDA submissions were made from an Indian site, in addition to the 7 filings Caraco will make in 2004.

Innovation based projects

In new molecule research, good progress was made in three therapy areas of our interest, and one lead, the company's first molecule, entered phase one clinical trials in Europe. A number of interesting leads were identified for preclinical work and development.

In novel drug delivery systems, good progress was made in the 4 therapy platforms identified.-oral CR/SR, biodegradable membranes, DPI, targeted drug delivery. Two delivery systems are slated to enter clinical trials by year end.

Product development lab, SPARC Tandalja

(Rs. Mill)

Sales Breakup by type	Mar 04	Mar 03
Domestic Formulations	5603	5621
Domestic Bulk	1150	788
Others	0	20
Export Formulations	609	398
Export Bulk	1533	1063
Export Others	34	9

Key international markets

Caraco's turnover for the year ending December 2003 crossed $45 mill, up 103% from $22.4 mill in the previous year. Caraco benefited from synergies of bulk active manufacture sourced from our approved sites, resulting in lower raw material costs and better margins; with the bulk actives for four of Caraco's key products being sourced from our plants.

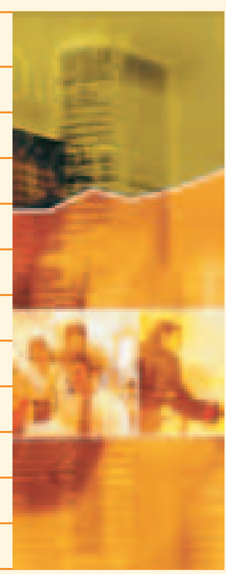
At Caraco, sales this year were driven by increasing sales of metformin and metoprolol, and in both these it has become an important player. Also, smaller speciality products for which approvals were received last year showed increasing sales. In 2003, Caraco invested $2.5 mill in plant expansion and upgradation.

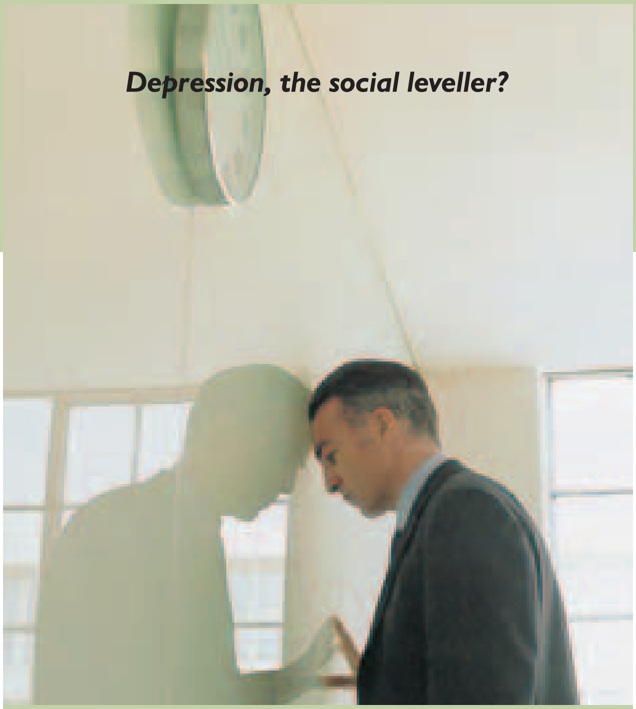
Divisionwise representative strength

Sun	263
Spectra	231
Solares	250
Arian	178
Aztec	176
Synergy	113
Milmet	71
Avesta	71
Symbiosis	91
Sirius	80
Inca	86
Onco	30
Radiant	80
RTF (Ortus)	57
EPTF	22

C-MARC RANKS

	NOV 02 to MAR 03	MAR 04 to JUN 04
Psychiatrists	1	**1**
Neurologists	1	**1**
Cardiologists	3	**1**
Gastroenterologists	3	**2**
Diabetologists	3	**4**
Chest Physicians	4	**4**
Consultant Physicians	5	**5**
Orthopedics	6	**4**
Ophthalmologists	4	**3**
ENT Specialists	5	**9**
Oncologists	6	**8**
Gynaecologists	11	**7**





Depression, the social leveller?

SYNERGY

It is to the field force's credit and standing with speciality customer groups that it continues to add prescription share and reach top ranking with new products.

Among Synergy's key therapy areas: Antiepileptics, antipsychotics, antidepressants continued to predominate. New products were introduced in the antipsychotic and antiepilepsy segments. Across these segments products approved first for one indication continued to find use in the treatment of another. Antiepileptics are routinely prescribed in non-neurological ailments and psychiatric disorders ranging from tri-geminal neuralgia (pain along the length of the trigeminal nerve), neuropathic pain, migraine, essential tremor.

MAIN

Encorate • Syndopa • Lonazep
Nexito • Amixide

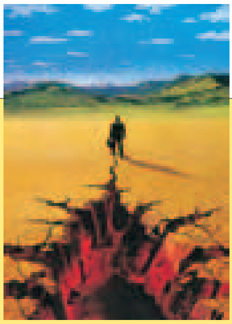
NEW

Arpizol • Oleanz injection
Lonazep MD • Dicorate ER

Increasing economic and political uncertainty coupled with peer group pressure and the pressures of modern living have caused this sector to grow at a good rate. Yet global research indicates that mental illness is largely undertreated both in the developed and developing world; in more than half the countries surveyed affecting over 10% (see box).

The segments that Synergy participates in continued to be competitive. As we'd shared earlier, this competition has intensified from companies that used to compete in the large volume therapy areas earlier as in antibiotics, tonics and vitamins. These were companies focused for the long term with a good grasp of marketing. These companies continued to be among the first to bring new products to market. It is to the divisions credit that several of the recently launched products like Arpizol, Nexito (both at number 1 rank) are products of choice for their molecule, with market shares in excess of 35%.

Another interesting development, which is perhaps, a harbinger of events for the long term is the renewed interest from multinationals in these therapy areas and a keenness to introduce and invest in the latest brands that they have launched internationally. Although these products are priced at a premium there seems to be a greater willingness for co-marketing deals and serious brand building even on behalf of companies that for years had no more than a marginal presence.



Mental Health: Oppressive attitudes prevail worldwide

Mental health

for most, still a grey area

Some facts from a survey of 60,643 patients carried out in 14 countries:

"In some countries there just is not this tradition of public opinion and speaking your mind" said a Harvard Med School researcher leading the study.

"In every country there is a hidden or unhidden stigma" said an expert from WHO. "People are reluctant to admit they have mental problems."

"In the developed countries, 36-50% of the people with serious symptoms were untreated; in developing nations 76-85% of the cases were untreated."

"In most countries 9-17% of those interviewed had some episode of mental illness in a year. "

(Associated Press Report/ June 1, 2004)

Hormonal surges, ruminating over life events - both are caution signals

A female bias **for the blues?**

For long, scientists have observed that women are more vulnerable to depression. For long, this has been attributed by turns to an excitable nervous system, the opposing tugs of work and family. Researchers are now looking for a scientific reason for this discrepancy and it may be because of genes. Scientists say that depression in women is a global phenomenon cutting across class divides, spanning life experiences. Several genes, along with the surges in hormones may influence brain chemistry and trigger depression. A risk factor linked to ruminating, over thinking, mulling over issues and re-living sad incidents is more common in women and could lead on to depression. However, half the risk could be genetic, with areas that cause this deep sadness now identified. And these genes act in concert with estrogen receptors with variations in sex hormones in a complex interplay of hormones, neurotransmitters and receptor activation.

As responsible as genes and neurotransmitters is the womanly inclination to brood over experiences, mulling them over and over without reaching a solution or simply moving on. Research shows that women who habitually ruminate but are not depressed are prone to develop depression later. Thinking overmuch can be vulnerability too.

(New Clues to Women veiled in black; Susan Gilbert, TheWashington Post, March 16, 2004)

We launched this year a form of the long acting antiepileptic Dicorate ER. Internationally this medication has been approved for migraine prophylaxis. It has also found use as an antimanic and a long term mood stabilizer in patients with bipolar mood disorder, that are resistant to or unresponsive to lithium with lesser side effects, thus increasing compliance to treatment. Olanzapine injection was launched for the first time in the country and very quickly after international launch. This medication helps control aggressive agitation associated with schizophrenia and bipolar mania.

Arpizol, our brand of one of the latest antipsychotics introduced, was brought to the Indian market based on our own bulk. The medication in Arpizol treats a wide range of symptoms of schizophrenia both the positive and negative symptoms. A common problem with long term use of antipsychotics is the emergence of tremors and a Parkinson-like shuffle, stiffness called EPS or Extra pyramidal syndrome; because of the way this drug acts it has a lower likelihood of EPS than older medications like haloperidol. A lesser likelihood of relapse; significantly better response on learning, and non-zombie responses are other pluses. Some of these features may make this the drug of choice. Lesser weight gain, lesser likelihood of diabetes or elevated cholesterol that otherwise interferes with therapy, are other features in Arpizol's favour.

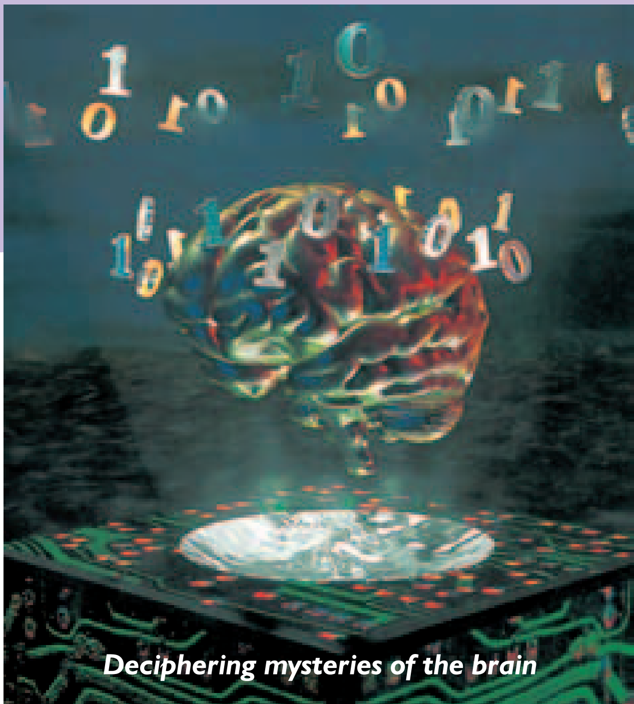
Delusions, disordered thinking, hallucinations characterize schizophrenia. In schizophrenia, by the end of 2 years, 75% of the patients are not taking medication. Doctors say relapses take something back from the patients, making it harder to get back to normal. Injections and long acting medications offer advantages of smoother dosing without treatment interfering peaks and troughs.

Drugs like Aripiprazole, the medication in our brand Arpizol, appear to be better at preventing emotional blunting, withdrawal and depression and help with alertness and memory.

Nexito is our brand of escitalopram that had been introduced last year as an antidepressant The USFDA recently approved this medication for the treatment of generalized anxiety disorder a disorder that affects close to 3% of the US population; also a vast majority of the patients with depression.

Soak in the stillness of nature

SYMBIOSIS



Deciphering mysteries of the brain

MAIN

Oxetol • Mirtaz • Lobazam
Qutipin • Lithosun

NEW

Paxidep CR • Cobamet OD
Ivepred • Cobamet Injection

In the 4th year of its existence, Symbiosis continued to earn prescriber support to build strong brands with the core group of psychiatrists / neurologists, helped focus on older brands like Lithosun which would otherwise have become susceptible to competition and enabled build up of new brands like Qutipin. Oxetol, the successor to Carbamazepine continues to be the largest selling product for the division. This molecule was developed as a structural variation of Carbamazepine to avoid side effects, and on further study showed that the metabolic pathway involved in its breakdown differs. This allows the drug to be coprescribed with other antiepileptic drugs.

Qutipin, the antipsychotic medication that is the drug of choice in schizophrenia; was recently cleared by the US FDA for one more indication; the treatment of mania associated with bipolar disorder. Manic episodes in bipolar mood disorders are characterized by impulsive behavior, racing thoughts, pressured speech and decreased need for sleep.Bipolar mood disorders is a serious mental illness that effects 3-4% of the population and patients are at risk if they stop taking medication, of relapse and increased risk of suicide.

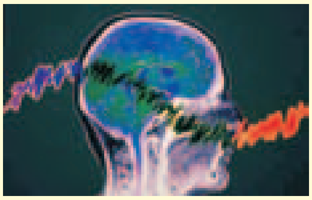
Mirtaz, the new anti-depressant found use in diverse indications like tension headaches and chronic pruritus; but seems to have found its positioning as the drug of choice for the older depressed. Treatment of depression in the elderly is complicated - impacted by grief, pain, sleep problems, other medications, altered metabolism and other health problems. Mirtazapine with its safe profile and limited side effects is safe to take.

Controversy dogs Alzheimer's:

How far does medication help?
And do statins?

Alzheimer's can be grim. There is no known cure, no way to prevent the illness and the benefits of current treatment are modest. At a treatment protocol meeting at Johns Hopkins University one expert said that there was a 1: 10 chance that drugs would have an effect; the next expert said that patients should try them for 6 to 8 weeks and then give up; a third expert said to try the drugs for 6 months. The moderator summed up saying 'telling you what to do may be wrong all you can do is to look at your soul and do the best you can'.

Researchers are looking at the links between cholesterol and Alzheimer. Cholesterol is produced both by the brain and the liver and there does seem to be linkage between cholesterol and Alzheimer. Some scientist theorize that Alzheimer may result from multiple hits to the brain - someone on the edge, already predisposed, may be pushed over the edge by additional insults stroke, high blood pressure or high cholesterol.

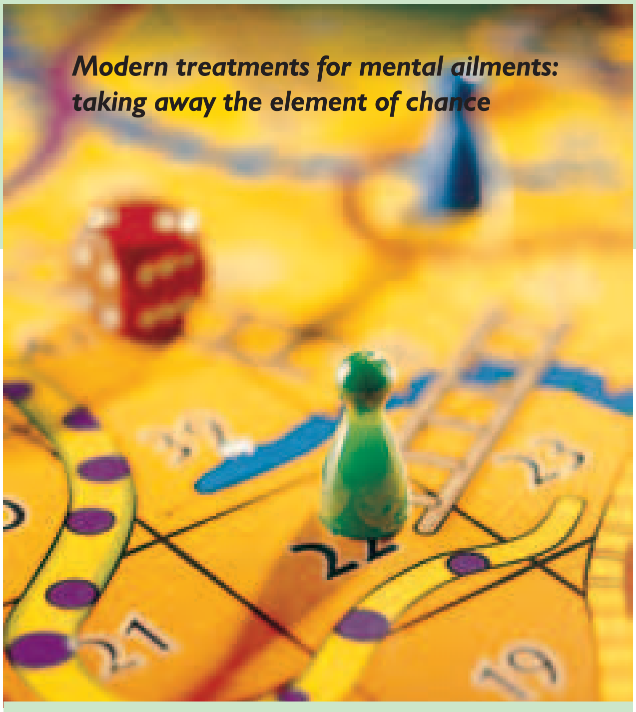


Data loss ravage of Alzheimers

What can one do to keep Alzheimer at bay? For one, lose excess weight; obesity is a risk factor for diabetes and diabetes doubles the risk for Alzheimer in major studies

(A glimmer of hope for fading minds, Gina Kolata; The New York Times, April 13, 2004; Nominal benefits seen in Drugs for Alzheimer's disease, Denise Grady, The Washington Post, April 7, 2004)

SIRIUS



Antipsychotics
Oleanz • Zipsydon
Antiepileptics
Zeptol
Antidepressants
Zosert • Citopam • Bupron
Antianxiety
Alzolam SR & forte

A third division was launched this year to enable building the franchise we have with psychiatrists and neurologists. This division begins work with brands that have already reached a certain level of acceptance in their parent divisions and can be built to much larger brands with the right focus.

Asia's Mental Health Statistics

Some excerpts from a recent cover story from Time Magazine (November 10th, 2003):

The global burden of disease study commissioned by the World Bank; WHO with Harvard University predicts that by 2020 depression will be the leading cause of disability in Asia.. already mental illness accounts for 5 of ten leading causes of disability .... A bigger health threat than cancer.

"There is so much stigma when it comes to mental health", says Osamer Tajima, a leading psychiatrist in Tokyo. "The perception is that it's a personality weakness .... I've heard many doctors tell their patients to stop complaining and tough it out".

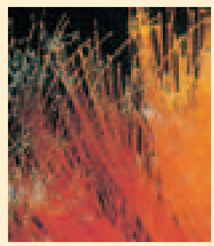
Asia's mental health crisis is escalating even when most of the region is getting richer. The continent's transformation is a profoundly mixed blessing , dreams but exacting an immense psychological toll on those struggling to keep up with the manic pace of change.

And in China :

"The vast majority of patients suffer in silence. There is a remarkable upswing of mental disease particularly anxiety and depression. Outside the big cities, most doctors have never heard of anxiety disorders or OCD or depression so most people are never treated...."

Epilepsy

The damage of repeated seizures



When brain cells fire at the same time

For years doctors believed seizures to be benign, at worst a fall injury may happen if the patient loses balance and falls. New research shows that seizures can damage the brain, each electrical seizure begets more seizures, predisposes to new episodes of seizure. Of significance is the damage to that part of the brain responsible for new memories, the hippocampus. Absence seizures that cause a loss in consciousness are the most worrisome.

Experts estimate that medication controls epilepsy in 2/3rds of patients; surgery helps in 7%, however 25% patients have to live with unmanaged epilepsy.

(Data on Epilepsy points to dangers of repeated seizures, Linda Carroll; New York Times Feb 18, 2003)

Seizures are defined as sudden electrical discharges in the brain, which result in an alteration in sensation, behavior or consciousness. Epilepsy means recurrent seizures. The proper dose is one that controls seizures without causing side effects. The correct medicine is the one that works the best at controlling symptoms with the least side effects.

AZTEC

MAIN
Monotrate • Aztor • Clopilet
Cardivas • Rezult

NEW
Aztor ASP • Rezult M • Ezentia

Heart Disease, Hypertension, Cholesterol & Diabetes

As these words move from the realm of medical textbooks and peer reviewed journals to newspapers and magazines these areas continue to be high growth contributors to Aztec's growth. Several products introduced in the last few years picked up momentum, new therapies were launched and increasing awareness helped propel sales. New guidelines, like the ones for hypertension announced last year and the cholesterol guidance this year, pay particular attention to special groups such as pre hypertensives or high risk patients, and would help grow the market over the long term.

To Arian & Aztec go a remarkable credit: reaching a number 1 slot with cardiologists after several years of concentrated effort.

The honor roll of Aztec's best seller list remains the same as last year: Monotrate (antianginal), Aztor (cholesterol reducing statin), Clopilet (blood thinning anti-platelet agent), the oral anti diabetic Rezult and the congestive heart failure product Cardivas.

The findings of a recent study called CARDS* and recommendation of the American Diabetes Association for use of aspirin in diabetes has prompted the launch of Aztor ASP (atorvastatin with enteric coated aspirin). US FDA recently approved atorvastatin for the prevention of cardiovascular disease- to reduce the risk of infarcts, prevent blockages from forming again, and angina.

Ezentia (cholesterol lowering agent ezetimibe) was introduced, and quickly reached number 1 rank in India. Ezetimibe is expected to be a blockbuster molecule internationally. Ezentia is prescribed with statins for the aggressive reduction of LDL.

After the sucesss we've seen with Rezult, another emerging antidiabetic core brand is Gemer (Glimepride with metformin extended release).

The medication in Cardivas, carvedilol, continues to earn prescriptions as the drug of choice for heart failure. Recent studies have shown the medication to be effective and safe in a broader range of CHF patients than older products like metoprolol and a recent large clinical trial has shown a significantly greater survival benefit with carvedilol. Several papers pointing to other properties that the medication has- antioxidant, anti-inflammatory- have also been published, and this could be a plus point.

*(*CARDS: Collaborative Atorvastatin Diabetes Study)*

New Guidelines for Cholesterol Risk
Moving one level up on risk:

For a section of the populace at high risk last year the guidelines for hypertension were reset at 115/75 instead of the usual 140/80.


The odds favour cholesterol control

This year, it's Cholesterol.

The National Cholesterol Education Progress of the National Institute of Health in the US, reviewed recent study data. They set an alert for patients at high risk. The lower the better. High Cholesterol raises the risk of heart attack with stroke by clogging arteries, reducing blood supply and raising the risk of clotting. Previous guidelines suggested that LDL cholesterol be reduced to 100; the new set of guideline indicates 70. The guidelines define very high risk as heart disease, plus diabetes and blood pressure and smoke or patients who also have metabolic syndrome (obesity, high TGs and low HDL). A sharp cut of 30-40% of LDL in anyone at high risk was also recommended.

(New Conclusions on Cholesterol, New York Times March 9, 2004, NIH Panel endorses more aggressive strategy, The Washington Post, July 13, 2004)

How early is early enough?

The dilemma of childhood hypertension.

Doctors in the US have begun prescribing anti-hypertensives for children as young as 8 years old, saying the benefits outweigh the risks. Over the last decade, both systolic and diastolic (the top and bottom B.P. Nos.) have increased.

The culprit? Increasing number of overweight children. More fast food, colas & sugar.

New guidelines in the journal Pediatrics suggest that checking of hypertension begin as young as 3 years. And that children be advised lifestyle and diet modification.

(Starting Young in Treating High Blood Pressure, New York Times, August 10, 2004)

HER HEART AT RISK:

Doctors say that women have a different type of heart disease - a different set of signs than the one that commonly strikes men. Heart disease, statistics say, claim the lives of more women than men.

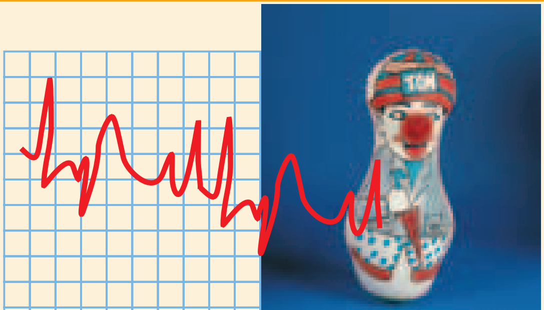
Instead of one lumpy main blockage; arteries in women go into spasm and there are smaller build-ups of plaque like a lining across the entire length of arteries. In women, the smaller arteries are likely to be affected too. The way that plaque is laid out could explain why the symptoms are so different and diagnosed so late; and then result in worse heart attacks.

One of the main source of this understanding is the US Government funded Women's Ichemia Syndrome Evaluation (WISE study) tracking 1000 women across the US women who have chest pain but seem fine on standard tests. Women do respond to many of the drugs used to track heart disease; such as aspirin, statins & NCE inhibitors says one of the key researchers… "we're doing a whole different research, looking at women.

(Heart Disease Differs in Women, The Washington Post August 8, 2004)

Researchers say women's arteries show layered blockage

Heart Disease: An Asian tendency?



An Asian tendency for heart attacks

While deaths from heart attacks declined over 50% since 1960 in industrialized countries, 80% of the global cardiovascular related deaths occur in the lower middle-income countries. In India, in the past 5 decades, rates of coronary disease have risen from 4% to 11% without sustained effort. The coming heart disease epidemic will exact a devastating toll on the region's physical and economic wealth. (Time: May 10, 2003)

WHO estimates that 60% of the world's cardiac patients will be Indian by 2010. In India about 50% of the coronary disease related deaths occur below the age of 70 compared with just 22% in the west.

The susceptibility of South Asians to heart disease can be traced to lifestyle, diet, rapid urbanization and possible underlying genetic causes.

Women reach hospital a little late, the dual stress factor (work place and home) has combined with lifestyle changes to make the situation worse says Dr. Upendra Kaul, international cardiologist at Batra Hospital (quoted in Women Equally Prone to Heart Attack / Bhaskar Roy / TNN / The Times of India)

Metabolic syndrome is the new urban threat: A study by a city endocrinologist says that one in five Mumbai citizens will be a diabetic in less than 10 years. It also talks of a metabolic syndrome, a medical condition with diabetes, heart disease, lipids with obesity. The neo rich are the most vulnerable. 'I teach at a government hospital like JJ and at a high end one like Lilavati, and the incidence of diabetes in both is going up, not down. (Metabolic syndrome is the new urban threat / Radha Rajadnyaksha / Times of India)

"Almost everyone with Type 2 diabetes should be on a statin" says the lead author of new guidelines from the American College of Physicians. As important as controlling blood sugar is watching for development of heart disease. Up to 80% of diabetes patients develop heart problems. Statins can offer a preventive measure.

(Treatment: Statins and Diabetes: New advice, New York Times / Vital Signs / April 20, 2004)

A second front in healing the heart

MAIN

Glucored • Repace • Repace H
Angizem • Korandil • Pioglit

NEW

Glucored Forte SR • Lotensyl AT
Repalol • Rozavel

Our quick march to No. 1 rank with cardiologists validates our starting of a second parallel division in cardiology and diabetology, two years ago. This has enabled focus on older products like Angizem, Glucored & the introduction of new products like Rozavel (rosuvastatin) very quickly after international launch, alongwith development of products like patient friendly combination antihyptertensives.

Rozavel (Rosuvastatin) one of the latest international products in its class was introduced and is expected to reach major brand status for the division. In a study in the UK, it was found that a vast majority of high risk patients, those with congestive heart disease, did not reach required cholesterol levels with medication and more than half were exposed to the risk of further cardiovascular events. Another study indicated that many patients never get beyond the starting dose of their cholesterol lowering medication statin, which means effectively they were being under treated. (The Performance for Life study)

ARIAN

Several international papers supported the use of Rosuvastatin over the other statins in lowering "the bad cholesterol" LDL significantly, and in improving a parameter called the plasma lipid ratios. Plasma lipid ratios have been shown to be indicative of the development of coronary artery disease (CAD). One such trial called the STELLAR* trial, showed that Rosuvastatin showed a reduction in non-HDL: HDL ratios of 46% to 55%, the highest reduction amongst all the molecules studied.

*(*STELLAR: Comparision of the efficacy and safety of Rosuvastatin, Vs Atorvastatin, Simvastatin and Pravastatin across doses trials)*

Heart disease or rush hour disease?

On the hypertension front, the strong data from the recent clinical trials like LIFE alongwith the latest guidelines on hypertension management is rapidly increasing the usage of Repace (losartan) making it one of the fastest growing brands for the division. The combination antihypertensives launched, Repolol (losartan + atenolol); Lotensyl AT (lercanidipine + atenolol) are in line with the international trend of combining products across 2 different classes in order to offer the benefit of both and smoother blood pressure control. These combination products seem to offer an advantage in studies in special hypertensive patient populations such as elderly hypertensives , patients with COPD and asthma or unstable angina, patients with heart failure or enlarged hearts in addition to a compliance advantage.

The antidiabetic portfolio at Arian was also strengthened. Glucored continued to hold on to its rank as the largest antidiabetic combination brand along with novel insulin sensitizers that earned good acceptance, Pioglit(pioglitazone) & Pioglit MF (pioglitazone +metformin)

SPECTRA

A helping hand in women's healthcare

MAIN
Susten • Mifeprin • Anofer
Epival • Dazit

NEW
Susten gel • Tacrimus

Spectra continued to move from strength to strength with gynecologists, rank now stands at 7th from 35th rank in 1999, when we first began with this segment.

Gynecologists prescribe essentially 2 kinds of products - core gynec products and peripheral products like nutritional products and vitamins. It is the core segment with chronic and serious products that Spectra addresses and in this segment, it enjoys high confidence.

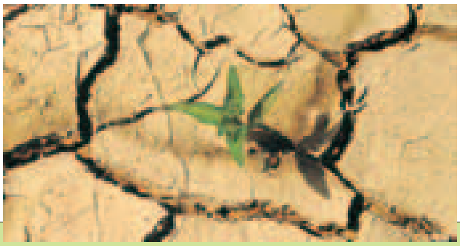
In the core segment, Spectra offers Susten (Natural micronised progesterone) for pregnancy maintenance,Cabgolin (Cabergoline) for hyperprolactinemia, Trapic (Tanexamic acid and combinations) for reducing blood loss. These products have quickly emerged as trusted brands with gynecologists.

At the close of the year, Derma, the other speciality that Spectra addresses, was hived off into a new division Ortus.

Susten, one of the largest products for the division, found increased support with the launch of a gel formulation. Susten gel is used in the treatment of secondary amenorrhea during reproductive years (stopping of periods) as also in infertility treatments.

Tacrimus, now shifted to the derma division, was one of the important products introduced, to strengthen the basket of specific products like Ezoma (eczema), Mufect (skin infections), Acneril (acne). Tacrolimus topical is used for the treatment of eczema in patients who do not respond to other medications.

A precursor to brittle bones?



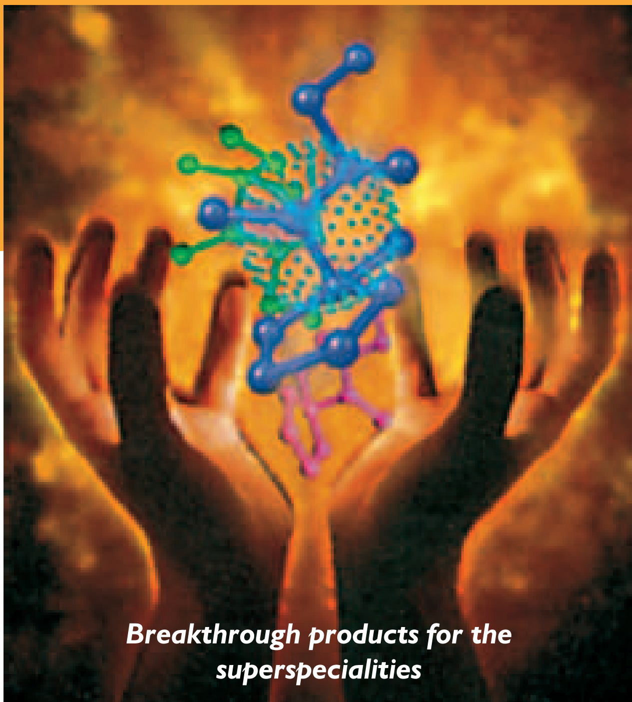
Irregular Periods a Warning Sign for Later Osteoporosis?

Irregular menstrual periods in young women may be a warning sign of a hormonal shortage that could lead to osteoporosis, according to a preliminary study by researchers at the NIH. This study was done in women with a condition known as premature ovarian failure, where the ovaries stop producing eggs and reproductive hormones well in advance of natural menopause.

The diagnosis of premature ovarian failure is problematic, the researchers said, as 3 percent of young women will experience amenorrhea in a given year, most of them do not go on to develop premature ovarian failure. Yet by the time they receive a diagnosis, many women with premature ovarian failure experience bone loss serious enough to possibly place them at risk for later bone fractures.

In an earlier study of women with premature ovarian failure, the research team found that 67 percent of the women had already developed osteopenia the low bone density that precedes osteoporosis.

http://www.nih.gov/news/pr/may2002/nichd-29.htm



MAIN
Letroz • Lupride • Oxiplat
GMH • Caberlin

NEW
Pilomax • Imalek
Gliotem • Zobone

INCA

A year of good growth and challenges for Inca, a year of making inroads into anticancer and fertility with new products and promotional tools. At the close of the year, recognizing the immense potential that anticancers offer, these products were separated out with the Sun Oncology division.

Lupride Depot is the key growth driver for Inca. Lupride depot is the first India made GnRHa* one-month depot preparation of the peptide lupreotide, and has been finding acceptance in the treatment of ailments like endometriosis, fibroids as well as fertility treatments.

Lupride Depot is one of the key medications in the management of fibroids. Fibroids are non-cancerous tumors in the wall of uterus. It is estimated that 3 of 4 women have fibroids and most of the time they are non harmful. Patients with fibroids show variety of problems like heavy bleeding, painful periods etc, and these can cause infertility if they distort or block fallopian tunes . Growth of fibroids is dependant on estrogen levels. Lupride depot reduces estrogen levels thus shrinking the size of fibroids, and is used before fibroid surgery to reduce size and facilitate surgery with lower blood loss and a quicker operation.

Another important use for Lupride Depot is in the treatment of prostate cancer. Surgical removal of testes has for years been the mainstay in prostate cancer. However, this surgical procedure has a profound psychological impact. Monthly administration of Lupride Depot cuts down the need for surgery.

Caberlin (Cabergoline) which we launched last year was yet another product launched for the first time in India. Caberlin is used in the management of increased prolactin levels, one of the underlying causes of irregular periods, galactorrhea (production of milk without childbirth) and infertility. For years Bromocriptine was the sole drug for this use, which although effective, is associated with troublesome side effects that reduce patient compliance.

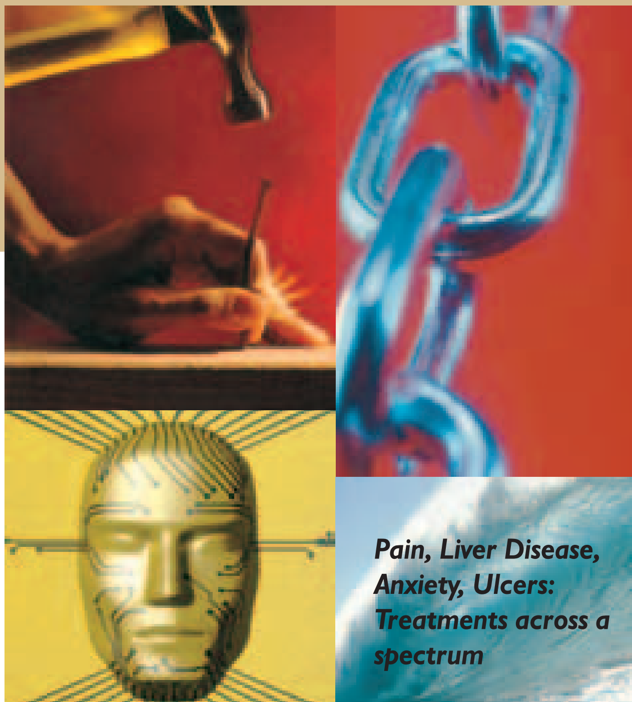
High purity, minute doses are a common feature across Inca's list of diseases

Among the new products Inca introduced was Gliotem (temozolamide), a product used for the treatment of brain tumors (gliomas). Gliomas are tumors of glial cells present in the brain stem, that part of the brain connected to the spinal cord. Gliotem is one of the latest products internationally for this kind of cancer. Glioma patients have limited survival with highly compromised quality of life. Earlier, even offering quality survival to these patients was difficult, but with introduction of Gliotem, this is now a reality. Gliotem helps not only increase survival but also improves the quality of life.

Zobone , zoledronic acid, is the latest biophosphonate to treat skeletal complications due to bone metastasis associated with various cancers. Zobone works by preventing the bone resorption step in bone formation, since new bone formation continues unabated, bone density increases. The most common cancers metastasizing to bone are breast cancer, multiple myeloma and prostate cancer. Zobone offers supportive therapy to prevent or reduce skeletal related complications.

**GnRHa - Gonadotrophin releasing hormone analogue*

SUN



MAIN
Pantocid • Octride
Mesacol • Alzolam

NEW
Neucobal plus • Etoshine
Alcoliv • Pantocid D

Sun made inroads in the gastroenterology/acute pain management areas with an addition in the Neucobal range, Etoshine, the latest treatment for acute pain management, and a product that addresses alcohol addiction.

Gastroenterology continues to be the driver of this division's business- a complete basket of products, customer relation building exercises, disease awareness programs and knowledge enhancement programs have helped Sun create a leading slot in Gastroenterology. The company is now rated no 2 with gastroentrologists dislodging a stalwart in this area.

Pantocid, the peptic ulcer treatment which is also the largest selling product for the company across all divisions, benefited with the launch of Pantocid D, a combination with the antiemetic domperidone in plain and SR forms. Pantocid, along with Octride, a peptide used in emergency cases of upper gut bleeding continue to be star products for the division.

Stress and modern living mean that the sales for the antianxiety agent Alzolam continues to grow by good numbers. Neucobal, a medication used in various neuronal and debilitative ailments has grown quickly to sales of over Rs 50mill.

Add-ons of this medication were launched, Neucobal Plus and Injection, offering ease of administration in critical cases, and for patients who cannot take the medicine by mouth.

Alcohol addiction is an area we had addressed earlier with the launch last year of Acamprol, in the Synergy division. Sun created another first this year with the launch of Alcoliv (metadoxine) a specific and scientific treatment for chronic alcoholism/alcoholic liver disease. Alcoliv, a multidimensional liver protective, helps the liver to function more effectively and prevents further alcohol related damage to liver cells. Alcoliv is effective in alcohol withdrawal syndrome too.

Acute and chronic pain continue to be an important part of the Sun Division. This year, Etoshine (etoricoxib), the latest cox 2 inhibitor, was launched particularly for use in arthritis, low back pain and acute pain, and has quickly become the second largest brand in this market.

Activities like the distribution of patient awareness booklets , exercise pads for low back pain, scientific communication, and conference participation were some of the means Sun Division used to strengthen its market position.

Stress: The common thread in all our lives

O R T U S

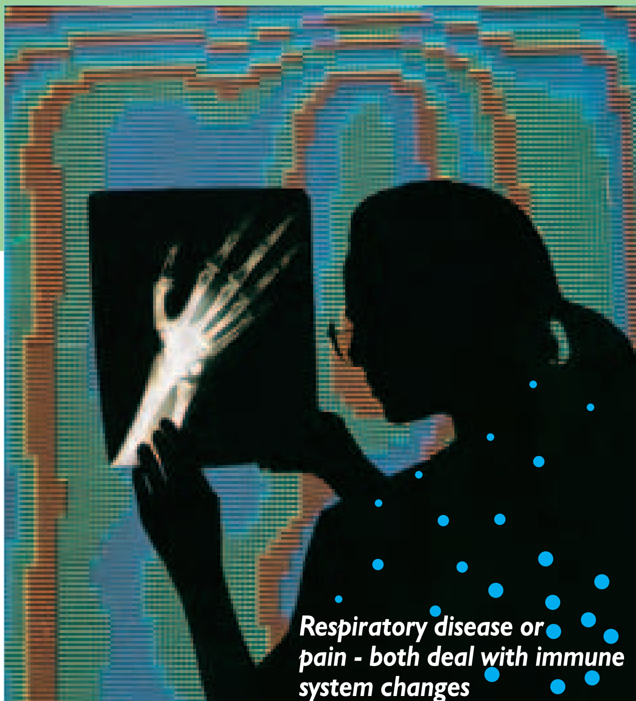
A new division, Ortus,began operations in April this year. The term Ortus is inspired by the latin word for " the rising ".

Ortus has a predominantly urban focus with 2 major specialties addressed, Dermatologists and Rheumatologists.

Ortus's basket of brands addresses chronic skin conditions like acne, psoriasis, dermatitis, and frequently prescribed topical antibiotics and antifungals.

Prescription flow has started, and this division will work to eventually attain a top ranking with its speciality customers.

SOLARES



MAIN
Zofer • Coldact • Gatilox
Rofact • Sompraz

NEW
Zofer MD • Rofact MR • Verizet D
Ezact • Depopred • Ibsinorm

The division caters mainly to ENTs, Orthopedicians & Gastroenterologists along with Neurologists, who are specifically covered to consolidate share for allied therapy (PPI, NSAID, Antiemetic). Zofer MD, the country's first mouth dissolving ondansetron formulation was launched to a brisk uptake, and has dislodged the earlier market leader with thrice its growth rate.

Aquamet, the nasal spray mometasone formulation that we'd launched last year, has reached the top slot with ENT specialists as per CMARC. The advantages of the formulation: quick control of nasal symptoms, lack of rebound congestion, efficacy in patients not adequately controlled with antihistamines.

Gatilox and Deslor have earned strong support from ENT & chest specialists, to reach the top rank with these key prescribers of the molecule.

Among key products brought to market was the latest cox 2, Ezact, this selective NSAID offers us an opportunity to consolidate our stake in the Rs. 9000 mill NSAID market. Ezact was one of the first to reach market amongst competing brands.

Depopred, one of only 2 brands available in the country, offers an alternative to Orthopedicians to treat patients chronic pain-those with osteoarthritis & rheumatoid arthritis.

Customer contact programs on irritable bowel syndrome (IBS) & allergic rhinitis were also organized all over the country. International guidelines on Asthma (GINA) & COPD (GOLD) were distributed to the medical fraternity.

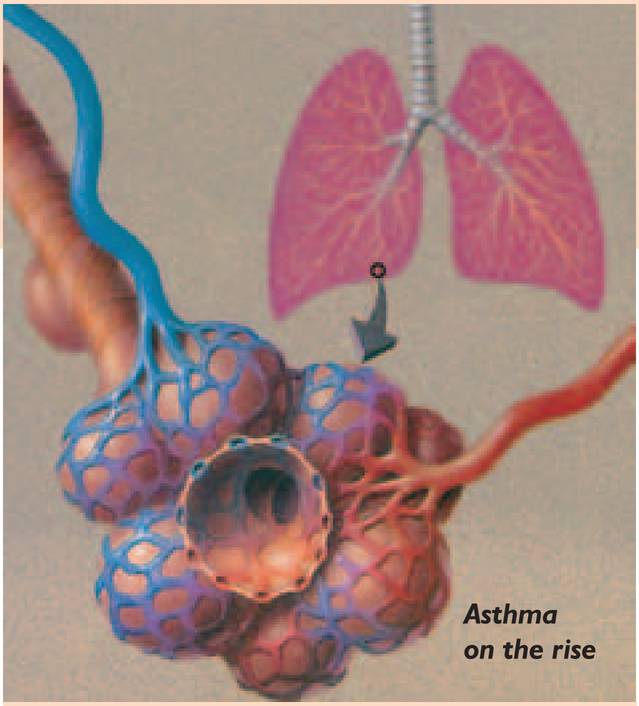
"Always-on" stress: more damaging than imagined

Continuous stress may alter brain cells, Scientists say

When we experience a stressful situation, our stress system activates a range of biological mechanisms that increase energy to help us cope, But perpetual or intense stress may harm the brain and its function. In animals subjected to excess stress, parts of the nerve cells called dendrites withered and the replacement of new cells in the hippocampus, a part of the brain associated with memory slowed down.

The preliminary examination of patients with Cushings Syndrome also indicates that severe stress harms the hippocampus and memory. These patients produce massive amounts of the stress hormone cortisol. Research also shows relationships between exceptional stress and ailments like post traumatic stress disorder.

(Brain Briefings, Nov-Dec 2003, Society for Neuroscience)



RADIANT

MAIN
Combitide • Budez
Odphyllin • Fomtide

NEW
Tiotrop • Nezaflo
Montek • Montek Plus

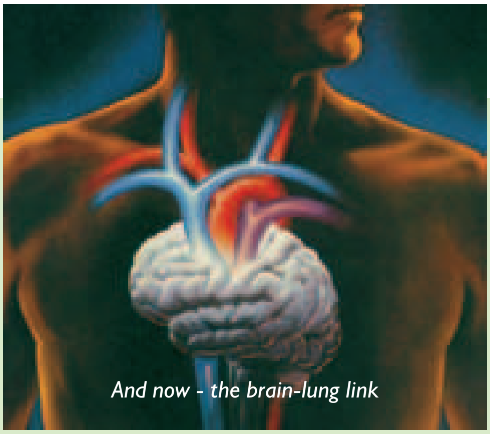
In order to make an impact with the respiratory segment, specially the treatment of asthma, the Radiant division was launched last year. The division has earned a very good franchise with chest physicians in this short period, and is already ranked 4th.

The division worked to expand the respiratory market, especially Asthma, by patient awareness and training for the medical profession to identify & treat respiratory disorders accurately. The field force regularly conducts free asthma and allergy check-up camps, conducts seminars and video shows that educates about asthma related queries.

Radiant was amongst the first to start a series of CME workshops for post graduate medical students in respiratory disease where eminent speakers educate and share their experience on asthma-related topics. Workshop related to spirometry, lung function tests, device demonstration are also undertaken during the workshop.

Tiotrop, one of the latest drugs for COPD (Chronic Obstructive Pulmonary Disorder) was launched by Radiant and almost 1000 new patients per month are taking this drug.

Nezaflo, fluticasone nasal spray, has been well accepted by the chest segment. In a short 10 month span it has topped the number of prescriptions among fluticasone nasal spray brands, some of which have been marketed for over 3 yrs.


And now - the brain-lung link

Stress can choke asthmatics

People with near fatal asthma attacks are more likely to have food allergies and report feeling stressed before the attack. People with near fatal attacks were more likely to report stress as an asthma trigger as well as high exposure to cigarette smoke and pets.

"those in the near fatal attack group were more apt to have reported a food allergy or have been to a restaurant or a party."

(The Economic Times, Reuters story, June 16, 2003)

MILMET

MAIN
Viscomet • Timolet • Toba
Ketlur • Latoprost • I-Site

NEW
Latocom OD • Brimosun P • Eyemist
Gatilox ED • Cyclomune

Milmet continued to build market share with ophthalmologists with high service and new products. Milmet's products now span the entire ophthalmic basket, with products for the treatment of glaucoma, dry eye, allergy, infections, as also viscoelastics, ophthalmic nutraceuticals, cycloplegics, and anesthetics.

Antiglaucoma and dry eye management, are very large and high growth chronic segments and an important part of Milmets' business.

In view of the tremendous potential in ophthalmology a new division called Avesta was launched early in April this year.

Glaucoma treatment is the division's forte, with the brand Timolet amongst the largest brands in this area, and the introduction last year of Latoprost, one of the latest advances in glaucoma care.Timolol GFS, a once a day drug delivery system offers convenience and compliance advantage which is an important plus for eye drops that require repeat instillation. On long term use, it was seen that preservatives that are used in eyedrops often cause irritation. This was the rationale behind the launch of Brimosun P, a preservative free antiglaucoma product.

Patient awareness camps and the distribution of patient information on glaucoma earned Milmet goodwill in the market.

Dry eyes are a frequent complaint with most of us. While earlier it was believed that the causes were related to a reduction in the tear layer in the eyes, it is now believed that the real culprits are eyestrain due to computer overuse, hours of television watching and extended hours spent in an air conditioned environment. Preservative free Eyemist is an important product launched for the treatment of dry eyes. Duodrop and Cyclomune are two more products making up the range. Cyclomune , a product introduced for the first time in India, is a specific treatment for serious dry eyes which can be sight threatening, and it treats this ailment at its root. Cyclomune has been termed a new advance in dry eye treatment.

I-site, a specially formulated antioxidant combination for use in age related degenerative eye disease, is quickly emerging as one of Milmet's key brands. With its comprehensive combination of nutrients like L-glutathione, Lutein, Vit C and E, betacarotene, I-stite offers comprehensive support in treatment of diabetic retinopathy and age related macular disorder.

Tender eye care with preservative free eye drops

Glaucoma is an eye disease in which the normal fluid pressure inside the eyes slowly rises, leading to vision loss--or even blindness. Open-angle glaucoma is the most common form of the disease. At the front of the eye, there is a small space called the anterior chamber. Clear fluid flows in and out of the chamber to bathe and nourish nearby tissues. In glaucoma, for still unknown reasons, the fluid drains too slowly out of the eye. As the fluid builds up, the pressure inside the eye rises. Unless this pressure is controlled, it may cause damage to the optic nerve and other parts of the eye and loss of vision.

New Products

DIVISION / PRODUCT	THERAPY AREA / USE
SUN	
Alzolam Plus *(Alprazolam, Sertaline)*	Mixed anxiety-depression
Pantocid D *(Pantoprazole, Domperidone)*	Peptic disorders
Neucobal OD *(Mecobalamine OD)*	Nerve disorders
Alcoliv *(Metadoxine)*	Liver ailments, alchohol deaddiction
Etoshine *(Etoricoxib)*	Pain mgmt
SPECTRA	
Letoval *(Letrozole)*	Cancer
Cabgolin *(Cabergoline)*	Prolactin producing tumours, hyperprolactinemia
Susten gel 8% *(Progesterone)*	Hormone related symptoms
Tacrimus *(Tacrolimus)*	Eczema
SYMBIOSIS	
Paxidep *(Paroxetine)*	Antidepressant
Cobamet OD *(Mecobalamine OD)*	Nerve Disorders
Ivepred *(Methyl Prednisolone Sodium Succinate)*	Serious Neurological Ailments
Cobamet Inj *(Mecobalamine Injection)*	Nerve Disorders
SYNERGY	
Arpizol *(Aripiprazole)*	Antipsychotic
Oleanz inj *(Olanzapine Injectable)*	Antipsychotic
Lonazep MD *(Clonazepam Meltabs)*	Antiepileptic
Dicorate ER *(Divalproex Sodium ER)*	Antiepileptic
RADIANT	
Fomtide *(Formeterol + Budesonide)*	Asthma, COPD
Nezaflo *(Fluticasone Nasal Spray)*	Allergic Rhinitis
Montek *(Montelukast)*	Asthma, COPD
Montek plus *(Montelukast Bambuterol)*	Asthma, COPD
Tiotrop *(Tiotropium)*	Asthma, COPD
RTF	
Rolsical Plus *(Calcitriol, Calcium, Zinc)*	Osteoporosis, similar conditions
Oncotrex *(Methotrexate)*	Arthritis
ARIAN	
Glucored Forte *(Glibenclamide, Metformin SR)*	Oral antidiabetic
Urotel X *(Tolterodine Tartarate)*	Overactive Bladder Syndrome
Lotensyl AT *(Lercanidipine , Atenolol)*	Antihypertensive
Repolol *(Losartan, Atenolol)*	Antihypertensive
Rosavel *(Rosuvastatin)*	Cholesterol Lowering
AZTEC	
Aztor ASP *(Atorvastatin, Enteric Coated Aspirin)*	Cholesterol lowering
Rezult M *(Rosiglitazone, Metformin)*	Oral antidiabetic
Ezentia *(Ezetimibe)*	Cholesterol lowering
MILMET	
Latocom OD *(Latanoprost, Timolol)*	Open Angle Glaucoma
Brimosun P *(Brimonidine SOC)*	Open Angle Glaucoma
Eyemist *(HPMC)*	Lubricating Eye Drops
Gatilox ED *(gatifloxacin)*	Eye Infections
Cyclomune *(Cyclosporine Eye Drops)*	Chronic Dry Eye
SOLARES	
Ibsinorm *(Tegaserod)*	Irritable Bowel Syndome
Rofact MR *(Rofecoxib + Tizanidine)*	Pain mgmt
Zofer MD *(Ondansetron Mouth Dissolving)*	Nausea
Ezact *(Etoricoxib))*	Pain mgmt
Verizet D *(Levocetirizine, Pseudoephedrine SR)*	Allergy
Depopred *(Methyl Prednisolone Acetate Inj)*	Pain mgmt
INCA	
Pilomax *(Pilocarpine)*	Xerostomia (dry mouth)
Imalek *(Imatinib)*	Chronic Myeloid Leukemia
Gliotem *(Temozolamide)*	Anticancer (Glioma)
Zobone *(Zolendronic Acid)*	Osteoporosis associated with cancer

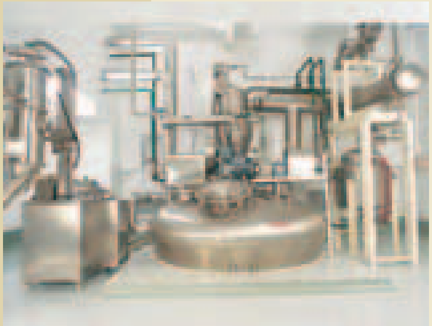
Bulk Drugs

Mesalamine (5 ASA)
Acamprosate Calcium
Alendronate Sodium
Amifostine
Azithromycin
Bupropion HCL
Carbamazepine
Carboplatin
Carvedilol
Cisplatin
Citalopram Hydrobromide
Clomipramine HCl
Clonazepam
Clopidogrel Bisulfate
Desipramine HCl
Desloratidine
Desmopressin Monoacetate
Divalproex Sodium
Dobutamine HCl
Dothiepin Hcl
Erythromycin Estolate
Erythromycin Propionate
Erythromycin Stearate
Ery. Ethyl Succinate
Esomeprazole Magnesium
Flurbiprofen
Flurbiprofen Sodium
Fluticasone Propionate
Fluvoxamine Maleate
Gabapentin
Glimepiride
Isradipine
Lercanidipine HCL
Letrozole
Losartan Potassium
Loteprednol Etabonate

Meloxicam
Mephentermine Base
Mephentermine Sulphate
Metaxalone
Metformin HCl
Methylphenidate HCl
Metoprolol Tartrate Succinate
Metoprolol Tartrate
Mirtazapine
Mitoxantrone HCL
Naltrexone HCL
Octreotide
Olanzapine
Ondansetron HCl
Oxaliplatin
Oxcarbazepine
Oxethazaine
Pamidronate Disodium
Pentoxifylline
Piroxicam Beta-Cyclodextrin
Prednicarbate
Quetiapine Fumarate
Repaglinide
Riluzole Glutamate
Rivastigmine Tartrate
Ropinirole
Rosiglitazone Maleate
Roxithromycin
Sodium Valproate
Tizanidine HCl
Topiramate
Tramadol HCl
Valproic Acid
Venlafaxine HCL
Ziprasidone HCL

Bulks scaled up in 2003 -2004

- Aripiprazole
- Budesonide
- Edaravone
- Eptifibatide
- Etoricoxib
- Gemcitabine
- Imatinib
- Memantine
- Metadoxine
- Modafinil
- Mometasone
- Paroxetine
- Tegaserod
- Tiagabine
- Tiotropium Bromide
- Zolendronic Acid



Metformin manufacturing area, Ahmednagar bulk active plant

Key Highlights

- Net profit Rs 2594# mill on a turnover of Rs 9598 mill
- Market share at 3.11% in March 2004 up from 2.99% in March 2003
- Growth rate is the highest of the top 5 pharma companies
- Number 1 rank in cardiology , a breakthrough.
  Continue to be number 1 with psychiatrists, neurologists.
  Among the top 4 with 8 customer classes.
- One molecule enters clinical trials in Europe.
- International dosage form sales at Rs 609 mill.
- Products launched in the last 3 years account for 28% of domestic formulation sales.
- USFDA approval for the Panoli bulk active and Halol formulation sites; now a total of 3 USFDA approved sites
- Halol site also receives UKMHRA approval
- Two R&D sites with 250,000 sq ft space commissioned: SPARC Tandalja, Baroda , SPARC Mahakali, Mumbai
- New formulation units* at Jammu and Dadra now operational, massive expansion at the Panoli bulk active site
- Caraco posts a turnover in excess of $45 mill for December 2003, projects a 20-25% growth, to file 7 ANDAs in 2004.
- Sun Pharma commences ANDA filings from an Indian site: 5 ANDAs filed till March 2004.

(*in partnership, # before prior period adjustment)

In process analysis, Pharmaceutics Lab, SPARC Tandalja

Directors' Report

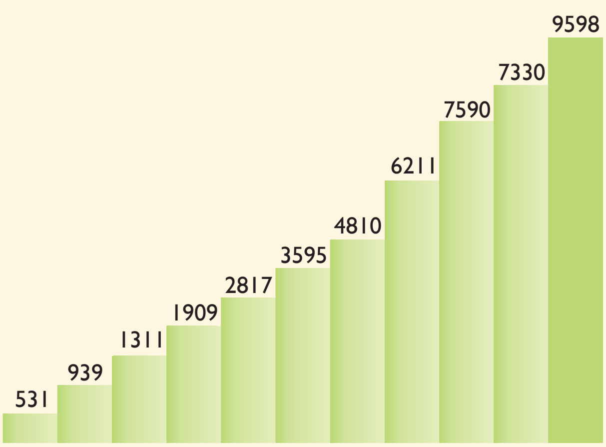
Your Directors take pleasure in presenting the Twelfth Annual Report and Audited Accounts for the year ended 31st March, 2004.

(Rs. Millions)

FINANCIAL RESULTS	**Year ended 31st March, 2004**	Year ended 31st March, 2003
Total Income	**9598**	7330
Profit after tax	**2594#**	2314
Dividend		
Preference Shares	**9**	4
Equity Shares Final	**603**	465
Corporate Dividend tax	**79**	60
Transfer to various Reserves	**1003**	1530
Rate of dividend on equity shares	***130%**	100%
Book value per equity share (Rs. 5 paid up)	**93**	75

*(# before prior period adjustment, * shown at Pre Bonus rate for the purpose of comparison. The Post-Bonus Dividend rate is 65%.)*

Net Profit
Rs. 2594
million



Total Income

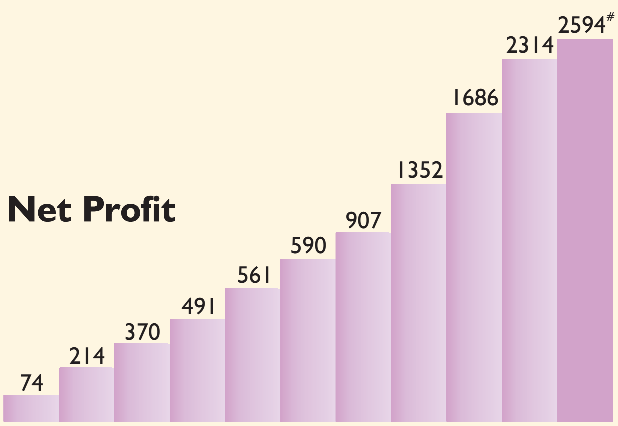
The current year's results include the figures of erstwhile Phlox Pharmaceuticals Limited which has merged with the Company with effect from 1st March,2004

Dividend

An interim preference dividend of 6% p.a. (previous year 6% p.a.) on paid up amount of preference shares and an interim equity dividend at the rate of 65% post bonus (equivalent to 130 % pre bonus-previous year 100% p.a.) for the year ended 31stMarch, 2004 was paid to the shareholders of the Company whose names stood on the register of the members on 13th Decemeber,2004 . Your Directors recommend that the interim dividend on preference and equity shares be treated as final.

Annual General Meeting and its adjournment

As the Shareholders are aware, the Audited Profit and Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at the said date could not be laid before the Shareholders at the Annual General Meeting (AGM) of the Company held on 30th December, 2004 as the impact of the Scheme of Amalgamation/Merger of Phlox Pharmaceuticals Ltd. with the Company w.e.f. 1st March, 2004 could not have been incorporated in the accounts of the Company for the financial year 2003-2004, until the Scheme of Amalgamation/Merger was sanctioned by the Board for Industrial & Financial Reconstruction (BIFR). Accordingly, the said AGM was adjourned sine die for consideration of the audited accounts, the report of the Directors and the Auditors thereon for the year ended 31st March, 2004 and confirmation of payment of interim dividend until after the sanction of the Scheme by the BIFR. Meanwhile due to likely delay n the approval by BIFR, the Company approached the Honorable High Court of Gujarat for Amalgamation/Merger of Phlox Pharmaceuticals Ltd. with the Company under section 391 to 394 of the Companies Act,1956 and obtained the approval of the shareholders to the same at their meetings held on 4th April,2005. The Scheme of Amalgamation/Merger of Phlox Pharmaceuticals Ltd. with the Company has been duly sanctioned by the Honorable High Court of Gujarat at Ahmedabad on 28th July, 2005.



#before prior period adjustment

Bonus Equity Shares

The Company on 8th June, 2004 allotted Equity Shares of Rs.5/- as Bonus Shares to the Equity Shareholders of the Company as on Record Date, 29th May, 2004 in the ratio of 1 (one) Equity Shares of Rs.5 each for every 1 (one) equity share of Rs.5 each held by the equity shareholders.

Closure of Buyback offer of Company's Equity Shares

The Company has closed the Equity Shares Buyback at the end of the working hours on October 6, 2003. Under the Buyback offer, the Company has bought back 8,32,938 equity shares of Rs.5 each in total.

Buyback of the Company's Bonus 6% Cumulative Redeemable Preference Shares

The Company has bought back 14,02,61,922 number of 6% Cumulative Redeemable Preference Shares of Re.1/- each at a price of Rs. 1.03 per Preference Share, at an aggregate amount of Rs.14,44,69,780 through Tender Offer as authorised by the Board of Directors of Company at their meeting held on 21st April, 2004.

Voluntary Delisting of Company's Equity Shares from the Stock Exchanges at Kolkata and Vadodara.

The Company has received the voluntary de-listing approval from the Vadodara Stock Exchange with effect from 30th July, 2004. In case of Calcutta Stock Exchange, Kolkata the Company has complied with all the requirement for the voluntary de-listing of Equity Shares from the said Stock Exchange and as stated to them, our securities are deemed to be de-listed from the Calcutta Stock Exchange., Kolkata. The Company is pursuing the said Stock Exchange for their issuing the de-listing letter to the Company.

Management Discussion and Analysis

Highlights we'd like to begin this report with:

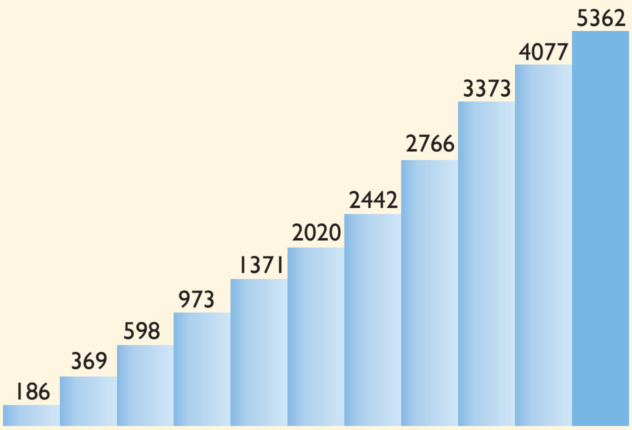
1. We reached number 1 slot in cardiology
2. USFDA approval for our Panoli bulk active and Halol dosage form factories
3. 2 new R&D sites and 2 manufacturing units* were commissioned

(* in partnership)

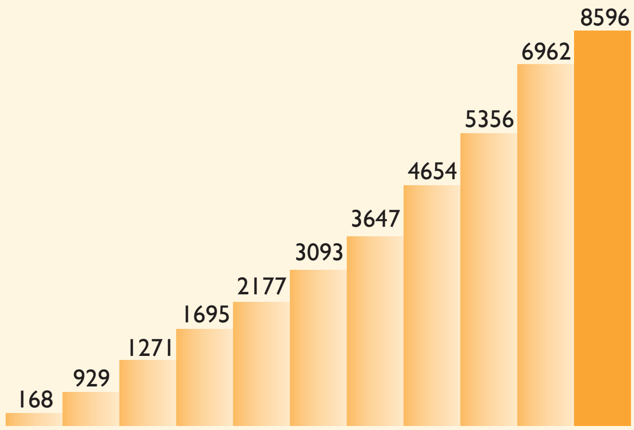
The new R&D centre, SPARC Tandalja

Cautionary Note

This Management discussion and analysis contains forward-looking statements Such statements are based on management's current expectations and are subject to a number of risks and uncertainties which could cause actual results to differ materially from those described in the forward-looking statements.

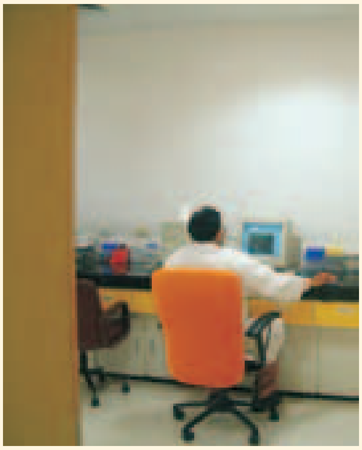


Gross Block



Net Worth

consolidated total income increased to Rs.9995 million



Above: Analytical Lab
Below: One (of ten) process chem labs at SPARC Tandalja

Industry Outlook

The pharma sector showed a 7.3% growth year on year at the end of March 2004, mirroring a strong performance of the economy and a good showing across sectors by companies. The factors we'd highlighted as impacting growth in the sector remain: the emergence of regional/ smaller companies, price based slowdown in the larger segments. As we'd shared earlier, while there is an increase in the competitive interest in speciality therapy areas, and much of it in the same price band, customer relationships offer us a headstart. These relationships are built on early entry into market, aggressive new product introduction, tight operational controls. Also, increasing awareness of lifestyle ailments and the increasing pressure of daily living means that the speciality sectors will continue to grow faster than the rest of the industry. Increasing affluence, diet and lifestyle changes, the pressures of daily living- all these continue to propel speciality segment growth at above industry growth rates.

Some steps have been taken in order to create the appropriate regulatory framework for the 2005 deadline, some lack of clarity remains. A new patent act has been put into place and this year witnessed the first set of EMRs* being granted, however lack of clarity on the treatment of crystal forms, polymorphs saw a product being launched and then withdrawn. Data exclusivity continues to be a contentious issue, and the issue of manufacturing under compulsory license for countries that lack basic infrastructure, persists. The new DPCO** seems to be caught in a legal quagmire, and it is difficult to say when the new price control order would be announced.

The pharma industry, despite being impacted by a host of factors, continues to grow at a clipping pace, invest in research and make respectable inroads into international markets.

Company Performance

On a standalone basis, total income increased to Rs. 9598 million. Domestic formulations accounted for 63% of sales at Rs. 5603 mill. International markets accounted for 24% of sales, export formulations accounted for 6.8% sales.

On a consolidated basis, total income increased to Rs.9995 million, up 9.84%. Domestic market was 63.5% of sales at Rs 6738.5 mill. (Caraco's sales in its home market of the US accounts as export sales). International markets accounted for 36.4% of sales.

Strong customer relationships and a distinct speciality focus continues to be the reason we grow faster than industry, and we are trying to put the same thought process to work in international markets too. We 've also tried to apply this focus in areas that are as diverse as research and generic markets. This focused approach of working has earned us good results in the past.

**Exclusive marketing rights*
***Drug Price Control Order*

Above: USFDA approved bulk manufacturing area: Reactors in Plant 2, Ahmednagar
Below:In the toxicology lab, SPARC Tandalja

3.15% market share, higher than industry GR

(* in partnership)

Domestic market performance:

As per the IMS- ORG Retail Store Audit for March 2004, we closed the year at 5th rank, the 5th successive year at this position. We grew 12.5% vs 7.3% for the sector. Market share in July was at 3.15%, up from 2.99% last year. About 150 brands rank among the top 3 by molecule.

New products introduced this year accounted for less than 1% of domestic formulation sales, those introduced in the last 3 years accounted for 28%. As we've said earlier, speciality prescriptions typically build over time, and are sticky- since a patient would not be quickly shifted from a prescription that he is stable on.

2 new manufacturing sites* Dadra & Jammu

CMARC

We continued to show a good performance in our core speciality areas with a top 3 ranking in those therapy areas that account for over 70% of our current domestic business. Of critical significance was the rank increase in cardiology, where several years of effort have now brought us to a number 1 slot. In gynecology, oncology we continued to make significant inroads with ranks among the top 10 from those in the 30s when we first entered these areas in 1997. Our plan of making 1or 2 key tech based products that can form a hook for the rest of the product range seems to be working well, and several more products in our development pipeline will help us build on this strategy.

Progress on new manufacturing site:

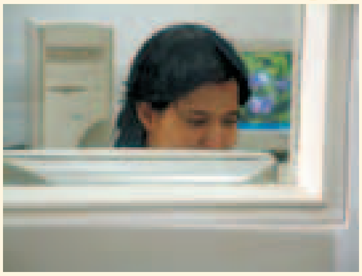
Last year we'd shared that the groundwork had begun for 2 new manufacturing sites* at Jammu and Dadra, essentially to address the domestic market. Both these plants are now operational. These plants were formed in partnership between Sun Pharma and Sun Pharma Key Employees Benefit Trust. During the course of the year, a massive expansion plan at Panoli was begun, which on completion will add 130 KL capacity over 270,000 sq. ft. in 2 phases.

US Markets

The most significant parameter of Indian companies intent for the US markets is the number of DMF filings from Indian companies with the USFDA. This first half the number of Indian filings made was 74, or 30% of all global filings , making the country the largest potential supplier of bulk actives to the US. The USFDA is close to starting a fully equipped office in Delhi, and competition from Indian companies has begun getting mentioned in industry reports and news articles. I had earlier highlighted how the uniquely Indian opportunity, building on strong process chemistry, a good understanding of patents with a keenness to learn, low cost product development, good bulk manufacturing facilities and

No. 1

in Cardiology



Pharmacokinetics labs, SPARC Tandalja

perhaps the most important of all, experience in India and markets like India has offered us a headstart in the US market. During the course of the year, companies built on this advantage, and the reverse process has also begun with US and European companies recognizing the advantage of an Indian presence.

The $16.2 bill market for generics in the US grew about 21% between 1999 and 2001. On account of regulatory measures and patent expiries, the market is expected to grow to $31 bill in 2006, an annual growth rate of 14% (Scrip Magazine, March 2003). This market, already incredibly complex, added a few layers of complexity with the emergence of authorized generics, continuing mergers/acquisition in the generic space and a few unanticipated legal decisions on patent challenges. The generic market is lucrative and rewarding for the well prepared and requires extensive preparation for companies that seek to participate. Indian companies recognize this and are gearing up to address this complexity.

Caraco, our US subsidiary continued on a growth path this year too.

For December 2003, Caraco had sales of $45 mill (up from $22 mill the previous year), a number higher than its guidance of $42 mill. For the first half of 2004, Caraco had sales of $ 28 mill and a loss of $0.7mill, after an R&D charge related to product transfer of $12.6mill. Earlier in 2004, we had increased stake to 63% on the buyout of equity from 3 large shareholders. As has been shared earlier, under the terms of the agreement, for each product transfer Sun Global receives 544,000 shares of preferred stock convertible into shares after 3 years on a 1:1 basis.

Caraco has 14 ANDAs approved and marketed, 4 more filings awaiting approval. 17 products in 33 strengths and 78 pack sizes are being marketed, primarily to large drug wholesalers, buying groups and government agencies. Caraco has shared guidance of 20-25% sales growth for the year, and expects to make 7 ANDA filings in 2004.

Starting this year, Sun Pharma also commenced with filings from an Indian site, with 5 filings at the close of March 2004. A clear selection criteria distinguishes the products selected for Caraco and those for India. Given our conservative attitude to risk, only 1 or 2 of the filings we make would address a para 4 opportunity.

As we take ahead our US plans, I believe this is the time to move on to the next growth orbital, and we continue to seek an opportunity to acquire a generic business or brands in the US. In line with our philosophy on acquisitions, we'd look for a opportunity where a correction can be made and both can benefit from the synergies of growth. I expect to have more to share on this aspect, going ahead.

Above: USFDA approved bulk active plant, Ahmednagar
Below: X ray diffractometer, analytical lab, SPARC Tandalja

International Markets

Dosage forms

With sales of Rs. 609 mill, we continue to be excited by the international branded product markets (ex-US). In markets across South East Asia, Africa, Russia & China we have a priority list of 30 brands; a 249 person strong field force; and marketing activities and control systems that are similar to those we have in India. The slow & steady approach to brand building with a doctors list, regular call coverage and innovative branding programs in competitive markets, continues to help us earn prescriptions. This year operations in three important markets: Brazil, Mexico & Bangladesh moved to the next phase with products cleared. In Bangladesh, a market where we have been present for a decade now, we move to the next phase with a plant just commissioned which will allow for a more active participation. I should have more to share about these markets going ahead.

Bulk Actives

In recognition of the fact that the bulk active market is that of falling margins, at Sun we've tried to focus on the higher end of the business with speciality bulk actives. This year we added capacity in dedicated manufacturing sites that concentrate on higher end speciality bulk actives such as steroids, oncologicals, sex hormones, and peptides.

Our Panoli factory received USFDA approval; it already holds European and Australian approvals. With Ahmednagar, which has held USFDA approval for over two years now, this facility gives us the flexibility to manage production schedules across 2 sites and handle different products and batch sizes.

In all, across sites, we have 12 DMFs and COS approved and 15 more filings awaiting approvals.

As we continue with our focus on regulated markets, seek customers that offer a tie in opportunity for the long term and sell tonnage that offers higher value, we expect the bulk active part of our business to continue adding robust turnover.

At the close of the year, an entry was also made in the higher end of the 2nd and 3rd generation cephalosporin business with the proposed acquisition of Phlox Pharma. Phlox offers us a low cost entry opportunity in the regulatory market space for these products with a minimal capex; and I expect to share details of our fillings in due course.

R&D
spend of
Rs.1077
million

321
patents filed

Research and Development

Early this year, i.e 2004; one NCE (or new molecule) entered human trials in Europe; our expectation is that 2 NDDS (or novel drug delivery systems) will enter human trials over the next few months. This is perhaps the best validation of the energy and investments we have been making in R&D; and a reassurance that we are moving in the right direction. Cumulative investment in R&D now exceed Rs.2934 mill. of which we spent Rs1077 mill. this year.

We began using 2 more R&D sites, this move offers 250,000 sq. ft of research floor area, and we expect to take the scientific staff to over 500 in the next 2 years . Currently of our scientist staff of over 400 people, about 80 are directly involved in innovative projects both in drug discovery and platform technology. In the domestic market; a number of interesting new products developed at SPARC were launched; 21 were combinations / delivery systems based / technically complex products (as always, we do not include line extensions unless there is a delivery technique used). 16 bulk actives were scaled up based on processes developed in house (list attached).

As I've said earlier, in the short term projects we've had considerable success with reverse engineered projects both in dosage form and bulk active process development. This is the first year I have progress to report with the medium / long terms project with developments on the NCE & NDDS front to share.

As we continue to ramp up revenue research spend from 4.09% to at an estimated 5.71% for Sun standalone the investments, time frames and risks associated with such projects would also increase.

The NDDS projects we are pursuing in DPIs, CR/SR, biodegradable membranes and targeted delivery systems continue on track.

On both the NCE & NDDS projects, I am aware that the information we are sharing may be viewed as inadequate; but till the requisite intellectual property is in place and we reach a greater stage of confidence, we'd seek your patient understanding. The pace of filing patents to protect intellectual property continues, 321 patents filed, 33 granted.

Our emphasis continues to be work that is international in scale and scope and we are willing to invest sums that are larger than usual if we see a need / requirement even if this affects the profit in the short term. We believe we need to make these investments in research and in international markets in order to take Sun Pharma to the next phase of its growth.

Above: The entrance, SPARC Tandalja
Below: A view of the product development area, SPARC Mahakali

Above: Tablet coating/drying machine at the Dadra plant
Below: Carboplatin purification area at the Ahmednagar bulk active plant

CRISIL reaffirms P1+ rating, their highest

Human Resources

Growth from Team Sun Pharma is the resultant endeavor of a relentless team comprising a workforce of over 4000. As always, Human Resources continues to fuel employee growth and potential through newer training and development initiatives. A facilitating and highly engaging work environment greatly affords internal opportunities to learn and grow. Your company's Human Resources especially maintains its efforts in attracting and retaining the best talent.

Your directors acknowledge the contribution of your company's human capital, and due thanks are in order for Team Sun Pharma.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available at the registered office of your company. As per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees u/s 217(2A) of the said Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Corporate office of the Company.

Additional Information

The additional information pursuant to Section 217(1)(e) of the Companies Act 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in Annexure and forms part of this report.

Corporate Governance

Certificate dated 18th August, 2005 of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, is enclosed.

Consolidated Accounts

In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its subsidiaries is annexed to this Report.

Finance

All the banks in consortium continue to offer their highest rating to your company enabling it to source funds from banks at the finest rate of interest. CRISIL continued to reaffirm their highest rating of "P1+", for your Company's Commercial Paper Program throughout the year.

The Company does not offer any Fixed Deposit schemes.

Directors

Mr. Ashwin Dani was appointed as an additional Director of the Company at the Board meeting held on 28th January, 2004 and subsequently appointed as Director of the Company by the members at their Extra ordinary General Meeting held on 6th May, 2004.

Shri S. Mohanchand Dadha and Shri Sudhir V. Valia retired by rotation and were re-appointed as Directors on 30th December, 2004 when the Twelfth Annual General Meeting of the Company was convened 2001 (which has now got adjourned to 30th September, 2005).

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) That in the preparation of the annual accounts for the financial year ended 31st March, 2004, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) That the Directors have selected appropriate accounting policies and applied them consistently and made judgements and estimates that were 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 and on the profit of the Company for the year under review;

(iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(iv) That the Directors have prepared the annual accounts for the financial year ended 31st March, 2004 on a 'going concern' basis.

Auditors

At the Twelfth Annual General Meeting held on 30th December,2004 , the shareholders have already appointed Messrs. Deloitte Haskins Chartered Accountants, Mumbai as your Company's auditors, in place of Messrs. Price Waterhouse, Chartered Accountants, Mumbai.

Acknowledgements

Your Directors wish to thank all stakeholders and business partners-your Company's bankers, financial institutions, medical profession and business associates for their continued support and valuable co-operation. The Directors also wish to express their gratitude to investors for the faith that they continue to repose in the Company.

For and on behalf of the Board of Directors

Mumbai,
18th August, 2005

DILIP S. SHANGHVI
CHAIRMAN & MANAGING DIRECTOR

SUN PHARMACEUTICAL INDUSTRIES LTD.

FINANCIAL HIGHLIGHTS

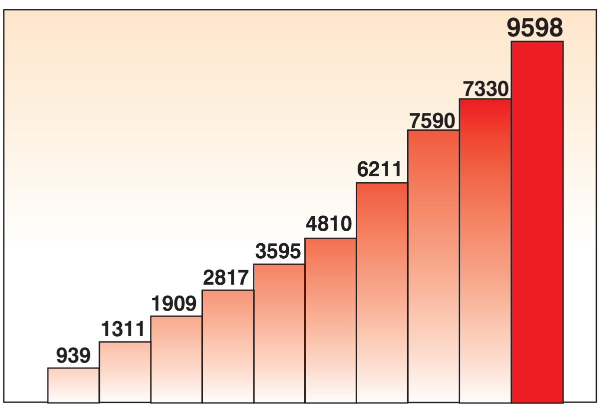
(Rs in Million)

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	**2003-04**
Total Income	939	1311	1909	2817	3595	4810	6211	7590	7330	**9598**
Net Profit	214	370	491	561	590	907	1352	1686	2314	**2594#**
Gross Block	369	598	973	1371	2020	2442	2766	3373	4077	**5362**
Net Worth	929	1271	1695	2177	3093	3647	4654	5356	6962	**8596**
R&D Expenses										
Capital	24	26	45	35	45	102	71	197	363	**598**
Revenue	10	18	25	77	53	99	179	139	294	**479**
% of Turnover	3.92	3.85	4.13	4.21	2.75	4.20	4.09	4.50	9.14	**12.83**
Exports	83	275	309	507	894	1137	1181	1396	1470	**2177**
Debt Equity ratio	0.16	0.14	0.11	0.18	0.21	0.13	0.08	0.02	0.02	**0.36**
Current ratio	5.19	4.62	4.32	4.21	4.04	4.00	3.78	3.91	3.66	**2.57**

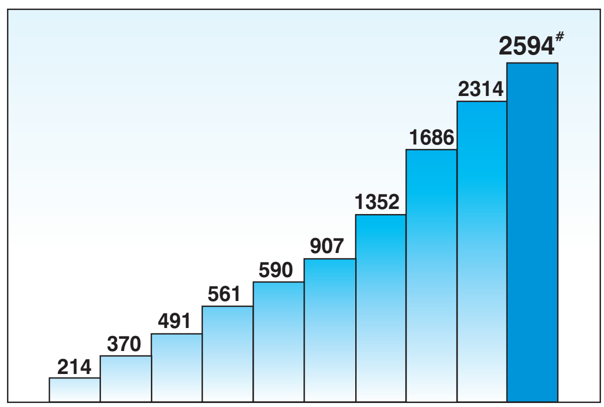
#before prior period adjustment

(Rs in Million)

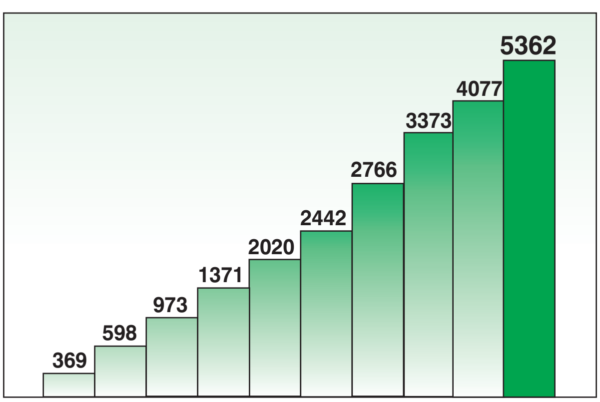
Total Income



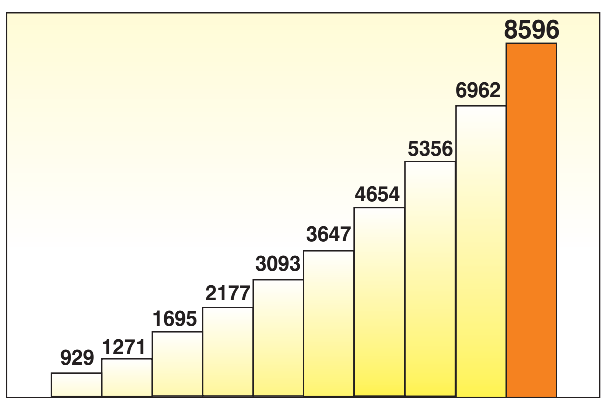
Net Profit



Gross Block



Net Worth



SUN
PHARMACEUTICAL
INDUSTRIES LTD.

Acme Plaza, Andheri Kurla Road, Andheri East, Mumbai 400 059. Fax: 022-28212010 Email: corpcomm@sunpharma.com

AUDITORS' REPORT TO THE MEMBERS OF SUN PHARMACEUTICAL INDUSTRIES LIMITED

1. We have audited the attached Balance Sheet of Sun Pharmaceutical Industries Limited (the Company) as at March 31, 2004, and also the Profit and Loss Account and the Cash flow statement for the year ended on that date annexed thereto. 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.
2. 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.
3. The financial statements of the Company for the year ended March 31, 2003 were audited by other auditors whose report dated May 3, 2003 expressed an unqualified opinion on those financial statements. The financial statements for the year ended March 31, 2004 also were audited by other auditors whose report dated April 21, 2004 expressed an unqualified opinion on those financial statements. However, the audited financial statements for the year ended March 31, 2004 were subject to revision for giving effect of the merger of Phlox Pharmaceuticals Limited (Phlox) with the Company with effect from March 1, 2004 and were accordingly, not adopted by the Members of the Company at the Annual General Meeting of the Members of the Company held on December 30, 2004. The Company has since received the sanction from the Honourable High Court of Gujarat in respect of the said merger of Phlox with the Company, effective from March 1, 2004. Balances as on April 1, 2003 have been considered as opening balances for the purpose of these financial statements. The transactions of the Company for the year have been further adjusted to give effect to the said merger of Phlox with the Company effective March 1, 2004 as sanctioned by the Honourable High Court of Gujarat.
4. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
5. 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 and 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 and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
   (v) on the basis of written representations received from directors as on March 31, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 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 give the information required by the Companies Act, 1956, in the manner so required and give 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 March 31, 2004;
      (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 **DELOITTE HASKINS & SELLS**
Chartered Accountants

K. A. Katki
Partner
Membership No. 038568

Mumbai, August 18, 2005

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph 4 of our report of even date
Sun Pharmaceutical Industries Limited

1. In our opinion and according to the information and explanations given to us, the nature of the Company's business / activities during year is such that clauses xiii, xviii and xx of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company.

2. In respect of its fixed assets:

   (i) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (ii) As explained to us, some of the fixed assets of the Company have been physically verified during the year by the management in accordance with a phased programme of verification designed to cover all assets over a period three years. The discrepancies noticed on such verification were not material and have been adequately dealt with in the books of accounts.

   (iii) Although some of the fixed assets have been disposed off during the year, in our opinion and according to the information and explanations given to us, the ability of the company to continue as a going concern is not affected.

3. In respect of its inventories:

   (i) As explained to us, inventories (excluding stocks with third parties) were physically verified by the management at reasonable intervals during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them.

   (ii) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

   (iii) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

4. In respect of loans, secured or unsecured, granted by the Company to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956, according to the information and explanations given to us:

   (i) The Company has granted unsecured loans to two parties. At the year end the outstanding balances of such loans granted aggregated to Rs. 58.30 lakhs from one party and the maximum amounts involved during the year was Rs. 10664.80 lakhs from two parties.

   (ii) The rate of interest and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.

   (iii) The receipt and payment of principal amounts and interest have during the year been regular.

   (iv) In respect of the aforesaid loans, there are no overdue amounts of over Rs. 1 Lakh remaining outstanding as at the year-end.

   (v) The Company has not taken any loan, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956,

5. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the company and nature of its business with regard to purchase of inventory and fixed assets and for sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.

6. In respect of contracts or arrangements entered in the register maintained in pursuance of section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us:

   (i) The particulars of contract or arrangements referred to in Section 301 that needed to be entered into the register, maintained under the said section have been so entered.

   (ii) Where each such transaction (excluding loans reported under paragraph 4 above) is in excess of Rs. 5 lakhs in respect of any party, the transactions have been made at prices which are *prima facie* reasonable having regard to prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regards to the specialized nature of some of the transactions of the company.

7. In our opinion and according to the information and explanations given to us the Company has not accepted any deposits within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public.

8. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.

9. We have broadly reviewed the books of accounts and records maintained by the Company relating to manufacture of formulation and bulk drug products pursuant to the Order made by the Central Government for maintenance of cost records under section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained; *except for depreciation which is provided plant-wise and not cost centre-wise*. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete.

10. In respect of statutory dues:

    (i) According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and other material statutory dues with the appropriate authorities during the year, except dues in respect of Provident Fund. The arrears of Provident Fund outstanding as at March 31, 2004 for a period of more than six months from the date they became payable, are as follows:

Name of the Statute	Nature of Dues	Amount (in Rs. Lakhs)	Period to which the amount relates	Due Date	Date of Payment
Employees Provident Fund	Provident Fund	0.55	January 2002 to May 2003	Various dates	Settled on June 15, 2004

    (ii) According to the information and explanations given to us, the details of disputed sales tax, income tax, custom duty, wealth tax, service tax, excise duty, and cess, which have not been deposited as at March 31, 2004 on account of any dispute, are referred to in Annexure 'A'.

11. The Company does not have accumulated losses as at March 31, 2004. The Company has not incurred any cash losses during the financial year covered by our audit and the immediately preceding financial year.

12. In our opinion and according to the information and explanation given to us, the Company has not defaulted in the repayment of dues to financial institutions and banks. There was no balance in respect of debentures as on April 1, 2003. However, pursuant to the merger of Phlox with the Company as stated above, effective from March 1, 2004, the balances of Debentures mounting to Rs. 20.8 Million as issued by and appearing in the books of the erstwhile Phlox, and which were redeemable as on August 20, 2003, are outstanding in the books of the Company as on the balance sheet date. We have been informed that subsequent to the balance sheet date, the said dues in respect of the said debentures have been fully settled.

13. In our opinion, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

14. Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares and other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.

15. In our opinion and according to the information and explanation given to us, the terms and conditions of the guarantees given by the Company for loan taken by others from banks and financial institutions, are not prima facie prejudicial to the interests of the Company.

16. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, *prima facie*, applied by the Company during the year for the purposes for which the loans were obtained other than temporary deployment pending application.

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 funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.

18. According to the information and explanations given to us there were no outstanding amounts in respect of debentures issued by the Company. However, pursuant to the merger of Phlox with the Company as stated above effective from March 1, 2004, Debentures issued by the erstwhile Phlox are outstanding as at the year end. According to the information and explanations given to us and on the basis of the records examined by us, securities have been created in respect of such debentures issued by the erstwhile Phlox. We have been informed that subsequent to the balance sheet date, the said dues in respect of the said debentures have been fully settled.

19. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the year.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

K. A. Katki
Partner
Membership No. 038568

Mumbai, August 18, 2005

SUN PHARMACEUTICAL INDUSTRIES LTD.

ANNEXURE 'A' TO AUDITORS' REPORT

Referred to in paragraph 10 (ii) of Annexure to Auditor's Report, a statement on the matters specified in the Companies (Auditor's Report) Order, 2003 of Sun Pharmaceutical Industries Limited for the year ended March 31, 2004.

Name of the statute	Nature of dues	Amount (in Rs. lakhs)	Period to which the amount relates	Forum where the dispute is pending
The Central Excise Act	Differential duty on physician samples	94.02	01/08/1995 to 31/05/2000	Appellate Tribunal, Mumbai
	Modvat credit	4.76	1996-97	CEGAT
	Input credit on capital goods	0.41	1997	Assistant Commissioner of Excise, Ahmednagar
	Discrepancies of inventory	1.39	1997-98	Appellate Tribunal, Mumbai
	Shortages of input	0.88	2000	Commissioner C. Ex. Customs (Appeals) Mumbai
	Demand and penalty on unpaid duty on Spent Solvents etc.	0.34	2000	Commissioner (Appeals)
	Destruction of excisable goods	8.78	September 2001	Central Excise Commissionerate, Daman
	Differential duty on physician samples	29.64	September 01 to December 02	Appellate Tribunal, Mumbai
	Reversal of excise duty on clearance of exempted goods	13.91	2002	Sales Tax Tribunal
	Reversal of excise duty on clearance of exempted goods	6.06	2002	Joint Commissioner (Appeals)
	Reversal of excise duty on clearance of exempted goods	13.95	01/03/2003 to 30/06/2003	Commissionerate (Appeals)
	Availment of cenvat credit w.r.t. export	6.41	1994-95	No appeal filed
	Differential duty of erstwhile Amalgamating Compannny	19.60	Earlier Years	CEGAT

Name of the statute	Nature of dues	Amount (in Rs. lakhs)	Period to which the amount relates	Forum where the dispute is pending
The Income Tax Act, 1961	No details available	0.16	P.Y. 1988-89	No details available
	Levy of additional income tax	0.94	P.Y. 1990-91	CIT (Appeals XII), Chennai
	Share of demand with respect to Partnership Firm	599.43	P.Y. 1988-89 to 1997-98	ITAT, Mumbai
	Interest u/s 220 (2) on above – Share with respect to Partnership Firm	93.61	P.Y. 1988-89 to 1997-98	ITAT, Mumbai
	Share in respect of Partnership Firm	6.25	P.Y. 1988-89 to 07/12/1998	ITAT, Mumbai
	Balance Demand of Assessment of erstwhile Amalgamated Company.	6.78	P.Y. 1989-90	ITAT, Ahmedabad
	Share of Balance Demand with respect to Partnership Firm	41.06	P.Y 1996-97 & 1997-98	ITAT, Mumbai
	Balance Demand of Assessment – appeal filed	144.34	P.Y. 1997-98 to 2000-01	ITAT, Ahmedabad
	Dispute relating to 80 HHC deduction	8.61	P.Y. 1995-96, 1997-98 & 1998-99	ITAT, Chennai
	Disallowance of claim u/s 35D and Addition of Interest Income of erstwhile Amalgamating Company.	1.40	P. Y. 2000-01	ITAT, Ahmedabad
	Addition of Interest Income of erstwhile Amalgamating Company.	2.17	P. Y. 2001-02	ITAT, Ahmedabad

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Name of the statute	Nature of dues	Amount (in Rs. lakhs)	Period to which the amount relates	Forum where the dispute is pending
Central Sales Tax Act	Assessed demand of erstwhile Amalgamated Company for sales made to a Govt. hospital.	0.68	P. Y. 1981-82 to P. Y. 1985-86	AAC, Chennai
	Assessed demand of erstwhile Amalgamated Company.	24.75	P. Y. 1994-95	Sales Tax Authority, Chennai
	Assessed/Re-assessed demand of erstwhile Amalgamated Company.	12.80	P.Y. 1997-98	2nd Appellate Authority of Sales Tax
	Disallowance of consignment sales of Amalgamated Company.	1.95	P.Y. 1998-99	AAC, Chennai
	Assessment demand	0.21	P.Y. 1999-00	Sales Tax Authority, Chennai
	Purchase Tax u/s 15 B / Interest	6.80	P.Y. 2000-01 & upto July 01	Sales Tax Tribunal
	Ex -party Order Passed for CST	107.19	P.Y. 1993-94 to 1997-98	Nani-Daman Sales Tax Dept
Uttar Pradesh Sales Tax Act	Non-submission of 'C' Form	0.07	P.Y. 1997-98	1st Appeal Authority of Sales Tax Dept.
	Trade Tax Matter/ Non submission of sales tax and other documents	5.02	P.Y. 2000-01	1st Appeal Authority of Sales Tax Dept.
West Bengal Sales Tax Act	Non- submission of " F " Forms/ Non acceptance of C/N	0.52	P.Y. 2000-01	1st Appeal Authority of Sales Tax Dept.
Bihar Sales Tax Act	Disallowance of differential price	12.23	P.Y. 2000-01	1st Appeal Authority of Sales Tax Dept.

Name of the statute	Nature of dues	Amount (in Rs. lakhs)	Period to which the amount relates	Forum where the dispute is pending
Karnataka Sales Tax Act	Excess recoupment of sales tax and other levies	1.61	P.Y. 1999-00 & 2000-01	Sales Tax Tribunal
Mumbai Sales Tax	Sales tax on sale of import licenses	7.33	P.Y. 1994-95	Deputy Commissioner of Sales Tax Appeal – VI – Mumbai
Gujarat Sales Tax Act	Excess Interest & Penalty	2.94	P.Y. 1993-94	Gujarat Sales Tax Dept.
	4 % of B. T. Wrongly assessed as Deferred Tax Liability	8.00	P.Y. 1994-95 to P.Y. 1996-97	Gujarat Sales Tax Dept.
	Purchase Tax – u/s15 B / B. T. Ratio / Interest	4.19	P.Y. 2000-01 & upto 17/06/2001	Gujarat Sales Tax Dept.
	Purchase Tax – u/s 15 B	4.93	P.Y. 2000-01	Gujarat Sales Tax Dept.
Daman Sales Tax Act	Ex -party Order Passed for CST	0.29	P.Y. 1993-94 to 1997-98	Nani-Daman Sales Tax Dept
Tamilnadu General Sales Tax Act	Dispute for sales tax charged on supplies to ESI	5.93	P.Y. 1981-82 to 1985-86	Sales Tax Department
	Assessed demand	0.65	P.Y. 1999-2000	Sales Tax Appelate Tribunal
Orissa Sales Tax Act	Price Difference	3.68	P.Y. 1999-2000	Appelate authority of Sales Tax
Indian Customs Act	Payment made by JDFT, Chennai against import materials	207.96	P.Y. 1993-94	High Court, Chennai
DPCO	Demand raised for Calcium Lactate	100.49	P.Y. 1995-96	Concerned Ministry
ESIC Act	Disputed arrears	1.93	Prior to 1997	Appelate Authority

SUN PHARMACEUTICAL INDUSTRIES LTD.

BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedules	As at 31st March, 2004 Rs in Million	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million	As at 31st March, 2003 Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	618.3		622.2	
Share Capital Suspense	1A	0.1		0.0	
Reserves and Surplus	2	7977.3	8595.7	6340.0	6962.2
Loan Funds					
Secured Loans	3	514.6		92.4	
Unsecured Loans	4	2607.9	3122.5	41.3	133.7
Deferred Tax Liability (Net)	5		740.6		287.5
TOTAL			12458.8		7383.4
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	5100.8		3403.4	
Less: Depreciation / Amortisation and Lease Terminal Adjustment		1428.9		1090.0	
Net Block		3671.9		2313.4	
Capital Work-in-Progress (including advances on capital account)		260.7	3932.6	673.9	2987.3
Investments	7		5589.3		856.1
Current Assets, Loans and Advances					
Inventories	8	1614.5		1556.2	
Sundry Debtors	9	1283.7		1971.6	
Cash and Bank Balances	10	757.5		786.8	
Loans and Advances	11	1150.6		554.6	
		4806.3		4869.2	
Less: Current Liabilities and Provisions	12				
Current Liabilities		1135.7		776.0	
Provisions		733.7		553.2	
		1869.4		1329.2	
			2936.9		3540.0
TOTAL			12458.8		7383.4
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	19				

Schedules referred to herein form an integral part of the Balance Sheet.

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

	Schedules	**Year ended 31st March, 2004**		Year ended 31st March, 2003	
		Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
INCOME					
Income from Operations	**13**	**9446.3**		7244.1	
Other Income	**14**	**151.2**	**9597.5**	85.5	7329.6
EXPENDITURE					
Material Cost	**15**	**3803.7**		2498.6	
Indirect Taxes	**16**	**378.7**		281.4	
Personnel Cost	**17**	**685.5**		498.5	
Operating and Other Expenses	**18**	**1554.0**		1331.4	
Depreciation / Amortisation		**235.5**	**6657.4**	191.4	4801.3
PROFIT BEFORE TAXATION			**2940.1**		2528.3
Provision for Taxation - Current Tax			**85.3**		157.8
- Deferred Tax			**261.2**		56.4
PROFIT AFTER TAX BEFORE PRIOR YEAR ADJUSTMENT			**2593.6**		2314.1
Prior Year Adjustment - Deferred Tax			**187.6**		0.0
PROFIT AFTER TAX AND PRIOR YEAR ADJUSTMENT			**2406.0**		2314.1
BALANCE OF PROFIT BROUGHT FORWARD			**1542.5**		1287.7
Adjustmets of Carriad Forward Loss of Amalgamating Company			**(407.4)**		0.0
AMOUNT AVAILABLE FOR APPROPRIATIONS			**3541.1**		3601.8
APPROPRIATIONS					
Proposed Dividend					
Preference Shares		**9.3**		3.9	
Equity Shares-Final		**602.9**		465.2	
Proposed Dividend and Dividend distribution tax written back (refer note 20 of schedule 19)		**(58.1)**		0.0	
Corporate Dividend Tax		**78.8**	**632.9**	60.1	529.2
Transfer to General Reserve		**1000.0**		1500.0	
Transfer to Capital Redemption Reserve		**2.5**	**1002.5**	30.1	1530.1
Redemption of Preference Capital					
BALANCE OF PROFIT CARRIED TO BALANCE SHEET			**1905.7**		1542.5
EARNING PER SHARE (refer note: 15 (ii) of Schedule 19)					
On Profit before Prior Year Adjustment					
Basic (Rs.)			**27.8**		24.7
Diluted (Rs.)			**13.9**		12.4
On Profit after Prior Year Adjustment					
Basic (Rs.)			**25.8**		24.7
Diluted (Rs.)			**12.9**		12.4
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	**19**				

Schedules referred to herein form an integral part of the Profit and Loss Account.

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SUN
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CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
A. Cash Flow From Operating Activities:		
Net Profit Before Tax	**2940.1**	2528.3
Adjustments for:		
Depreciation	**235.5**	191.4
Interest Expense	**36.1**	9.4
Interest Income	**(73.9)**	(75.7)
Income From Investment-Dividend [(Previous Year Rs.21,360 (Gross)]	**(0.8)**	(0.0)
(Profit)/Loss On Fixed Assets Sold (net of losses)	**(10.6)**	(31.1)
(Profit)/Loss on sale of Investments	**(64.5)**	0.0
Miscellaneous Expnditure Written Off	**1.5**	0.0
Debts/Advances Written Off	**0.0**	1.8
Provision for Bad and Doubtful Debts	**0.0**	1.5
Provision for Doubtful Advances	**5.4**	0.0
Liability No Longer Required Written Back	**(1.4)**	(4.5)
Provision For Gratuity And Leave Encashment	**19.1**	8.4
Unrealised Foreign Exchange (Gain) / Loss	**(32.3)**	14.2
Other Provisions	**83.9**	37.3
Dividend writeback	**58.1**	0.0
Tax Deducted at Source (TDS) on Other Operating Income	**0.0**	(26.3)
Lease Terminal Adjustment	**(1.9)**	(2.0)
Operating Profit Before Working Capital Changes	**3194.3**	2652.6
Adjustments for Changes In Working Capital :		
(Increase)/Decrease in Sundry Debtors	**713.9**	(910.5)
(Increase)/Decrease in Other Receivables	**(666.1)**	83.4
(Increase)/Decrease in Inventories	**(46.7)**	(245.7)
Increase/(Decrease) in Trade and Other Payables	**247.6**	191.0
Cash Generated From Operations	**3443.1**	1770.8
Taxes (Paid) / Received (Net of TDS and Refund)	**(143.7)**	(167.2)
Net Cash From Operating Activities	**3299.5**	1603.6
B. Cash Flow From Investing Activities:		
Purchase of Fixed Assets - Additions During the Year	**(1269.2)**	(571.3)
Capital Work in Progress - Additions During the Year	**437.3**	(305.5)
Proceeds From Sale of Fixed Assets	**36.0**	167.9
Proceeds From Sale of Investments	**10921.3**	10.0
Purchase of Investments	**(15589.0)**	(40.8)
Loans/Inter Corporate Deposits Given	**(3042.6)**	(780.5)
Loans/Inter Corporate Deposits Refund Received	**3114.9**	809.5
Interest Received (Revenue)	**73.5**	67.3
Dividend Received (Net of TDS)	**0.8**	0.0
Net Cash Used In Investing Activities	**(5317.0)**	(643.2)
C. Cash Flow From Financing Activities:		
ECB Loan taken	**1888.8**	0.0
Equity Share Buyback	**(1.4)**	(148.9)
Equity Share Buyback (amount in excess of face value)	**(78.9)**	0.0
Redemption of Preference Share Capital	**(2.5)**	(30.1)
Short Term Loan Repaid	**(0.1)**	(1.7)
Borrowing from Bank	**690.5**	3.3
Interest Paid	**(36.1)**	(9.4)
Dividend Paid	**(418.3)**	(232.9)
Dividend Tax Paid	**(53.9)**	0.0
Net Cash Used In Financing Activities	**1988.1**	(419.7)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
Net Increase/(Decrease) In Cash and Cash Equivalents	**(29.5)**	540.7
Cash and Cash Equivalents (Opening)	**786.8**	246.1
Cash and Cash Equivalents Acquired on Amalgamation	**0.2**	0.0
Cash and Cash Equivalents (Closing)	**757.5**	786.8
	757.5	786.8
Cash and Cash Equivalents Comprise:		
Cash and Cheques in hand	**10.4**	2.5
Balances with Scheduled Banks on-		
Current Accounts	**41.5**	76.9
Deposit Accounts	**700.8**	701.9
Unpaid Dividend Accounts	**4.8**	5.5
	757.5	786.8

Notes:

1. The above Cash Flow Statement has been prepared under the "Indirect Method" set out in AS-3, issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outgo.
3. The above cash flow statement excludes assets (other than cash and cash equivalents), liabilities acquired on amalgamation of Phlox Pharmaceuticals Limited.
4. During the previous year the company had alloted 18,71,77,232 6% Cumulative Redeemable Preference Shares of Re.1 each were alloted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve - Rs. 187.2 Million. This being non cash transaction has not been considered in the cash flow statement of previous year.
5. Cash and cash equivalents includes Rs. 4.8 Million (Previous Year Rs. 5.5 Million), which are not available for use by the Company (Refer Schedule 10 in the accounts).

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million
SCHEDULE 1 : SHARE CAPITAL		
Authorised		
25,20,00,000 (Previous Year 20,00,00,000) Equity Shares of Rs. 5 each	**1260.0**	1000.0
30,00,00,000 (Previous Year 30,00,00,000) Preference Shares of Re.1 each	**300.0**	300.0
	1560.0	1300.0
Issued, Subscribed and Paid Up		
927,55,678 (Previous Year 930,48,478) Equity Shares of Rs. 5 each	**463.8**	465.2
15,45,17,050 (Previous Year 15,70,46,848) 6% Cumulative Redeemable Preference Shares of Re.1 each	**154.5**	157.0
	618.3	622.2

Notes
Of the Above:

1) 3,44,37,166 Equity shares of Rs.10 each were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account and Amalgamation Reserve.
2) 4,13,633; 2,08,000; 4,77,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd and M.J.Pharmaceuticals Ltd. respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.
3) 18,71,77,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. Out of this, 25,29,798(Previous Year 301,30,384) shares were redeemed at par during the year.
4) One equity share of Rs. 10 each fully paid up was split into two equity shares of Rs. 5 each fully paid up, as on record date 21st January, 2003, thereby increasing number of equity shares from 467,94,308 to 935,88,616.
5) During the year, Company has bought 2,92,800(Previous Year 5,40,138) equity shares of Rs. 5 each, under the buy-back scheme, through open market route.

SCHEDULE 1A: SHARE CAPITAL SUSPENSE

29,713 (Previous Year Nil) equity shares of Rs. 5 each fully paid up, to be issued pursuant to the scheme of Amalgamation of Phlox Pharmaceuticals Limited with the Company.	**0.1**	0.0

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004 Rs in Million	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million	As at 31st March, 2003 Rs in Million
SCHEDULE 2 : RESERVES AND SURPLUS				
Capital Reserve				
As per last Balance Sheet	**6.7**		6.7	
Transferred form Amalgamating company	**10.0**	**16.7**	0.0	6.7
Securities Premium				
As per last Balance Sheet	**0.0**		57.4	
Less: Utilised for Buy-Back of Equity Shares	**0.0**	**0.0**	57.4	0.0
Capital Redemption Reserve				
As per last Balance Sheet	**344.7**		501.8	
Add : Transferred from Profit and Loss Account	**2.5**		30.1	
Transferred from General Reserve	**1.4**		0.0	
Transferred from Share Capital Buyback Reserve	**2.7**		0.0	
	351.3		531.9	
Less: Utilised for Issue of Bonus Preference Shares	**0.0**	**351.3**	187.2	344.7
Share Capital Buyback Reserve				
As per last Balance Sheet	**2.7**		0.0	
Transferred from General Reserve	**0.0**		2.7	
Less: Tranfer to Capital Redemption Reserve	**2.7**	**0.0**	0.0	2.7
Amalgamation Reserve				
As per last Balance Sheet	**0.0**		0.0	
Surplus on Amalgamation during the year	**340.5**		0.0	
Less: Transfer to General Reserve	**340.5**	**0.0**	0.0	0.0
General Reserve				
As per last Balance Sheet	**4443.4**		3034.9	
Add: Transferred from Amalgamation Reserve	**340.5**		0.0	
Add : Transferred from Profit and Loss Account	**1000.0**		1500.0	
	5783.9		4534.9	
Less: Transfer to Capital Redemption Reserve	**1.4**		2.7	
Utilised for Buy-Back of Equity Shares	**78.9**	**5703.6**	88.8	4443.4
SURPLUS AS PER PROFIT AND LOSS ACCOUNT		**1905.7**		1542.5
		7977.3		6340.0
SCHEDULE 3 : SECURED LOANS				
1,50,000 - 14% Optionally Convertibile Debentures of Rs. 100/- each		**20.8**		0.0
Short Tem Loan from Banks		**483.0**		92.4
From Others		**10.8**		0.0
(refer note 13 of schedule 19)				
		514.6		92.4
SCHEDULE 4 : UNSECURED LOANS				
Long Term				
External Commercial Borrowing in foreign currency from Banks	**1888.8**		0.0	
Defered Sales Tax Liability	**54.7**		41.3	
Other Loans	**8.8**	**1952.3**	0.0	41.3
Short Term				
From Banks		**655.6**		0.0
		2607.9		41.3

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 5 : DEFERRED TAX LIABILITY (NET)				
Deferred Tax Assets				
Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961		**38.3**		3.3
Others		**0.1**		0.1
		38.4		3.4
Deferred Tax Liability				
Depreciation on Fixed Assets		**779.0**		290.9
		740.6		287.5

SCHEDULE 6 : FIXED ASSETS

Rs in Million

Particulars	Gross Block (At Cost)					Depreciation / Amortisation					Net Block	
	As At 1.4.03	Additions on Amalgamation	Additions 03-04	Deletions 03-04	**As at 31.03.04**	As at 1.4.03	Additions on Amalgamation	For year 03-04	Deletion / Adjustmet 03-04	**As at 31.03.04**	**As at 31.03.04**	As at 31.3.03
A. OWNED ASSETS												
I. TANGIBLE ASSETS												
Freehold Land	14.8	7.5	0.5	0.0	**22.8**	0.0	0.0	0.0	0.0	**0.0**	**22.8**	14.8
Leasehold Land	19.3	0.0	0.0	0.0	**19.3**	1.9	0.0	0.2	0.0	**2.1**	**17.2**	17.4
Buildings	795.7	89.5	609.2	0.0	**1494.4**	123.7	8.7	26.5	0.0	**158.9**	**1335.5**	672.0
Plant and Machinery	2014.0	318.8	633.9	29.2	**2937.5**	750.7	96.6	167.7	5.9	**1009.1**	**1928.4**	1263.3
Vehicles	40.3	1.7	22.5	5.8	**58.7**	16.9	0.8	5.3	3.7	**19.3**	**39.4**	23.4
Furniture and Fixtures	61.8	5.5	24.3	0.2	**91.4**	27.3	1.7	5.9	0.1	**34.8**	**56.6**	34.5
Sub-Total	**2945.9**	**423.0**	**1290.4**	**35.2**	**4624.1**	**920.5**	**107.8**	**205.6**	**9.7**	**1224.2**	**3399.9**	**2025.4**
II. IN TANGIBLE ASSETS												
Trademarks,Designs and Other Intangible Assets	390.5	19.2	0.0	0.0	**409.7**	115.5	7.3	26.8	0.0	**149.6**	**260.1**	275.0
Sub-Total	**390.5**	**19.2**	**0.0**	**0.0**	**409.7**	**115.5**	**7.3**	**26.8**	**0.0**	**149.6**	**260.1**	**275.0**
SUBTOTAL-A	**3336.4**	**442.2**	**1290.4**	**35.2**	**5033.8**	**1036.0**	**115.1**	**232.4**	**9.7**	**1373.8**	**3660.0**	**2300.4**
B. LEASED ASSETS												
Assets Given On Lease	67.0	0.0	0.0	0.0	**67.0**	24.2	0.0	3.1	0.0	**27.3**		
Lease Terminal Adjustment	0.0	0.0	0.0	0.0	**0.0**	29.8	0.0	0.0	2.0	**27.8**		
SUBTOTAL-B	**67.0**	**0.0**	**0.0**	**0.0**	**67.0**	**54.0**	**0.0**	**3.1**	**2.0**	**55.1**	**11.9**	**13.0**
TOTAL A+B	**3403.4**	**442.2**	**1290.4**	**35.2**	**5100.8**	**1090.0**	**115.1**	**235.5**	**11.7**	**1428.9**	**3671.9**	
Previous Year	3004.9	0.0	549.9	151.4	**3403.4**	915.1	0.0	191.4	16.5	**1090.0**		**2313.4**
Capital Work-in-Progress (including advances on capital account)											**260.7**	673.9
											3932.6	2987.3

NOTES :

1. Buildings include Rs.1020 (Previous Year Rs.1020) towards cost of shares in a Co-operative Housing Society.
2. Capital Advances and work in progress includes Rs. Nil (Previous Year Rs.14.6 Million) on account of Pre-operative expenses and Rs. 22.4 Million (Previous Year Rs. Nil) with respect to Amalgamating Company.

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 7 : INVESTMENTS				
(I) LONG TERM INVESTMENT (At Cost)				
A) Government Securities				
National Savings Certificates Rs.12,000 (Previous Year Rs. 12,000) (Deposited with Government Authorities)		**0.0**		0.0
B) Trade Investments				
Unquoted				
In Equity Shares				
Enviro Infrastructure Co. Ltd. 1,00,000 (Previous Year Nil) Shares of Rs.10/- each fully paid up		**1.0**		0.0
C) Other Investments				
Quoted				
a) In Bonds				
US64 Bonds 3,99,734 (Previous Year Nil) units of Rs 100 each Market Value (Rs 43.3 Million)		**42.2**		0.0
b) In Subsidiary Companies				
Quoted				
Caraco Pharmaceutical Laboratories Ltd.USA 1,18,34,957 (Previous Year 83,82,666) fully paid Common Shares of No Par Value Market Value - Rs. 5,255.8 Million (Previous Year Rs.1,122.9 Million)		**1711.6**		303.9
Unquoted				
# Caraco Pharmaceutical Laboratories Ltd. USA 16,79,066 (Previous Year Nil) Stock Options of No Par Value	**532.2**		0.0	
Sun Pharma Industries Ltd. Russia 1,000 (Previous Year 1,000) Shares of Rubles 20 each fully paid	**0.2**		0.2	
Sun Pharma Global Inc. BVI 5,00,000 (Previous Year 5,00,000) Shares of US $ 1 each fully paid	**17.6**		17.6	
Milmet Pharma Ltd. - 49,800 (Previous Year 49,800) Equity Shares of Rs.10 each fully paid	**0.5**		0.5	
Sun Pharmaceutical (Bangladesh) Ltd. 724 (Previous Year 724) Equity Shares of 100 Takas each fully paid	**0.1**		0.1	
Advance against Share Capital	**63.4**		63.4	
Promissory Note-Caraco Pharmaceutical Laboratories Ltd, USA carrying interest as agreed.	**0.0**	**614.0**	465.0	546.8
c) In Capital of Partnership Firm				
Sun Pharma Exports Rs. 152 (Previous Year Rs. -152)*	**0.0**		0.0	
Sun Pharmaceutical Industries (Previous Year Nil)**	**1498.4**	**1498.4**	0.0	0.0
d) In Equity Shares				
Ramin Developers Pvt Ltd.-200 (Previous Year 200) Shares of Rs. 100 each fully paid (pending registration) (Received during the year, Rs.3.3 million)		**2.1**		5.4

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
e) In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIII 5,00,00,000 (Previous Year Nil) Units		**500.0**		0.0
Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIV 1,25,00,000 (Previous Year Nil) Units		**125.0**		0.0
Kotak Mutual Fund "Kotak Fixed Maturity Plans (8)"- Growth Plan 1,50,00,000 (Previous Year Nil) Units		**150.0**		0.0
IL&FS Mutual Fund "IL&FS Fixed Maturity Plan-Yfmp/0104"-Growth Plan 1,25,00,000 (Previous Year Nil) Units		**125.0**		0.0
Reliance Capital Mutual Fund "Reliance Fixed Term Scheme-Annual Plan-3"-Growth Option 2,50,00,000 (Previous Year Nil) Units		**250.0**		0.0
Standard Chartered Mutual Fund "G31 Grindlays Fixed Maturity Annual Plan "-Growth 3,50,00,000 (Previous Year Nil) Units		**350.0**		0.0
	Total (I)	**5369.3**		856.1
(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)				
In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Kotak Mutual Fund "Inst Premium Plan" 1,73,07,163 (Previous Year Nil) Units		**220.0**		0.0
	Total (II)	**220.0**		0.0
	Total (I+II)	**5589.3**		856.1

*Partners	Share	**Capital**	Capital
Sun Pharmaceutical Industries Limited.	80%	**0.0**	0.0
Solapur Organics Private Limited	10%	**0.0**	0.0
Dilip S. Shanghvi	10%	**0.0**	0.0

**Partners	Share	**Capital**	Capital
Sun Pharmaceutical Industries Limited.	95%	**1498.4**	0.0
Sun Pharmaceutical Industries Key Employees' Benefit Trust	5%	**55.8**	0.0

The above options are non-transferable, non-cancellable and are exercisable at any time, the expiry date ranging between January 1, 2005 and October 18, 2006. Total amount payable on the options, if exercised would be USD 3.4 Million (approximately Rs.147.2 Million).

	As at 31st March, 2004		As at 31st March, 2003	
AGGREGATE VALUE OF INVESTMENT	**Book Value**	**Market Value**	Book Value	Market Value
Quoted	**1753.8**	**5299.1**	303.9	1122.9
Unquoted	**3835.5**		552.2	

SCHEDULES TO THE FINANCIAL STATEMENTS

Movements during the Year
Purchased and Sold

Mutual Fund Units (Units of Face Value of Rs. 10/- Each) In Liquid Scheme	Units In Nos	Purchse Value Rs. in Million	Sales Value Rs. in Million
Birla SunLife Mutual Fund	41990872	697.0	698.0
Deutsche Mutual Fund	100556941	1045.1	1047.4
DSP Merril Lynch Mutal Fund	40369619	607.0	607.9
HDFC Mutual Fund	15981717	200.0	200.3
IL&FS Mutual Fund	20079747	235.0	235.4
ING Savings Trust Mutual Fund	21050600	280.5	280.9
ING Trustee Saving Mutual	5077466	60.0	60.1
JM Mutual Fund	40400476	413.0	415.0
Kotak Mahindra Mutual Fund	125142076	1571.7	1574.7
Principal Mutual Fund	57679147	595.0	596.3
Prudential ICICI Mutual Fund	97469206	1472.6	1475.4
Reliance Mutual Fund	19143481	293.0	293.7
Standard Chartered Mutual Fund	31859451	362.1	362.4
Tata Mutual Fund	68333734	771.5	772.7
UTI Mutual Fund	5000000	50.0	50.1
In FMP Scheme			
Reliance Mutual Fund	854000	200.0	200.9
In Income Funds			
Deutsche Mutual Fund	22751472	250.0	252.0
Franklin Templeton Mutual Fund	21194164	250.0	250.4
HDFC Mutual Fund	33360912	500.0	523.9
Principal Mutual Fund	23587799	250.0	251.7
Prudential ICICI Mutual Fund	64645497	750.0	768.7

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 8 : INVENTORIES				
Consumables Stores		**0.6**		1.2
Raw Materials	**638.0**		709.6	
Packing Materials	**47.4**		85.8	
Finished Goods	**499.9**		405.0	
Work-in-Progress	**428.6**	**1613.9**	354.6	1555.0
		1614.5		1556.2
SCHEDULE 9 : SUNDRY DEBTORS				
(Unsecured-Considered Good, unless stated otherwise)				
Over Six Months				
Considered Good		**186.3**		196.5
Considered Doubtful	**2.4**		1.5	
Less: Provison for Doubtful Debts	**2.4**	**0.0**	1.5	0.0
Other Debts		**1097.4**		1775.1
		1283.7		1971.6

SUN PHARMACEUTICAL INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 10 : CASH AND BANK BALANCES				
Cash / Cheques in hand		**10.4**		2.5
Balances with Scheduled Banks on-				
Current Accounts	**41.5**		76.9	
Deposit Accounts	**700.8**		701.9	
Unpaid Dividend Accounts	**4.8**	**747.1**	5.5	784.3
		757.5		786.8
SCHEDULE 11 : LOANS AND ADVANCES				
(Unsecured-Considered Good, unless stated otherwise)				
Interest accrued on Investment		**0.5**		0.0
Loan to Employees# / Others*		**81.9**		115.1
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		**45.8**		48.9
Considered Doubtful	**4.5**		0.0	
Less: Provison for Doubtful Advances	**4.5**	**0.0**	0.0	0.0
Advances to Suppliers		**587.6**		83.9
Balances with Central Excise and Customs		**116.2**		80.1
DEPB and Advance Licence		**116.3**		94.6
Other Deposits		**93.7**		33.8
Advance Payment of Income Tax (Net of Provisions)		**108.6**		98.2
		1150.6		554.6

\# Due from an Officer of the Company Rs. Nil (Previous Year Rs. Nil)
Maximum amount outstanding during the year Rs. Nil
(Previous Year Rs. 1.0 Million)

* Secured Loans Rs. 24.1 Million (Previous Year Rs. 24.4 Million)

	As at 31st March, 2004		As at 31st March, 2003	
SCHEDULE 12 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors and Advances from Customers				
Due to Small Scale Industrial Undertakings	**2.7**		6.7	
Others	**782.1**		525.9	
Security Deposits	**23.0**		17.3	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	**4.8**		5.5	
Other Liabilities	**305.8**		220.6	
Interest accrued but not due	**17.3**	**1135.7**	0.0	776.0
Provisions				
Proposed Dividend - Equity Shares	**602.9**		465.2	
- Preference Shares	**9.3**		3.9	
	612.2		469.1	
Corporate Dividend Tax	**78.4**		60.1	
Provision for Earned Leave	**43.1**	**733.7**	24.0	553.2
		1869.4		1329.2

SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2004 Rs in Million	Rs in Million	Year ended 31st March, 2003 Rs in Million	Rs in Million
SCHEDULE 13 : INCOME FROM OPERATIONS				
Gross Sales	**8928.9**		7898.3	
Less: Excise Duty	**535.3**		713.3	
Net Sales		**8393.6**		7185.0
Share of Profit from Partnership Firm		**1005.7**		0.0
Interest-TDS Rs. 6.6 Million (Previous Year Rs. 5.4 Million) (Refer Note 7 of Schedule 19)		**30.5**		54.3
Lease Rental and Hire Charges-TDS Rs.25,625 (Previous Year Rs. Nil)	**14.6**		2.8	
Add: Lease Equalisation Account	**1.9**	**16.5**	2.0	4.8
Conversion and Analytical Charges TDS Nil (Previous Year Rs. 3,200)		**0.0**		0.0
		9446.3		7244.1
SCHEDULE 14 : OTHER INCOME				
Interest from Banks & Other Advances / Deposits TDS Rs. 1.1 Million (Previous Year Rs. 0.3 Million)		**7.3**		12.0
Profit on Sale of Fixed Assets		**11.6**		31.6
Profit on Sale of Current Investments		**64.5**		0.0
Sundry Balances Written Back (Net)		**3.0**		1.2
Insurance Claims		**7.5**		2.1
Dividend (Previous Year Rs.21,360) TDS Nil (Previous Year Rs.2,026)		**0.8**		0.0
Miscellaneous Income-TDS Rs. 2.3 Million (Previous Year Rs. 1.8 Million)		**56.5**		38.6
		151.2		85.5
SCHEDULE 15 : MATERIAL COST				
Inventories at the beginning of the year		**1555.0**		1309.8
Purchases during the year		**3862.6**		2743.8
Inventories at the end of the year		**(1613.9)**		(1555.0)
		3803.7		2498.6
SCHEDULE 16 : INDIRECT TAXES				
Sales Tax		**374.3**		277.4
Turnover Tax		**1.2**		1.3
Purchase Tax		**3.2**		2.7
		378.7		281.4
SCHEDULE 17 : PERSONNEL COST				
Salaries, Wages, Bonus and Benefits		**553.5**		395.2
Contribution to Provident and Other Funds		**54.4**		39.5
Staff Welfare Expenses		**77.6**		63.8
		685.5		498.5

SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2004		Year ended 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 18 : OPERATING AND OTHER EXPENSES				
Stores and Spares Consumed		**46.0**		43.1
Manufacturing Charges		**116.9**		108.0
Power and Fuel		**138.7**		139.9
Rent		**8.0**		12.1
Rates and Taxes		**8.2**		10.8
Insurance		**12.6**		10.8
Selling and Distribution		**256.8**		318.8
Commission and Discount		**90.0**		89.5
Repairs				
Building	**13.3**		14.3	
Plant and Machinery	**79.2**		75.5	
Others	**19.8**	**112.3**	20.4	110.2
Printing and Stationery		**18.8**		15.3
Travelling and Conveyance		**43.3**		36.3
Overseas Travel and Export Promotion		**254.2**		172.6
Communication		**39.0**		33.3
Research and Development		**191.2**		103.2
Provision for Doubtful Debts / Advances		**5.4**		0.0
Professional and Consultancy		**51.3**		28.1
Donations		**0.5**		0.5
Loss on Sale of Fixed Assets		**1.0**		0.5
Auditors' Remuneration (including service tax)				
Audit Fees	**3.2**		2.2	
Other Services	**0.5**		0.5	
Out of Pocket Expenses (Rs.42,277)	**0.0**	**3.7**	0.1	2.8
Miscellaneous		**156.1**		95.6
		1554.0		1331.4

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

SCHEDULE 19 : NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

I Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis and comply with the Accounting Standards referred to in Section 211(3C) of The Companies Act, 1956.

II Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known / materialsed.

III Fixed Assets and Depreciation / Amortisation

Fixed Assets including intangible assets are stated at historical cost less accumulated depreciation/amortisation thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to The Companies Act, 1956. Intangible assets consisting of trademarks, designs, technical knowhow, non-compete fees and other intangible assets are amortised on Straight Line Method from the date they are available for use, over the useful lives of the assets (10/20 years), as estimated by the Management. Leasehold land is amortised over the period of lease.

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

IV Leases

Assets acquired on finance lease prior to April 1, 2001, are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equalisation accounts have been created for the assets given on lease, wherever required.

V Revenue Recognition

Sales of products are recongnised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods. Export sales are recognised on the basis of Bill of Lading / Airway bill. Sales includes sales tax, interest on delayed payments and sales as consignee made on behalf of consignor; and are stated net of returns.

VI Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and net realisable value. Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

VII Inventories

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost and net realisable value, on a FIFO basis.

VIII Research and Development

All revenue expenditure related to Research and Development are charged to the respective heads in the Profit and Loss Account.

IX Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currency at the year end and not covered by forward exchange contracts are translated at year end rates. In respect of monetary items which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognized as exchange difference and the premium on such forward contracts is recognised over the life for the forward contract. The exchange differences arising on settlement / translation are recognised in the revenue accounts, except those pertaining to the fixed assets acquired from outside India, which are adjusted to the cost of such fixed assets.

X Taxes on Income

Provision for taxation comprises of Current Tax and Deferred Tax. Current Tax provision has been made on the basis of reliefs and deductions available under the Income Tax Act, 1961. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been Substantively enacted at the Balance Sheet date.

XI Terminal Benefits

(a) The Company's contribution in respect of provident fund is charged to Profit and Loss Account each year.

(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy and superannuation fund is charged off to Profit and Loss Account each year. The contribution for Group Gratuity Policy is based on values as acturialy determined and demanded by LIC at the year end.

(c) Liability for accumulated earned leave of employees is ascertained and provided for as per Company Rules.

XII Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recongnised as an expense in the period in which they are incurred.

2. Amalgamation

(I) Pursuant to the Scheme of Amalgamation of the erstwhile Phlox Pharmaceuticals Limited ("Phlox"), which is engaged in Pharmaceutical business, with the Company, as sanctioned by the Hon'ble High Court of Gujarat all the assets and liabilities of the erstwhile "Phlox" were transferred to and vested in the Company with effect from March 1, 2004, the appointed date. The Scheme has accordingly been given effect to in these financial statements.

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

(II) The amalgamation has been accounted for under the "Pooling of Interest Method" as prescribed under Accounting Standard (AS-14) Accounting for Amalgamations issued by the Institute of Chartered Accountants of India. Accordingly, all the Assets, Liabilities and Reserves of the erstwhile "Phlox" as at March 1, 2004 have been taken over at their respective book values subject to adjustments made for the differences in the accounting policies between the two companies.

(III) The accumulated debit balance of Rs. 407.4 Million in the Profit and Loss Account of erstwhile "Phlox" has been adjusted in the Profit and Loss Account. Rs. 234.5 Million being the difference between the Net Assets of "Phlox" and the Share Capital to be issued has been transferred to Amalgamation Reserve.

(IV) "Phlox" depreciated its Fixed Assets on Written Down Value Method. Depreciation on Fixed Assets of "Phlox" has been recomputed as per Straight Line Method. Accordingly, Rs. 110.3 Million, being the excess depreciation provided for the period upto February 29, 2004 and Rs. 4.3 Million, being deferred tax Liability of "Phlox" for the period upto February 29, 2004 has been adjusted to Amalgamation Reserve in order to unify the accounting policies on amalgamation as is required under Accounting Standard (AS-14) Accounting for Amalgamations issued by the Institute of Chartered Accountants of India.

(V) As per the scheme of Amalagamation as sanctioned by the Hon'ble High Court of Gujarat, Equity shares of Rs. 5/- each of the Company are to be issued to the shareholders of the erstwhile "Phlox" in the ratio of 1 share of company for every 790 shares of erstwhile "Phlox". Pending allotment of aforesaid shares, the said consideration amounting to Rs. 0.1 Million has been stated under Share Capital Suspense as at March 31, 2004.

(VI) Subsequent to the Balance Sheet date, against the interest due on loans included under Secured loans arising out of amalgamation of "Phlox", Preference Capital was issued by the erstwhile "Phlox" in February 2005 and the secured loans including interest thereon and the 45,11,654 equity shares of Rs. 10/- each fully paid up and all the preference shares of "Phlox" have been acquired by the Company from a company holding lender's interest in March 2005. Further 1,53,24,700 equity shares of Rs. 10/- fully paid up and 25,98,300 equity shares of Rs. 10/- each, Re.1 paid up of "Phlox" have been acquired by the Company in April 2005.

(VII) As a result of the above, figures in respect of the current financial year are not comparable with those of the previous financial year.

	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million
3. CONTINGENT LIABILITIES NOT PROVIDED FOR		
Guarantees Given by the Company	**409.9**	831.3
Letters of Credit	**1080.7**	241.4
Liabilities Disputed		
Sales Tax	**21.2**	86.7
Excise Duty	**18.1**	27.6
Income Tax	**90.1**	120.7
Towards Price Equalisation Fund - DPEA	**10.0**	10.0
Import Duty-JDGFT	**20.8**	19.1
ESIC Contribution	**0.2**	0.2
Claims against the Company not acknowledged as debts	**0.4**	0.4

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
4. CAPITAL COMMITMENTS - FIXED ASSETS		**102.8**		94.3
5. REMUNERATION TO DIRECTORS				
Managerial Remuneration U/s 198 of The Companies Act, 1956				
Salaries and Allowances		**9.7**		9.7
Contribution to Provident and Superannuation Funds		**1.9**		1.9
Perquisites and Benefits (Previous Year Rs.45,000)		**0.1**		0.0
Commission		**1.6**		1.2
Total		**13.3**		12.8
Computation of net profit U/s 198 read with Section 309(5) of The Companies Act, 1956 and calculation of commission payable to Directors				
Profit Before Taxation		**2940.1**		2528.3
Add : Depreciation as per Accounts	**235.5**		191.4	
Loss on Sale of Fixed Assets	**1.0**		0.5	
Managerial Remuneration	**13.3**		12.8	
Directors Sitting Fees	**0.2**		0.2	
Provision for doubtful debts / Advances	**5.4**		4.8	
Prior Period Expenses	**0.0**	**255.3**	0.1	209.8
Less: Depreciation as per Section 350 of Companies Act, 1956	**235.5**		191.4	
Profit on Sale of Fixed Assets	**11.6**		31.6	
Profit on Sale of Current Investments		**46.7**		0.0
Sundry Balances Written Back	**1.4**		5.3	
Bad Debts Recovered	**1.6**	**296.8**	0.8	229.1
Net Profit		**2898.6**		2509.0
Salaries, Perquisites and Commission @ 1% of the above		**29.0**		25.1
6. RESEARCH AND DEVELOPMENT EXPENDITURE				
Revenue		**478.5**		294.3
Capital		**598.3**		363.4
7. Interest Income on loans / deposits Rs. 66.6 Million is net of Interest expenses as under:				
Fixed Loans		**20.5**		0.3
Debentures		**7.5**		3.2
Others		**8.2**		5.9
		36.1		9.4
8. INFORMATION RELATING TO CONSUMPTION OF MATERIALS				
	Quantity	**Value**	Quantity	Value
Raw Materials and Packing Materials				
Raw Materials- (in '000 Kgs)	**8341.0**	**1967.4**	5999.9	1818.1
Raw Materials-(In Kilo Litres)	**14124.8**		7629.5	
Packing/Other Materials	*	**155.9**	*	166.0
Total		**2123.3**		1984.1

*Information can not be furnished as the items involved are numerous. None of the items individually account for more than 10% of total consumption.

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

		Rs in Million		Rs in Million
Imported and Indigenous	**%**	**Value**	%	Value
Raw Materials and Packing Materials				
Imported	**32.85**	**697.6**	35.48	703.9
Indigenous	**67.15**	**1425.7**	64.52	1280.2
Total	**100.00**	**2123.3**	100.00	1984.1
Stores and Spares				
Imported	**1.09**	**0.5**	0.47	0.2
Indigenous	**98.91**	**45.5**	99.53	42.9
Total	**100.00**	**46.0**	100.00	43.1

9. INFORMATION RELATING TO LICENSED CAPACITY AND PRODUCTION

	As at 31st March, 2004	As at 31st March, 2003
Tablets/Capsules/Parenterals/Ointments (Nos. in Million)		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity*	**3070.0**	3070.0
Actual Production (including loan licence)	**1407.2**	2487.0
Bulk Drugs/Chemicals		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity* (In Kilo Litres)	**675.1**	538.5
Actual Production (including loan licence) (In '000 Kgs)	**2071.8**	1093.4

*as certified by the Management

10. INFORMATION RELATING TO TURNOVER, PURCHASE OF TRADING GOODS AND STOCKS

Rs in Million

	Turnover*		Purchase		Opening Stock		Closing Stock	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Formulations (Qty Million)								
2003-04	**2383.9**	**6211.9**	**1010.0**	**1788.5**	**207.9**	**263.0**	**241.2**	**220.8**
2002-03	2782.5	6019.1	270.5	524.2	232.9	230.5	207.9	263.0
Bulk Drugs/Chemicals (Qty in '000 Kgs)								
2003-04	**2238.4**	**2682.8**	**193.3**	**36.1**	**73.1**	**142.0**	**99.7**	**279.1**
2002-03	1131.9	1850.4	27.5	34.7	84.1	198.8	73.1	142.0
Others								
2003-04	**0.0**	**34.2**	**0.0**	**24.7**	**0.0**	**0.0**	**0.0**	**0.0**
2002-03	0.0	28.8	0.0	24.1	0.0	0.0	0.0	0.0
Total								
2003-04		**8928.9**		**1849.3**		**405.0**		**499.9**
2002-03		7898.3		583.0		429.3		405.0

* Includes consignment sales Rs. 1432.3 Million (Previous Year Rs. Nil)

11. INCOME/EXPENDITURE IN FOREIGN CURRENCY

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
Income		
Exports (FOB basis)	**2041.1**	1402.3
Interest on Promissory Note	**14.8**	35.2
Lease Rentals	**1.6**	1.6

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
Expenditure		
Raw Materials (CIF basis)	**675.5**	634.8
Packing Materials (CIF basis)	**30.5**	31.0
Finished Goods (CIF basis)	**14.8**	59.4
Capital Goods (CIF basis)	**195.9**	133.5
Spares and Components (CIF basis)	**5.7**	5.3
Overseas Travel	**31.3**	29.8
Others	**261.2**	160.5

12. The net exchange gain of Rs.180.9 Million (Previous Year loss of Rs.10.41 Million) is included in the net profit for the year.

13. 14% Optionally Convertible Debentures of Rs. 100 each acquired on amalgamation from “Phlox”, are secured by hypothecation of movable assets of the company and pari passu charge on fixed assets of the company. The said debentures were redeemable by “Phlox” on August 20, 2003 (with earliest redemption on November 20, 2002). Subsequent to the Balance Sheet date, the said debentures have been acquired by the Company from a lender company and in view of the amalgamation of “Phlox” with the Company, the same have been cancelled off on acquisition. Credit facilities from Bank are secured by hypothecation of stocks and book debts. The loans transferred from erstwhile “Phlox” on amalgamation are further secured by pari passu charge on present and future assets of the Company.

14. Based on the information available with the company, there are no dues to sundry creditors being small scale industrial undertaking in excess of 30 days.

15. Disclosure with respect to Accounting Standards issued by the Institute of Chartered Accountants of India

(i) Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure ‘A’ annexed

(ii) Accounting Standard (AS-20) on Earnings Per Share

	Year ended 31st March, 2004		Year ended 31st March, 2003	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
	Before Prior Year Adjustment	After Prior Year Adjustment	Before Prior Year Adjustment	After Prior Year Adjustment
Profit After Tax	**2593.6**	**2593.6**	2314.1	2314.1
Less: Dividend on Preference Shares	**9.3**	**9.3**	3.9	3.9
Less: Corporate Dividend Tax on Preference Shares	**1.2**	**1.2**	0.5	0.5
Less: Prior year adjustment - deferred taxation	**0.0**	**187.6**	0.0	0.0
Profit used as Numerator for calculating Earnings per share	**2583.1**	**2395.6**	2309.7	2309.7
Weighted Average number of Shares used in computing basic earnings per share	**92786182**	**92786182**	93564866	93564866
Add: Potential number of equity shares that could arise on exercise of Options on convertible debentures / Bonus Shares (92755678) / Share Capital Suspense	**92758363**	**92758363**	92755678	92755678
Weighted average number of shares used in computing diluted earnings per share	**185544545**	**185544545**	186320544	186320544
Nominal Value Per Share (in Rs.)	**5**	**5**	5	5
Basic Earnings Per Share (in Rs.)	**27.8**	**25.8**	24.7	24.7
Diluted Earnings Per Share (in Rs.)	**13.9**	**12.9**	12.4	12.4

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

(iii) Accounting Standard (AS-17) on Segment Reporting

(a) Primary Segment

The Company has identified "Pharmaceuticals" as the only primary reportable segment.

(b) Secondary Segment (by Geographical Segment)

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
India	**6752.4**	6428.8
Outside India	**2176.5**	1469.5
Total Sales	**8928.9**	7898.3

In view of the inter-woven/inter-mix nature of business and manufacturing facility, other segmental information is not ascertainable.

16. Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on their agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the management's best estimates of useful lives of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obselescence, market demand for products, competition and their expected future benefits to the company.

17. The Company's tax liability arises under the provisions of section 115JB of the Income Tax Act, 1961. In view of the Accounting Standards Interpretation (ASI - 6) Accounting for taxes on Income in the context of section 115JB of the Income Tax Act, 1961, issued by the Institute of Chartered Accountants of India, the Company has recognised additional liability for deferred taxation arising out of the said interpretion by way of prior year adjustments.

18. In view of the clarification on Inter divisional transfers issued by the Institute of Chartered Accountants of India, the Company has restated the value of sales / material cost in the financial statements in accordance with the said clarification.

19. With effect from May 1, 2003 the Company has been appointed as consignee of Sun Pharmaceutical Industries, partnership firm and pursuant to consignment agent agreement and based on legal advice, the company has included Rs.1432.3 million as sales and accordingly recorded the corresponding purchases, which has no impact on profits for the year.

20. Proposed dividend and the corresponding corporate dividend tax with respect to Equity shares on which the right to receive dividend was waived by certain shareholders has been transferred to Profit & Loss Account.

21. Subsequent to the Balance Sheet date on April 21, 2004 the Board has proposed to issue equity shares of Rs.5 each as bonus shares to the shareholders of the Company in the ratio of one bonus share for each existing equity share, subject to the approval of the shareholders. The earnings per share has been computed after considering the effect of dilution on account of the said bouns issue.

22. Previous years' figures are restated / regrouped / rearranged wherever necessary in order to confirm to current year groupings and classifications.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration No.	Balance Sheet Date	State Code
04/19050	31st March, 2004	04

II Capital Raised during the year (Rs in Million)

Public Issue	Right Issue
NIL	NIL
Bonus Issue	**Private Placement**
NIL	NIL

III Position of Mobilisation and Deployment of Funds (Rs in Million)

Total Liabilities	Total Assets
5732.5	14328.2

Sources of Funds

Paid-up Capital	Reserves and Surplus
618.3	7977.3
Secured Loans	**Unsecured Loans**
514.6	2607.9

Application of Funds

Net Fixed Assets	Investments
3932.6	5589.3
Net Current Assets	**Miscellaneous Expenditure**
2936.9	NIL
	Accumulated Losses
	NIL

IV Performance of the Company (Rs in Million)

Total Income	Total Expenditure
9597.5	6657.4
Profit Before Tax	**Profit After Tax**
2940.1	2593.6
Earning per share Rs.*	**Dividend Rate**
27.8	130%

* after considering pro-rata dividend (including corporate dividend tax) on preference shares.

V Generic Names of Three Principal Products of the Company (as per monetary terms)

Item Code No. (ITC Code)	Product Description
30049038	PANTAPRAZOLE SODIUM
30049065	METFORMIN HYDROCHLORIDE
30049099	PENTOXIFYLINE

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

KAMLESH H. SHAH
Company Secretary

Mumbai, 18th August 2005

SUN PHARMACEUTICAL INDUSTRIES LTD.

ANNEXURE 'A'

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

Rs in Million

Particulars	Subsidaries		Associates		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/04	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03
Purchases of goods / DEPB	**3.6**	4.7	**1454.7**	0.0	**0.0**	0.0	**0.0**	0.0	**1.7**	0.0	**1460.0**	4.7
Sun Pharmaceutical Industries	—	—	1454.7	—	—	—	—	—	—	—	1454.7	0.0
Others	3.6	4.7	—	—	—	—	—	—	1.7	—	5.3	4.7
Sale of goods	**622.7**	198.1	**391.9**	0.0	**0.0**	0.0	**0.0**	0.0	**9.4**	6.3	**1024.0**	204.4
Caraco Pharmaceutical Laboratories Ltd	622.5	196.9	—	—	—	—	—	—	—	—	622.5	196.9
Sun Pharmaceutical Industries	—	—	391.9	—	—	—	—	—	—	—	391.9	0.0
Others	0.2	1.2	—	—	—	—	—	—	9.4	6.30	9.6	7.5
Purchases of fixed assets	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	26.4	**0.0**	26.4
Receiving of Service												
Services	**36.0**	52.7	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.3	**36.0**	53.0
Sun Pharma Global Inc - BVI	36.0	31.5	—	—	—	—	—	—	—	—	36.0	31.5
Milmet Pharma Ltd	—	21.2	—	—	—	—	—	—	—	—	0.0	21.2
Others	—	—	—	—	—	—	—	—	—	0.3	0.0	0.3
Reimbursment of Expenses	**7.9**	20.5	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**7.9**	20.5
Sun Pharma Global Inc - BVI	1.5	—	—	—	—	—	—	—	—	—	1.5	0.0
Caraco Pharmaceutical Laboratories Ltd	6.3	10.2	—	—	—	—	—	—	—	—	6.3	10.2
Milmet Pharma Ltd	—	10.0	—	—	—	—	—	—	—	—	0.0	10.0
Others	0.1	0.3	—	—	—	—	—	—	—	—	0.1	0.3
Rendering of Service	**0.0**	—	—	—	—	—	—	—	**0.1**	0.4	**0.1**	0.4
Lease Rent received	**1.6**	1.6	—	—	—	—	—	—	—	—	**1.6**	1.6
Caraco Pharmaceutical Laboratories Ltd	1.6	1.6	—	—	—	—	—	—	—	—	1.6	1.6
Finance (including loans and equity contributions in cash or in kind)	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0
Capital Contribution	**0.0**	0.0	**441.3**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**441.3**	0.0
Sun Pharmaceutical Industries	—	—	441.3	—	—	—	—	—	—	—	441.3	0.0
Promissory notes refund (Net of loan given and received back, Rs. 141.1 million)	**465.0**	23.7	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**465.0**	23.7
Caraco Pharmaceutical Laboratories Ltd	465.0	23.7	—	—	—	—	—	—	—	—	465.0	23.7
Advances given	—	—	—	—	—	—	—	—	—	—	0.0	0.0
Guarantees and Collaterals												
Bank Guarantee as on 31/03/04	**409.9**	831.3	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**409.9**	831.3
Letter of Credit	**528.3**	42.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**528.3**	42.0
Interest Income	**14.8**	35.4	**1.1**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**15.9**	35.4
Caraco Pharmaceutical Laboratories Ltd	14.8	35.4	—	—	—	—	—	—	—	—	14.8	35.4
Others	—	—	1.1	—	—	—	—	—	—	—	1.1	0.0
Rent Income	**0.0**	0.0	**1.2**	0.0	**0.0**	0.0	**0.0**	0.0	**0.1**	0.1	**1.3**	0.1
Sun Pharmaceutical Indutries	—	—	1.2	—	—	—	—	—	—	—	1.2	0.0
Others	—	—	—	—	—	—	—	—	**0.1**	0.1	0.1	0.1
Director's Remuneration	**0.0**	0.0	**0.0**	0.0	**11.7**	11.6	**0.0**	0.0	**0.0**	0.0	**11.7**	11.6
Remuneration (Partner's) Received	**0.0**	0.0	**157.6**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**157.6**	0.0
Sun Pharmaceutical Indutries	—	—	157.6	—	—	—	—	—	—	—	157.6	0.0
Rent Paid	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.3**	0.2	**0.0**	0.0	**0.3**	0.2
Share of profit from Partnership Firm	**0.0**	0.0	**848.2**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**848.2**	0
Sun Pharmaceutical Indutries	—	—	848.2	—	—	—	—	—	—	—	848.2	0
Outstanding receivables, net of Payables as on 31/03/2004	**207.0**	212.6	**0.0**	0.0	**0.0**	0.0	**0.0**	0.0	**0.1**	(19.7)	**207.1**	192.9
Caraco Pharmaceutical Laboratories Ltd	**221.5**	195.6	—	—	—	—	—	—	—	—	221.5	195.6
Others	**(14.5)**	17.1	—	—	—	—	—	—	0.1	(19.70)	(14.4)	(2.6)

ANNEXURE 'A'

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

Note :

Names of related parties and description of relationship

1. Subsidaries	Sun Pharma Global Inc. BVI. Milmet Pharma Ltd. Sun Pharmaceutical (Bangladesh) Ltd. Arpita Finvest Pvt Ltd (during the period 11-12-2002 to 08-03-2003) *Advance given Rs. Nil (Previous Year Rs. 30,000) Caraco Pharmaceutical Laboratories Ltd - U.S.A	
2. Associates	Sun Pharma Exports Sun Pharmaceutical Industries	
3. Key Management Personnel	Mr Dilip S. Shanghvi Mr Sudhir V. Valia Mr Sailesh T. Desai	
4. Relatives of Key Management Personnel	Mrs Vibha Shanghvi Mrs Kumud Shanghvi Mrs Meera Desai Mrs Nirmala Desai	Wife of Chairman Mother of Chairman Wife of Wholetime Director Mother of Wholetime Director
5. Enterprise under significant Influence of Key Management Personnel or their relatives	Sun Petrochemical Pvt Ltd Sun Speciality Chemicals Pvt Ltd Navjivan Rasayan (Gujarat) Pvt Ltd	

SUN PHARMACEUTICAL INDUSTRIES LTD.

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

	Name of Subsidiary	Zao Sun Pharma Industries Ltd. Russia	Sun Pharma Global Inc. BVI	Milmet Pharma Ltd.	Sun Pharmaceutical (Bangladesh) Ltd	Caraco Pharmaceutical Laboratories Ltd.
1	The financial year of the Subsidiary Company ended on	31st December, 2003	31st March, 2004	31st March, 2004	31st March, 2004	31st December, 2003
2	Shares in the Subsidiary held by the Holding Company as at the above date A) Number of Shares	1000 Shares of Rubles 20 each fully paid-up	500000 Shares of US$ 1 each fully paid-up	49800 Equity Shares of Rs. 10 each fully paid-up	724 Equity Shares of Takas 100 each fully paid-up	8382666 fully paid Common Shares of No Par Value
	B) Extent of Holding	100%	100%	99.60%	72.40%	34.11%
3	Net aggregate amount of Profit/(Loss) of the Subsidiary Company so far as they concern the members of the Holding Company and -					
	A) Not dealt with in the Holding Company's accounts for the year ended 31st March, 2004					
	(i) For the Subsidiary's financial year ended as aforesaid	Rubles (2767)	US$ 10676012	Rs.133996	Nil	USD 3828069
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	Rubles (90659)	US$ 5606033	Rs. 1652202	Nil	USD (795918)
	B) Dealt with in Holding Company's accounts for the year ended 31st March, 2004					
	(i) For the Subsidiary's financial year ended as aforesaid	Nil	Nil	Nil	Nil	Nil
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	Nil	US$ 250000	Nil	Nil	Nil
4	A) Change in the interest of the Holding Company between the end of the last financial year of the Subsidiary and 31st March, 2004	Nil	Nil	Nil	Nil	Acquisition of 3452291 fully paid common shares and 1679066 stock option s of no par value
	B) Material changes occurred between end of the financial year of the Subsidiary and 31st March, 2004	Nil	Nil	Nil	Nil	Nil

FOR AND ON BEHALF OF THE BOARD

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

KAMLESH H. SHAH
Company Secretary

Mumbai, 18th August, 2005

ANNEXURE (1) TO DIRECTORS' REPORT

CONSERVATION OF ENERGY

	Year ended 31st March, 2004	Year ended 31st March, 2003
A. Power and Fuel Consumption		
1. Electricity		
(a) Purchased		
Unit (in '000 KWH)	**18787**	18203
Total Amount (Rs. in Millions)	**78.2**	75.8
Rate (Rs./Unit)	**4.2**	4.2
(b) Own Generation through Diesel Generator		
Units (in '000 KWH)	**378**	927
Units per Litre of Diesel Oil	**4.9**	3.2
Cost (Rs./Unit)	**5.7**	5.7
2. Furnace Oil		
Quantity (in '000 Litres)	**1697**	1507
Total Amount (Rs. in Millions)	**21.7**	17.4
Average Rate (Rs./Unit)	**12.8**	11.5
3. Gas (for Steam)		
Gas Units (in '000 Litres)	**3080**	2545
Total Amount (Rs. in Millions)	**27.3**	22.7
Average Rate (Rs./Unit)	**8.9**	8.9

B. Consumption per unit of production

It is not feasible to maintain product category-wise energy consumption data, since we manufacture a large range of formulations and bulk drugs having different energy requirements.

C. Energy conservation measures

1. Improvisition & maintainence of power factor of MSEB power supply resulting in significant savings.
2. There is continous monitoring of Power Factor and replacement of weak capacitors by conducting periodical checking of capacitors.Due to these measures, we have been able to maintain the Power Factor near to unity (above 0.99) and thereby availing the rebate in electricity charges.
3. Alternative energy sources like Gas & steam have been used in place of electricity for heating of De-mineralized water, fluid bed dryers for producing hot air systems for coating department and for making starch paste.
4. Installation of isolating valve in main airline for preventing air loss.
5. Gas based electricity generatation sets have been set up at bulk drug plants, resulting in significant savings in electricity cost.
6. The Company has endeavored to optimise the use of energy resources and taken adequate steps to avoid wastage & use latest production technology & equipments.

TECHNOLOGY ABSORPTION

A. Research and Development

1. Specific areas in which R&D is carried out by the Company

Projects in process chemistry and formulation development have either of a short term, medium term or long term focus.

The short term projects are reverse engineering based projects in formulation development and process chemistry where we work with a known technology and seek to improve upon it in term of yield or number of steps. These projects help us maintain our leadership position in the Indian market with specialty formulations, in the US generic market with interesting generics and in the speciality bulk active space both in the international regulated markets across US/ Europe.

The projects with a medium term payback are based on new as well as known drug delivery systems for India and the emerging or less regulated markets; complex bulk actives like steroids and peptides which require special technology and manufacturing processes. These projects offer higher value addition and sustained revenue streams.

Long-term projects are NCE and NDDS projects for regulated markets, which require larger investments with longer and more uncertain return horizons.

This phased approach to research helps the company use revenues from projects that mature earlier in order to fund projects that have longer or more uncertain paybacks.

2. Benefits derived as a result of the above R&D

During 2003-04, 48 formulations were introduced across the marketing divisions, in addition to several line extensions. All of these were based on technology developed in house.14 bulk actives were introduced including tegaserod and etoricoxib, products that have recently been introduced in the international marketplace. Technology was refined for a number of processes for drug master file submissions.For some of the important bulk actives already being manufactured, more energy efficient or cost effective processes were developed and implemented. This offers an advantage for our bulk active business.Some of these reverse engineered products increased our familiarity with new technologies/ areas of development and we would be able to build on this understanding in order to develop new to the world work.A large part of our bulk active sales is to the regulated market of US/ Europe, and this earns foreign exchange and builds for us a reputation for quality and dependability. The company's formulation brands are exported to 26 markets where a local field force promotes these for a prescription pull.

The Department of Scientific and Industrial Research,Ministry of Science and Technology of Government of India has granted approval to the in house research and development facility of your Company under section 35 (2AB) of the Income Tax Act, 1961 and has also recognized the commercialization of technology developed in house by granting your company approval under rule 5(2) of the Income tax rules.

3. Future plan of action

Over the last year, close to 250,000 sq ft of research floor area has been created and a large part of this is occupied, this working space when completely commissioned can house 200 additional scientists which should take the total scientific strength to over 500 in two years time. One site in Mumbai moved from an earlier 6000 sq ft to 50,000 sq ft lab area, and this team will continue to work on NDDS and NCE as well as filings for the US market.Building on the projects begun earlier, one NCE has now entered human trials and 2 NDDS projects will shortly enter trials in the developed/ regulated markets.

4. **Expenditure on R&D**	**Year ended 31st March, 2004 Rs in Million**	Year ended 31st March, 2003 Rs in Million
a) Capital	**598.3**	363.4
b) Revenue	**478.5**	294.3
c) Total	**1076.8**	657.7
d) Total R&D expenditure as % of Total Turnover	**12.8%**	9.2%

B. Technology Absorption, Adaptation and Innovation

1. Efforts in brief, made towards technology absorption, adaptation and innovation

The outlay on R&D- revenue as well as capex, has been increasing year after year, and a large part of the spend is for the projects in innovation rather than reverse engineering. Investments have been made in creating research sites,employing scientifically skilled manpower, adding equipment and upgrading continuously the exposure and research understanding of the scientific team in the therapy areas of our interest.

2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution

(a) First to market several complex products and offer complete baskets of products under the various therapeutic classes.

(b) Make high cost imported products available at competetive prices by indigenously developing the manufacturing processes and formulation technologies.

(c) Offer products which are convenient for administration to patients.

(d) We are among the few selected companies that have set up manufacturing facilities for the production of peptide and steroidal drugs.

(e) The Company has benefited from reduction in cost due to import substitution and increased revenue through higher exports.

3. Your company has not imported technology during the last 7 years reckoned from the beginning of the financial year.

C. Foreign Exchange Earnings and Outgo	**Year ended 31st March, 2004 Rs in Million**	Year ended 31st March, 2003 Rs in Million
1. Earning from Exports	**2057.5**	1403.9
2. Expenditure (CIF basis)	**1214.9**	1054.3
3. Investment and Loan given	**2080.8**	35.8
4. Loan given received back	**606.1**	12.1

SUN PHARMACEUTICAL INDUSTRIES LTD.

CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement with Stock Exchanges, the Company submits the report on the matters mentioned in the said Clause and lists the practices followed by the Company.

1. **Company's Philosophy on Code of Corporate Governance**

Sun Pharmaceutical Industries Limited's philosophy on corporate governance envisages working towards high levels of transparency, accountability, consistent value systems, delegation across all facets of its operations leading to sharply focussed and operationally efficient growth. The Company tries to work by these principles in all its interactions with stakeholders, including shareholders, employees, customers, suppliers and statutory authorities.

Sun Pharmaceutical Industries Limited is committed to learn and adopt the best practices of corporate governance.

2. **Board of Directors**

The present strength of the Board of Directors of your Company is seven Directors.

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter Executive Director	Mr. Dilip S. Shanghvi (Chairman and Managing Director)
Non-Promoter Executive Directors	Mr. Sudhir V. Valia (Whole Time Director) Mr. Sailesh T. Desai (Whole Time Director)
Non Executive Independent Directors	Mr. S. Mohanchand Dadha Mr. Hasmukh S. Shah Mr. Keki M. Mistry Mr. Ashwin S. Dani*

* Mr. Ashwin S. Dani had been appointed as an additional Director on 28-01-2004, and the members at the Extraordinary General Meeting held on 06-05-2004 appointed him as a Director of the Company liable to retire by rotation.

Mr. Narendra N. Borkar resigned from the office of director w.e.f. 15-01-2004.

Number of Board Meetings held and the dates on which held: 6 Board meetings were held during the year, as against the minimum requirement of 4 meetings. The dates on which the meetings were held are as follows: 3rd May, 2003, 28th July, 2003, 1st September, 2003, 30th September, 2003, 21st October, 2003, and 28th January,2004.

Attendance of each Director at the Board meetings, last Annual General Meeting (AGM), Extraordinary General Meeting (EGM) and number of other Directorship and Chairmanship/Membership of Committee of each Director, is as follows:

Name of the Director	Attendance Particulars for the year ended 31st March, 2004			No. of other directorships and committee memberships/ chairmanships as of 31st March, 2004		
	Board Meetings	Last AGM Held on 30th September, 2003	Last EGM held on 1st September, 2003	Other Directorships (including directorships in Private and Foreign Companies)	Committee Membership	Committee Chairmanships
Mr. Dilip S. Shanghvi	6	Yes	Yes	9	—	1
Mr. Sudhir V. Valia	6	Yes	Yes	17	—	—
Mr. Sailesh T. Desai	6	Yes	Yes	7	—	—
Mr. S. Mohanchand Dadha	6	Yes	Yes	3	—	—
Mr. Hasmukh S. Shah	4	Yes	No	10	2	1
Mr. Keki M. Mistry	6	Yes	Yes	14	11	1
Mr. Ashwin S. Dani	1 #	N.A.	N.A	9	2	2
Mr. Narendra N. Borkar	Nil	No	No	N.A	N.A	N.A

Since his appointment on 28-01-2004, 1 Board Meeting was held.

Brief information on Directors reappointed at the Twelfth Annual General Meeting:

The brief resume, experience and other details of the Directors, viz. Mr. S. Mohanchand Dadha and Mr. Sudhir V. Valia who retired by rotation at the Twelfth Annual General Meeting held on 30th December, 2004 and have been re-appointed at that Meeting have been stated in the Notice dated 26th November, 2004 of the Twelfth Annual Genera Meeting, which has already been circulated to the members.

3. Audit Committee

The Board of the Company has constituted an Audit committee, which comprises of three independent non-executive Directors viz. Mr. Keki M. Mistry, Mr. S. Mohanchand Dadha and Mr. Hasmukh S. Shah. Mr. Keki M. Mistry is the Chairman of the committee. Mr. Narendra N. Borkar ceased to be a member of the Committee on account of his cessation from the office of Directorship of the Company w.e.f. 15.01.2004. The constitution of Audit Committee also meets with the requirements under Section 292A of the Companies Act, 1956. Presently Mr.Kamlesh H. Shah the Company Secretary of the Company is also the Secretary of the Audit Committee.

The terms of reference stipulated by the Board to the Audit Committee cover the matters specified under Clause 49 of the Listing Agreement as well as Section 292A of the Companies Act, 1956.

Three Audit Committee Meetings were held during the year ended 31st March 2004. The dates on which Meetings were held are as follows: 3rd May 2003, 21st October 2003 and 28th January 2004. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Audit Committee Meetings attended
Mr. Keki M. Mistry	3
Mr. S. Mohanchand Dadha	3
Mr.Hasmukh S. Shah	2
Mr. Narendra N. Borkar	-

4. Remuneration Committee

The Company has not formed any Remuneration Committee of Directors. The Wholetime Directors' remuneration is approved by the Board within the overall limit fixed by the shareholders at their meetings. The payment of remuneration by way of commission to the Participating Non- Executive Directors (NEDs) of the Company is within the total overall maximum limit of half percent of net profits as worked under the provisions of sections 349 & 350 of the Companies Act, 1956. This will be in addition to the sitting fees of Rs.5,000/- per meeting payable to the Non Executive Directors. The actual commission payable to the Non- Executive Directors of our Company severally and collectively is decided by the Board of Directors of the Company within the overall limit fixed as above by the Members of the Company.

Details of remuneration paid to all the Directors for the year:
The details of the remuneration paid/payable to the Directors during the year 2003-2004 are given below:

(Amount in Rs.)

Directors	Salary #	Perquisites *	Commission	Sitting Fees	Total
Mr.Dilip S. Shanghvi	38,25,000	8,25,000	—	—	46,50,000
Mr. Sudhir V. Valia	38,59,000	7,76,400	—	—	46,35,400
Mr. Sailesh T. Desai	19,80,000	3,59,250	—	—	23,39,250
Mr. S. Mohanchand Dadha	—	—	5,00,000	70,000	5,70,000
Mr. Narendra N. Borkar	—	—	—	—	—
Mr.Hasmukh S. Shah	—	—	5,00,000	50,000	5,50,000
Mr. Keki M. Mistry	—	—	5,00,000	45,000	5,45,000
Mr. Ashwin S. Dani	—	—	1,00,000	5,000	1,05,000

Salary includes bonus and Special Allowance.

* Perquisites include House Rent Allowance, Leave Travel Assistance, and Medical Reimbursement and contribution to Provident Fund and Superannuation Fund.

Besides this, all the Wholetime Directors were also entitled to encashment of leave and Gratuity at the end of tenure, as per the rules of the Company.

Notes: -

a) The Agreement with each of the Executive Directors is for a period of 5 years. Either party to the agreement is entitled to terminate the Agreement by giving to the other party 30 days notice in writing.

b) Your Company presently does not have a scheme for grant of stock options either to the Executive Directors or employees.

5. Shareholders'/Investors' Grievance Committee

The Board of the Company had constituted a Shareholders'/Investors' Grievance Committee, comprising of Mr. S. Mohanchand Dadha, Mr.Dilip S. Shanghvi, Mr.Sudhir V. Valia with Mr. Hasmukh S. Shah as the Chairman. The Committee, inter alia, approves issue of duplicate certificates and oversees and reviews all matters connected with the transfer of securities. The Committee looks into shareholders' complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends, etc. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to M/s. Intime Spectrum Registry Ltd, and/or the Company Secretary of the Company.

The Board has designated severally, Mr.Kamlesh H. Shah, Company Secretary and Mr.Ashok I. Bhuta, D.G.M (Legal & Secretarial) as Compliance Officers.

Five Shareholders'/Investors' Grievance Committee Meetings were held during the year ended 31st March 2004. The dates on which Meetings were held are as follows: 3rd May, 2003, 28th July, 2003, 30th September, 2003, 21st October, 2003 and 28th January, 2004. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Shareholders'/Investors' Grievance Committee Meetings attended
Mr. Hasmukh S. Shah	4
Mr.Dilip S. Shanghvi	5
Mr.Sudhir V. Valia	5
Mr. S. Mohanchand Dadha	5

The total numbers of complaints were received and replied to the satisfaction of shareholders during the year under review, were 205.

6. General Body Meetings

Location and time for the General Meetings held during the last three years, preceeding 31st March, 2004 were:

Year	Meeting	Location	Date	Time
2000-01	AGM	Hotel Holiday Inn, Convention Centre, Akota Gardens, Vadodara - 390 020.	28/11/2001	11.00 A.M.
2000-01	Adjourned AGM	Hotel Holiday Inn, Convention Centre, Akota Gardens, Vadodara - 390 020.	30/03/2002	11.00 A.M.
2001-02	AGM	Hotel Holiday Inn, Convention Centre, Akota Gardens, Vadodara - 390 020.	28/08/2002	12.00 Noon
2001-02	EGM	Conference Hall, 6th Floor, Hotel The Mirador, Next to Samarpan Complex, Opp. Solitaire Corporate Park, New Link Road, Chakala, Andheri (East), Mumbai-400 099.	20/12/2002	11.00 A.M
2002-03	EGM	Conference Hall, 6th Floor, Hotel The Mirador, Next to Samarpan Complex, Opp. Solitaire Corporate Park, New Link Road, Chakala, Andheri (East), Mumbai-400 099.	01/09/2003	3.00 P.M.
2002-03	AGM	Marigold, Hotel Taj Residency, Akota Gardens, Vadodara 390 020.	30/09/2003	10.30 A.M
2002-03	Preference Shareholders Meeting	Marigold, Hotel Taj Residency, Akota Gardens, Vadodara 390 020.	30/09/2003	11.15 A.M

7. Disclosures

* No transaction of a material nature has been entered into by the Company with Directors or Management and their relatives, etc. that may have a potential conflict with the interests of the Company. The Register of contracts containing transactions, in which directors are interested, is placed before the Board of Directors regularly. The transaction with the related parties are disclosed in the Annexure A attached to the Annual Accounts.
* There were no instances of non-compliance by the Company on any matters related to the capital markets or penalties/ strictures imposed on the Company by the Stock Exchange or SEBI or any statutory authority during the last 3 financial years.

8. Means of Communication

* **Website:** The Company's website www.sunpharma.com contains a separate dedicated section 'Finance' where shareholders information is available. Full Annual Report is also available on the website in a user friendly and downloadable form. Apart from this official news releases, detailed presentations made to media, analysts etc. are also displayed on the Company's website.
* **Financial Results:** The annual, half-yearly and quarterly results are regularly posted by the Company on its website www.sunpharma.com. These are also submitted to the Stock Exchanges in accordance with the Listing Agreement and published in leading newspapers like 'The Economic Times', 'Business Standard' and Gujarati Edition of 'Financial Express'.
* **Annual Report:** Annual Report containing inter alia Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report, International Accountants' Report and other important information is circulated to Members and others entitled thereto. The Management's Discussion and Analysis (MD&A) Report forms part of the Annual Report.
* **SEBI EDIFAR**: Annual Report, Quarterly Results, Shareholding Pattern etc. of the Company are also posted on the SEBI EDIFAR website www.sebiedifar.nic.in.

9. General Shareholder Information

9.1 Annual General Meeting:

- Date and Time	:	The Twelfth Annual General Meeting of the Company was held on 30th December 2004 at 10.30 A.M which was adjourned sine die for adoption of accounts and confirmation of interim dividend on Preference and Equity Shares. The Adjourned Annual General Meeting is scheduled to be held on 30th September, 2005 at 10.30 A.M
- Venue	:	Hotel Taj Residency, Akota Gardens, Akota, Vadodara – 390 020, Gujarat.
9.2 Financial Calendar	:	Financial Calendar for the year ended 31st March, 2005 is already closed and the tentative Financial Calendar for the financial year 2005-06 has been mentioned in the Corporate Governance Report for the year 2004-05
9.3 Details of Book Closure For Equity & Preference Shareholders:	:	From 21st September 2005 to 30th September 2005 (both days inclusive).
9.4 Divided Payment Date	:	The interim dividend on Equity and Preference shares for the year ended 31st March, 2004 was paid on 17th December, 2004.
9.5 (i) Listing of Equity Shares on Stock Exchanges	:	At Bombay Stock Exchange (BSE) and National Stock Exchange of India Ltd. (NSE). The Company has received the de-listing approval from the Vadodara Stock Exchange with effect from 30th July 2004. In case of Calcutta Stock Exchange the Company has complied with all the requirement for de-listing of Equity Shares from the said Stock Exchange & as stated to them that our shares are deemed to be de-listed from the said Stock Exchange in absence of any objection within the given time frame.

(ii) Listing of Preference Shares on Stock Exchanges : At Bombay Stock Exchange (BSE) and National Stock Exchange of India Ltd. (NSE). Preference Shares have been de-listed from the Vadodara Stock Exchange Ltd., with effect from 30th July 2004.

(iii) Payment of Listing Fee : Listing Fees for the year ended 2003-04 have been paid to The Stock Exchange, Mumbai and The National Stock Exchange of India Ltd, where the Company's Equity Shares are continued to be listed.

9.6 Stock Code:

Equity Shares

a) Trading Symbol The Stock Exchange, Mumbai (Demat Segment) : SUN PHARMA 524715
Trading Symbol National Stock Exchange (Demat Segment) : SUNPHARMA

(b) Demat ISIN Numbers in NSDL and CDSL for Equity Shares of Rs.5/- each : ISIN No. INE044A01028

Preference Shares

(a) Trading Symbol The Stock Exchange, Mumbai (Demat Segment) : SUNPHARMA 700079
Trading Symbol National Stock Exchange (Demat Segment) : SUNPHARMA

b) Demat ISIN Numbers in NSDL and CDSL for Preference Shares : ISIN No. INE044A04014

9.7 Stock Market Data

Equity Shares:

	The Stock Exchange, Mumbai (BSE) (in Rs.)		**National Stock Exchange(NSE) (in Rs.)**	
	Month's High Price	**Month's Low Price**	**Month's High Price**	**Month's Low Price**
April 2003	299.00	271.20	299.80	270.75
May 2003	307.00	273.00	306.20	266.00
June 2003	361.95	295.00	362.90	293.05
July 2003	405.00	334.00	404.90	322.00
August 2003	514.00	391.30	514.00	371.00
September 2003	536.50	445.00	540.00	408.45
October 2003	545.00	460.00	550.95	482.00
November 2003	616.00	511.00	618.00	524.00
December 2003	678.50	590.00	693.00	590.10
January 2004	650.00	575.00	648.70	585.00
February 2004	724.00	604.95	725.00	600.00
March 2004	703.00	590.00	703.50	591.00

Preference Shares:

	The Stock Exchange, Mumbai (BSE) (in Rs.)		National Stock Exchange(NSE) (in Rs.)	
	Month's High Price	**Month's Low Price**	**Month's High Price**	**Month's Low Price**
April 2003	1.40	0.90	—	—
May 2003	1.90	0.90	—	—
June 2003	1.85	1.00	—	—
July 2003	1.26	1.01	2.90	2.90
August 2003	2.16	1.10	—	—
September 2003	3.71	1.26	—	—
October 2003	1.64	1.11	—	—
November 2003	1.40	1.01	—	—
December 2003	1.65	1.10	—	—
January 2004	1.25	1.00	—	—
February 2004	1.10	0.85	2.80	2.80
March 2004	1.15	1.00	—	—

9.8 Share price performance in comparison to broad-based indices – BSE Sensex and NSE Nifty.

Share price performance relative to BSE Sensex based on share price on 31st March, 2004.

PERIOD	% Change in		
	SUN PHARMA SHARE PRICE	**BSE SENSEX**	**SUNPHARMA RELATIVE TO SENSEX**
Year-on-Year	+140.26%	+83.38%	+56.98%
2 Years	+94.04%	+61.14%	+32.90%
3 Years	+140.17%	+55.11%	+85.06%
5 Years	+695.39%	+49.48%	+645.91%

Share price performance relative to Nifty based on share price on 31st March, 2004.

PERIOD	% Change in		
	SUN PHARMA SHARE PRICE	**NIFTY**	**SUN PHARMA RELATIVE TO NIFTY**
Year-on-Year	**+140.05%**	**+81.14%**	**+58.91%**
2 Years	**+95.13%**	**+56.87%**	**+38.26%**
3 Years	**+139.76%**	**+54.32%**	**+85.44%**
5 Years	**+644.71%**	**+64.36%**	**+580.35%**

9.9 Registrars & Transfer Agent

(Share transfer and communication regarding share certificates, dividends and change of address)

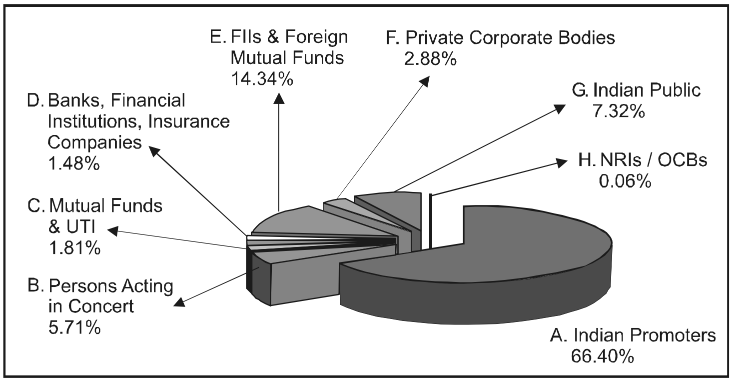
Mr. N. Mahadevan Iyer
Intime Spectrum Registry Ltd.,
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West), Mumbai – 400 078.
E-Mail :isrl@vsnl.com

9.10 Share Transfer System

Presently, the share transfers which are received in physical form are processed and transferred by Registrar and Share Transfer Agents and the share certificates are returned within a period of 15 to 16 days from the date of receipt, subject to the documents being valid and complete in all respects and confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) expeditiously.

The Company was, as per SEBI guidelines, offered the facility of the simultaneous transfer cum demat scheme for shares upto 500 only. Accordingly, physical share certificates were dispatched to those shareholders wherein the no. of shares exceeded 500. As per the SEBI guidelines in February, 2004, the facility of the simultaneous transfer cum demat scheme for shares upto 500 is also discontinued.

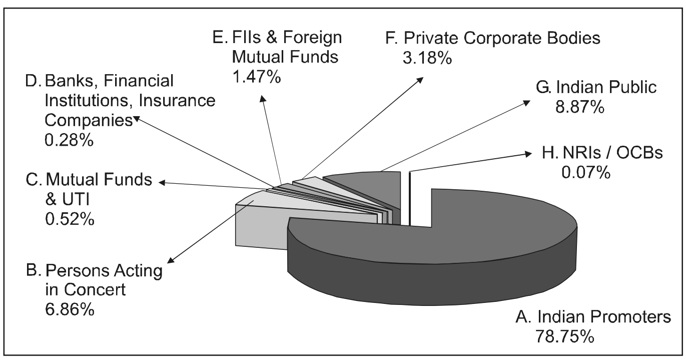
9.11 (a) Distribution of Shareholding as on 31st March, 2004 of Equity Shares as per Clause 35 of the Listing Agreement.



A . Indian Promoters	[66.40%]	6,15,84,408
B. Persons Acting in Concert	[5.71%]	52,97,444
C. Mutual Funds & UT	[1.81%]	16,80,466
D. Banks, Financial Institutions, Insurance Companies	[1.48%]	13,71,645
E. FIIs and Foreign Mutual Funds	[14.34%]	1,33,03,115
F. Private Corporate Bodies	[2.88%]	26,73,464
G. Indian Public	[7.32%]	67,92,836
H. NRIs/ OCBs	[0.06%]	52,300

Total No. of Equity Shares = 9,27,55,678

9.11 (b) Distribution of Shareholding as on 31st March, 2004 of Preference Shares.



A . Indian Promoters	[78.75%]	12,16,88,592
B. Persons Acting in Concert	[6.86%]	1,05,94,888
C. Mutual Funds & UTI	[0.52%]	7,95,896
D. Banks, Financial Institutions, Insurance Companies	[0.28%]	4,30,640
E. FIIs and Foreign Mutual Funds	[1.47%]	22,77,660
F. Private Corporate Bodies	[3.18%]	49,16,861
G. Indian Public	[8.87%]	1,37,04,553
H. NRIs/ OCBs	[0.07%]	1,07,960

Total No. of Preference Shares = 154,517,050

The Company had bought back on 2nd July,2004 its 14,02,61,922 fully paid up Preference Shares of face value of Re.1 each, at a price of Rs.1.03 per preference share.

9.12 Dematerialisation of Shares

About 97.77% of the outstanding Equity shares and 97.43% of the outstanding Preference Shares have been de-materialised up to 31st March, 2004. Trading in Shares of the Company is permitted only in de-materialised form w.e.f. 29th November, 1999 as per notification issued by the Securities and Exchange Board of India (SEBI).

Liquidity:

Your Company's Equity shares are fairly liquid and are actively traded on The Stock Exchange Mumbai (BSE) and National Stock Exchange (NSE). The highest trading activity is witnessed on the BSE and NSE. Relevant data for the average daily turnover for the financial year 2003-2004 is given below:

	BSE	NSE	BSE + NSE
In no. of share (in Thousands)	27.21	53.25	80.46
In value terms (Rs. Millions)	13.60	27.42	41.02

9.13 Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity :

The Company has not issued the GDRs/ADRs/Warrants or any Convertible instruments during the year ended 31st March,2004.

9.14 Plant locations :

1. C1/2710, GIDC, Phase-III, Vapi-396 195.
2. Plot No.214, Govt. Industrial Area, Phase-II, Piparia, Silvassa- 396 230.
3. Plot No.20, Govt. Industrial Area, Phase-II, Piparia, Silvassa- 396 230.
4. Plot No.223, Span Industrial Complex, Near R.T.O. Check Post, Dadra- 396 191 (U.T)
5. Plot No.25, GIDC, Phase- IV, Panoli – 395 116.
6. A-7 & A-8, MIDC Industrial Area, Ahmednagar – 414 111.
7. Plot No. 4708, GIDC, Ankleshwar –393 002.
8. Sathammai Village, Karunkuzhi Post, Madurnthakam T.K. Kanchipuram Dist. Tamilnadu – 603 303.
9. Halol-Baroda Highway, Halol, Gujarat – 389 350
10. Plot No. 817/A, Karkhadi – 391 450, Taluka: Padra, Distt. Vadodara

SUN PHARMACEUTICAL INDUSTRIES LTD.

9.15 Investor Correspondence

	For Shares held in Physical form
(a) For transfer/dematerialisation of Shares, payment of dividend on Shares, and any other query relating to the shares of the Company.	Mr. N. Mahadevan Iyer Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West),Mumbai – 400 078. E-Mail: isrl@vsnl.com Tel: 022-55555454, Fax : 022-55555353 **For Shares held in Demat Form** To the Depository Participant.
(b) Any query on Annual Report	**Mr.Kamlesh H. Shah/Mr.Ashok I. Bhuta/Ms. Mira Desai,** Acme Plaza, Andheri Kurla Road, Opp. Sangam Cinema, Andheri (East), Mumbai – 400 059. kamlesh.shah@sunpharma.com ashok.bhuta@sunpharma.com mira.desai@sunpharma.com corpcomm@sunpharma.com

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai,
Date: 18th August, 2005

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To The Members of Sun Pharmaceutical Industries Limited.

We have examined the compliance of conditions of Corporate Governance by Sun Pharmaceutical Industries Limited for the year ended March 31, 2004 as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges in India.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

As required by the guidance note issued by the Institute of Chartered Accountants of India, we have to state that, based on the information received from the Company's Registrar and Share Transfer Agents and as per the records maintained by the Investor Grievance Committee, no investor grievance is pending for a period exceeding one month against the Company.

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

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

K. A. Katki
Partner

Membership No. 038568

Mumbai, August 18, 2005

Auditors' Report to The Board of Directors of Sun Pharmaceutical Industries Limited Group

1. We have audited the attached consolidated balance sheet of Sun Pharmaceutical Industries Limited Group, as at March 31, 2004, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Sun Pharmaceutical Industries Limited management and have been prepared by the management on the basis off separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

2. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. a. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of Rs. 2683.1 Million as at March 31, 2004 total revenues of Rs. 1968.0 Million and net cash outflows amounting to Rs. 17 Million for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Group, and our opinion is based solely on the reports of other auditors.

   b. As stated in Note 2(iv) of Schedule 19, the consolidated financial statements includes the unaudited financial statements of the subsidiary, which we did not audit, whose financial statements reflect the Groups share of assets (net) of Rs. 1341.9 Million as at March 31, 2004 total revenues of Rs. 2324.4 Million and net cash inflows amounting to Rs. 171 Million. The said unaudited financial statements are prepared on the basis of audited financials statements for the year ended December 31, 2003 and the unaudited financial statement for the quarters ended March 31, 2003 and March 31, 2004, provided by the management of that subsidiary. We have relied upon the unaudited financial statements as provided by the management of that subsidiary for the purpose of our examination of consolidated financial statements.

4. We report that the consolidated financial statements have been prepared by the Sun Pharmaceutical Industries Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

5. Subject to paragraph 3 (b) above, based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   a. In the case of the Consolidated Balance Sheet, of the state of affairs of the Indiabulls Financial Services Limited Group as at March 31, 2004;

   b. In the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and

   c. In the case of the Consolidated Cash Flow Statement, the cash flows for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner
Membership No. 038568

Mumbai, August 18, 2005

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedules	As at 31st March, 2004		As at 31st March, 2003	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	618.3		622.2	
Share Capital Suspense	1A	0.1		0.0	
Reserves and Surplus	2	7540.4	8158.8	5141.3	5763.5
Minority Interests					
Share Capital		38.7		27.6	
Reserves and Surplus		44.6	83.3	0.0	27.6
Loan Funds					
Secured Loans	3	981.7		1260.0	
Unsecured Loans	4	3148.7	4130.4	44.5	1304.5
Deferred Tax Liability (Net)	5		740.6		287.5
Total			13113.1		7383.1
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	6231.6		4032.8	
Less: Depreciation / Amortisation and Lease Terminal Adjustment		1713.3		1351.0	
Net Block		4518.3		2681.8	
Capital Work-in-Progress (including advances on capital account)		409.9	4928.2	804.5	3486.3
Goodwill on Consolidation			1612.1		0.0
Investments	7		1765.3		37.9
Current Assets, Loans and Advances					
Inventories	8	2542.2		1824.2	
Sundry Debtors	9	2250.0		2220.6	
Cash and Bank Balances	10	945.5		815.5	
Loans and Advances	11	1186.1		580.6	
		6923.8		5440.9	
Less: Current Liabilities and Provisions	12				
Current Liabilities		1382.6		1012.1	
Provisions		733.7		569.9	
		2116.3		1582.0	
			4807.5		3858.9
Total			13113.1		7383.1
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	19				

Schedules referred to herein form an integral part of the Balance Sheet.

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2004

	Schedules	Year ended 31st March, 2004 Rs in Million	Rs in Million	Year ended 31st March, 2003 Rs in Million	Rs in Million
INCOME					
Income from Operations	13	9846.5		8322.8	
Other Income	14	148.4	9994.9	87.2	8410.0
EXPENDITURE					
Material Cost	15	2386.0		2854.4	
Indirect Taxes	16	387.6		281.4	
Personnel Cost	17	967.9		685.7	
Operating and Other Expenses	18	2155.4		1718.1	
Depreciation / Amortisation		285.7	6182.6	212.0	5751.6
PROFIT BEFORE TAXATION			3812.3		2658.4
Provision for Taxation- Current Tax			105.3		158.2
- Deferred Tax			261.2		56.4
PROFIT AFTER TAX BEFORE PRIOR YEAR ADJUSTMENTS			3445.8		2443.8
Prior Year Adjustments - Deferred tax			187.5		0.0
Profit of CARACO for Jan'03 to Mar'03 - Parent's Share (refer note 14 (iii) of schedule 19)			(49.6)		0.0
PROFIT FOR THE YEAR AFTER PRIOR YEAR ADJUSTMENTS			3307.9		2443.8
Minority Interest			151.2		(42.8)
PROFIT FOR THE YEAR AFTER MINORITY INTREST AND PRIOR YEAR ADJUSTMENTS			3156.7		2486.6
BALANCE OF PROFIT BROUGHT FORWARD			1756.8		1346.2
Adjustment of Carried Forward Loss of Amalgamating Company			(407.4)		0.0
AMOUNT AVAILABLE FOR APPROPRIATIONS			4506.1		3832.8
APPROPRIATIONS					
Proposed Dividend					
Preference Shares		9.3		20.6	
Equity Shares-Final		602.9		465.2	
Proposed Dividend and Dividend distribution tax written back (refer note 19 of schedule 19)		(58.1)		0.0	
Corporate Dividend Tax		78.8	632.9	60.1	545.9
Transfer to General Reserve		1000.0		1500.0	
Transfer to Capital Redemption Reserve on Redemption of Preference Capital		2.5	1002.5	30.1	1530.1
BALANCE OF PROFIT CARRIED TO BALANCE SHEET			2870.7		1756.8
EARNING PER SHARE (refer note: 15 (ii) of Schedule 19)					
On Profit before Prior Year Adjustment					
Basic (Rs.)			35.4		26.4
Diluted (Rs.)			17.7		13.2
On Profit after Prior Year Adjustment					
Basic (Rs.)			33.9		26.4
Diluted (Rs.)			17.0		13.2
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	19				

Schedules referred to herein form an integral part of the Profit and Loss Account.

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

		Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million
A.	**Cash Flow From Operating Activities:**		
	Net Profit Before Tax	**3,812.3**	2,661.1
	Adjustments for:		
	Depreciation	**285.7**	212.0
	Interest Expense	**73.2**	29.0
	Interest Income	**(58.2)**	(41.1)
	Income From Investment-Dividend	**(0.8)**	(0.2)
	(Profit)/Loss On Fixed Assets Sold	**(10.6)**	(31.1)
	(Profit)/Loss on sale of Investments	**(64.5)**	0.0
	Miscellaneous Expenditure written off	**1.5**	0.0
	Provision for Bad and Doubtful Debts	**62.0**	6.0
	Provision for Doubtful Advances	**5.4**	0.0
	Liability No Longer Required Written Back	**(1.4)**	(8.9)
	Provision For Gratuity And Leave Encashment	**12.5**	11.8
	Unrealised Foreign Exchange (Gain) / Loss	**(32.3)**	14.2
	Other Provisions	**67.2**	40.0
	Dividend Writeback	**58.1**	0.0
	Tax Deducted at Source (TDS) on Other Operating Income	**0.0**	(26.2)
	Lease Terminal Adjustment	**(1.9)**	(2.0)
	Minority Interest	**4.9**	0.0
	Operating Profit Before Working Capital Changes	**4,213.0**	2,866.4
	(Increase)/Decrease in Sundry Debtors	**(64.5)**	(1,179.0)
	(Increase)/Decrease in Other Receivables	**(695.6)**	60.5
	(Increase)/Decrease in Inventories	**(706.4)**	(512.9)
	Increase/(Decrease) in Trade and Other Payables	**275.4**	445.3
	Cash Generated From Operations	**3,022.0**	1,680.3
	Taxes (Paid) / Received (Net of TDS and Refund)	**(143.7)**	(167.7)
	— Prior Period (Expenses)/Income (Net)	**(0.1)**	0.0
	Net Cash From Operating Activities	**2,878.2**	1,512.6
B.	**Cash Flow From Investing Activities:**		
	Adjustments for changes in :		
	Contribution by Minority	**169.3**	0.0
	Purchase of Fixed Assets - Additions During the Year	**(2,884.2)**	(675.9)
	Capital Work in Progress	**418.7**	(321.1)
	Proceeds From Sale of Fixed Assets	**38.2**	168.5
	Proceeds From Sale of Investments	**10,921.3**	10.0
	Purchase of Investments	**(13,115.4)**	(15.4)
	Loans/Inter Corporate Deposits Given	**(3,042.6)**	(780.5)
	Loans/Inter Corporate Deposits Refund Received	**3,114.9**	809.4
	Interest Received (Revenue)	**57.8**	32.7
	Dividend Received	**0.8**	0.2
	Net Cash Used In Investing Activities	**(4,321.2)**	(772.1)
C.	**Cash Flow From Financing Activities:**		
	Equity Share Buyback	**(1.4)**	(148.9)
	Equity Share Buyback (amount in excess of face value)	**(78.9)**	0.0
	Redemption of Preference Share Capital	**(2.5)**	(30.1)
	Long Term Loan Taken	**2,426.4**	1,167.6
	Short Term Loan Taken	**0.0**	1.5
	Short Term Loan Repaid	**(667.6)**	0.0
	Interest Paid	**(69.4)**	(29.0)
	Borrowing from Bank	**655.6**	0.0
	Dividend Paid	**(435.0)**	(232.9)
	Dividend Tax Paid	**(53.9)**	0.0
	Net Cash Generated In Financing Activities	**1,773.3**	728.2
	Net Increase/(Decrease) In Cash and Cash Equivalents	**330.3**	1,468.7
	Cash and Cash Equivalents (Opening)	**815.5**	254.6
	Cash and Cash Equivalents acquired on acquisition	**0.1**	0.0
Consolidation Adjustment		**(200.4)**	(907.8)
	Cash and Cash Equivalents (Closing)	**945.5**	815.5
		945.5	815.5

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

	Year ended 31st March, 2004 Rs. in Million	Year ended 31st March, 2003 Rs. in Million
Cash and Cash Equivalents Comprise:		
Cash and Cheques in hand	**10.6**	5.6
Balances with Scheduled Banks on-		
Current Accounts	**228.9**	102.5
Deposit Accounts	**701.2**	701.9
Unpaid Dividend Accounts	**4.8**	5.5
	945.5	815.5

Notes:

1. The above Cash Flow Statement has been prepared under the "Indirect Method" set out in AS-3, issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outgo.
3. The above cash flow statment excludes assets (Other than cash and cash equivalents) / liabilities aquired on amalgamation of erstwhile Phlox Pharmaceuticals Limited.
4. In the pervious year, issue of 18,71,77,232 6% Cumulative Redeemable Preference Shares of Re.1 each were alloted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redeemption Reserve - Rs. 187.2 Million being non cash transaction has not been considered in the Cash Flow Statement.
5. Cash and cash equivalents includes Rs. 4.8 Million (Previous Year Rs. 5.5 Million), which are not available for use by the Company (Refer Schedule 10 in the accounts).

This is the Cash Flow Statement referred to in our report of even date.

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 1 : SHARE CAPITAL				
Authorised				
25,20,00,000 (Previous Year 20,00,00,000) Equity Shares of Rs.5 each		**1260.0**		1000.0
30,00,00,000 (Previous Year 30,00,00,000) Preference Shares of Re. 1 each		**300.0**		300.0
		1560.0		1300.0
Issued, Subscribed and Paid Up				
927,55,678 (Previous Year 930,48,478) Equity Shares of Rs. 5 each		**463.8**		465.2
15,45,17,050 (Previous Year 15,70,46,848) 6% Cumulative Redeemable Preference Shares of Re.1 each		**154.5**		157.0
		618.3		622.2

Notes
Of the Above:

1) 3,44,37,166 Equity shares of Rs.10 each were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account and Amalgamation Reserve.

2) 4,13,633; 2,08,000; 4,77,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd and M.J.Pharmaceuticals Ltd respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.

3) 18,71,77,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. Out of this, 25,29,798 (Previous Year 301,30,384) shares were redeemed at par during the year.

4) One equity share of Rs. 10 each fully paid up was split into two equity shares of Rs. 5 each fully paid up, as on record date 21st January 2003, thereby increasing number of equity shares from 467,94,308 to 935,88,616.

5) During the year, Company has bought 2,92,800 (Previous Year 5,40,138) equity shares of Rs. 5 each, under the buy-back scheme, through open market route.

SCHEDULE 1A : SHARE CAPITAL SUSPENSE				
29,713 (Previous Year Nil) equity shares of Rs.5 each fully paid up, to be issued pursuant to the scheme of Amalgamation of Phlox Pharmaceuticals Limited with the Company.		**0.1**		0.0
SCHEDULE 2 : RESERVES AND SURPLUS				
Capital Reserve				
As per last Balance Sheet	**6.7**		6.7	
Transferred from Amalgamating Company.	**10.0**	**16.7**	0.0	6.7
Securities Premium				
As per last Balance Sheet	**0.0**		57.4	
Less: Utilised for Buy-Back of Equity Shares	**0.0**	**0.0**	57.4	0.0
Capital Redemption Reserve				
As per last Balance Sheet	**344.7**		501.8	
Add : Transferred from Profit and Loss Account	**2.5**		30.1	
Transferred from General Reserve	1.4		0.0	
Transferred from Share Capital Buyback Reserve	**2.7**		0.0	
	351.3		531.9	
Less: Utilised for Issue of Bonus Preference Shares	**0.0**	**351.3**	187.2	344.7
Share Capital Buyback Reserve				
As per last Balance Sheet	**2.7**		0.0	
Transferred from General Reserve	**0.0**		2.7	
Less: Tranfer to Capital Redemption Reserve	**2.7**	**0.0**	0.0	2.7

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
Amalgamation Reserve				
As per last Balance Sheet	0.0		0.0	
Surplus on Amalgamationduring the year	340.5		0.0	
Less: Transfer to General Reserve	340.5	0.0	0.0	0.0
General Reserve				
As per last Balance Sheet	2935.2		3034.9	
Add:Transferred from Amalgamation Reserve	340.5		0.0	
Add : Transferred from Profit and Loss Account	1000.0		1500.0	
	4275.7		4534.9	
Less: Transfer to Share Capital Buyback Reserve	1.4		2.7	
Less: Utilised for Buy-Back of Equity Shares	78.9		88.8	
Less: Excess of value of Investment over the value of				
Net Assets of a Foreign Subsidiary - MajorityInterest	327.8		1006.8	
- Minority Interest	0.0		458.6	
Add: Caraco Minority Fresh Capital - Earlier written off in our reserve now reversed	161.1		0.0	
Add: Share of Profits of Minority Jan'03 to Mar'03 Foreign Subsidiary (CARACO)	50.9		0.0	
Add/(Less): Share of Current Profits of Minority in Foreign Subsidiary	106.6	4186.3	(42.8)	2935.2
Currency Fluctuation Reserve on Consolidation				
As per last Balance Sheet	95.2		8.8	
Additions during the Year	20.3	115.5	86.4	95.2
Surplus as per Profit and Loss Account		2870.6		1756.8
		7540.4		5141.3

SCHEDULE 3 : SECURED LOANS

	2004	2003
1,50,000 - 14% Optionally Convertibile Debentures of Rs. 100/- each	20.8	0.0
Short Tem Loan from Banks	687.8	1243.4
From Others	273.1	16.6
(Refer Note 11 of Schedule 19)		
	981.7	1260.0

SCHEDULE 4 : UNSECURED LOANS

	2004	2004	2003	2003
Long Term				
External Commercial Borrowing in foreign currency from Banks	1888.8		0.0	
Deferred Sales Tax Liability	54.7		41.3	
Other Loans	8.8	1952.3	0.0	41.3
Short Term				
From Bank / Financial Institution *	1193.2		0.0	
Others	3.2	1196.4	3.2	3.2
		3148.7		44.5

* Includes loans from Bank backed by irrevocable and unconditional standing letter of credit provided by Holding Company.

SCHEDULE 5: DEFERRED TAX LIABILITY (NET)

	2004	2003
Deferred Tax Assets		
Unpaind Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961	38.3	3.3
Others	0.1	0.1
	38.4	3.4
Deferred Tax Liability		
Depreciation on Fixed Assets	779.0	290.9
	740.6	287.5

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 6 : FIXED ASSETS **Rs in Million**

Particulars	Gross Block (At Cost)								Depreciation / Amortisation								Net Block	
	As At 01.04.03	Consolidation Adjustment	Opening Balance Caraco	Caraco Additions 1.1.03 to 31.3.03	Additions on Amalgamation	Additions 03-04	Deletions 03-04	**As at 31.03.04**	As at 01.04.03	Consolidation Adjustment	Opening Balance Caraco	Caraco Additions 1.1.03 to 31.3.03	Addions on Amalgamation	For year 03-04	Deletion/ Adjustment 03-04	**As at 31.03.04**	**As at 31.03.04**	As at 31.03.03
A) OWNED ASSETS																		
I. TANGIBLE ASSETS																		
Freehold Land	24.2	(0.8)	0.0	0.0	7.5	0.5	0.0	**31.4**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**31.4**	24.2
Leasehold Land	19.3	0.0	0.0	0.0	0.0	7.5	0.0	**26.8**	1.9	0.0	0.0	0.0	0.0	0.3	0.0	**2.2**	**24.6**	17.4
Buildings	1118.0	(1.1)	0.0	4.8	89.5	694.6	0.0	**1905.7**	200.1	0.1	0.0	2.2	8.7	35.6	0.0	**246.7**	**1659.0**	917.9
Plant and Machinery	2300.7	(50.1)	0.0	4.1	318.8	1077.1	40.5	**3610.1**	927.1	(23.6)	0.0	4.2	96.6	207.1	15.0	**1196.4**	**2413.7**	1373.6
Vehicles	40.3	0.0	0.0	0.0	1.7	22.8	5.8	**59.0**	16.9	0.0	0.0	0.0	0.8	5.3	3.7	**19.3**	**39.7**	23.4
Furniture and Fixtures	72.8	(0.8)	0.0	1.9	5.5	42.6	0.2	**121.9**	35.5	(0.7)	0.0	0.1	1.7	7.5	0.1	**44.0**	**77.9**	37.3
Sub-Total	3575.3	**(52.8)**	0.0	10.8	423.0	1845.1	46.5	5754.9	1181.5	(24.2)	0.0	6.5	107.8	255.8	18.8	**1508.6**	**4246.3**	2393.8
II. INTANGIBLE ASSETS																		
Trademarks,Designs and other Intangible Assets	390.5	0.0	0.0	0.0	19.2	0.0	0.0	**409.7**	115.5	0.0	0.0	0.0	7.3	26.8	0.0	**149.6**	**260.1**	275.0
Sub-Total	390.5	0.0	0.0	0.0	19.2	0.0	0.0	**409.7**	115.5	0.0	0.0	0.0	7.3	26.8	0.0	**149.6**	**260.1**	275.0
SUBTOTAL-A	**3965.8**	**(52.8)**	**0.0**	**10.8**	**442.2**	**1845.1**	**46.5**	**6164.6**	**1297.0**	**(24.2)**	**0.0**	**6.5**	**115.1**	**282.6**	**18.8**	**1658.2**	**4506.4**	**2668.8**
B) LEASED ASSETS																		
Assets Given On Lease	67.0	0.0	0.0	0.0	0.0	0.0	0.0	**67.0**	24.2	0.0	0.0	0.0	0.0	3.1	0.0	**27.3**		
Lease Terminal Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	29.8	0.0	0.0	0.0	0.0	0.0	2.0	**27.8**		
SUBTOTAL-B	**67.0**	**0.0**	**0.0**	**0.0**	0.0	**0.0**	**0.0**	**67.0**	**54.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.1**	**2.0**	**55.1**	**11.9**	**13.0**
TOTAL A+B	**4032.8**	**(52.8)**	**0.0**	**10.8**	**442.2**	**1845.1**	**46.5**	**6231.6**	**1351.0**	**(24.2)**	**0.0**	**6.5**	**115.1**	**285.7**	**20.8**	**1713.3**	**4518.3**	
Previous Year	3007.2	0.0	553.7	0.0	0.0	623.9	152.0	**4032.8**	915.1	0.0	240.5	0.0	0.0	212.0	16.6	**1351.0**		**2681.8**
Capital Work-in-Progress (including advances on capital account)																	**409.9**	804.5
																	4928.2	3486.3

NOTES :

1. Buildings include Rs.1,020 (Previous Year Rs. 1,020) towards cost of shares in a Co-operative Housing Society and Rs 24.89 Million (Previous Year 27.09 Million) towards capitalisation of borrowing cost.
2. Capital work-in-progress (including advances on Capital Account) includes Rs. 24.4 Million (Previous Year Rs 14.6 Million) on account of Pre-operative expenses and Rs. 22.4 Million (Previous Year Rs. Nil) with respect to Amalgamating Company.

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 7 : INVESTMENTS				
(I) LONG TERM INVESTMENTS (At Cost)				
A) Government Securities				
National Savings Certificates Rs. 12,000 (Previous Year Rs. 12,000) (Deposited with Government Authorities)		**0.0**		0.0
B) Trade Investments				
Unquoted				
In Equity Shares				
Enviro Infrastructure Co. Ltd. 1,00,000 (Previous Year Nil) Shares of Rs. 10/- each fully paid up		**1.0**		0.0
C) Other Investments				
Quoted				
a) In Bonds				
US 64 Bonds 3,99,734 (Previous Year Nil) units of Rs.100 each Market Value (Rs. 43.3 Million)		**42.2**		0.0

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
b) In Subsidiary Companies				
Unquoted				
Promissory Note-Caraco Pharmaceutical Laboratories Ltd, USA @ carrying interest as agreed.		**0.0**		32.5
c) In Equity Shares				
Ramin Developers Pvt Ltd.-200 (Previous Year 200) Shares of Rs. 100 each fully paid (pending registration) (Received during the year, Rs. 3.3 million)		**2.1**		5.4
d) In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIII 5,00,00,000 (Previous Year Nil) Units		**500.0**		0.0
Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIV 1,25,00,000 (Previous Year Nil) Units		**125.0**		0.0
Kotak Mutual Fund "Kotak Fixed Maturity Plans (8)"- Growth Plan 1,50,00,000 (Previous Year Nil) Units		**150.0**		0.0
IL&FS Mutual Fund "IL & FS Fixed Maturity Plan-Yfmp/0104"-Growth Plan 1,25,00,000 (Previous Year Nil) Units		**125.0**		0.0
Reliance Capital Mutual Fund "Reliance Fixed Term Scheme-Annual Plan-3"-Growth Option 2,50,00,000 (Previous Year Nil) Units		**250.0**		0.0
Standard Chartered Mutual Fund "G31 Grindlays Fixed Maturity Annual Plan "-Growth 3,50,00,000 (Previous Year Nil) Units		**350.0**		0.0
Total(I)		**1545.3**		37.9
(II) CURRENT INVESTMENTS (At lower of Cost and Net realisable value)				
In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Kotak Mutual Fund "Inst Premium Plan" 1,73,07,163 (Previous year Nil) Units		**220.0**		0.0
Total (II)		**220.0**		0.0
Total (I) + (II)		**1765.3**		37.9

@Uneliminated due to different Accounting Year

	Book Value	**Marker Value**	Book Value	Marker Value
AGGREGATE VALUE OF INVESTMENT				
Quoted	**42.2**	**43.3**	0.0	0.0
Unquoted	**2255.3**		37.9	

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

Movements during the Year
Purchased and Sold

Mutual Fund Units (Units of Face Value of Rs. 10/- Each)	**Units In Nos.**	**Purchase Value Rs in Million**	**Sales Value Rs in Million**
In Liquid Scheme			
Birla SunLife Mutual Fund	41990872	697.0	698.0
Deutsche Mutual Fund	100556941	1045.1	1047.4
DSP Merril Lynch Mutal Fund	40369619	607.0	607.9
HDFC Mutual Fund	15981717	200.0	200.3
IL&FS Mutual Fund	20079747	235.0	235.4
ING Savings Trust Mutual Fund	21050600	280.5	280.9
ING Trust ee Saving Mutual	5077466	60.0	60.1
JM Mutual Fund	40400476	413.0	415.0
Kotak Mahindra Mutual Fund	125142076	1571.7	1574.7
Principal Mutual Fund	57679147	595.0	596.3
Prudential ICICI Mutual Fund	97469206	1472.6	1475.4
Reliance Mutual Fund	19143481	293.0	293.7
Standard Chartered Mutual Fund	31859451	362.1	362.4
Tata Mutual Fund	68333734	771.5	772.7
UTI Mutual Fund	5000000	50.0	50.1
In FMP Scheme			
Reliance Mutual Fund	854000	200.0	200.9
In Income Funds			
Deutsche Mutual Fund	22751472	250.0	252.0
Franklin Templeton Mutual Fund	21194164	250.0	250.4
HDFC Mutual Fund	33360912	500.0	523.9
Principal Mutual Fund	23587799	250.0	251.7
Prudential ICICI Mutual Fund	64645497	750.0	768.7

	As at 31st March, 2004		As at 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 8 : INVENTORIES				
Consumables Stores		**1.1**		1.2
Raw Materials	**1034.5**		881.6	
Packing Materials	**83.1**		100.2	
Finished Goods	**924.7**		431.7	
Work-in-Progress	**498.8**	**2541.1**	409.5	1823.0
		2542.2		1824.2
SCHEDULE 9 : SUNDRY DEBTORS				
(Unsecured-Considered Good, unless stated otherwise)				
Over Six Months				
Considered Good		**207.2**		208.5
Considered Doubtful	**68.0**		6.0	
Less: Provison for Doubtful Debts	**68.0**	**0.0**	6.0	0.0
Others Debts		**2042.8**		2012.1
		2250.0		2220.6
SCHEDULE 10 : CASH AND BANK BALANCES				
Cash / Cheques in hand		**10.6**		5.6
Balances with Scheduled Banks on-				
Current Accounts	**228.9**		102.5	
Deposit Accounts	**701.2**		701.9	
Unpaid Dividend Accounts	**4.8**	**934.9**	5.5	809.9
		945.5		815.5

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2004 Rs in Million	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million	As at 31st March, 2003 Rs in Million
SCHEDULE 11 : LOANS AND ADVANCES				
(Unsecured - Considered Good, unless stated otherwise)				
Interest accrued on Investment		**0.5**		0.0
Loan to Employees# / Others*		**84.3**		118.3
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		**73.6**		59.8
Considered Doubtful	**4.5**		0.0	
Less : Provision for Doubtful Advances	**4.5**	**0.0**	0.0	0.0
Advances to Suppliers		**595.2**		83.9
Balances with Central Excise and Customs		**125.0**		80.1
DEPB and Advance Licence		**116.3**		94.6
Other Deposits		**102.5**		45.7
Advance Payment of Income Tax (Net of Provision)		**88.7**		98.3
		1186.1		580.6

Due from an Officer of the Company Rs. Nil (Previous Year Rs. Nil)
Maximum amount outstanding during the year Nil (Previous Year Rs. 1.0 Million)
* Secured Loans Rs. 24.1 Million (Previous Year Rs. 24.4 Million)

	As at 31st March, 2004 Rs in Million	As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million	As at 31st March, 2003 Rs in Million
SCHEDULE 12 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors and Advances from Customers				
Due to Small Scale Industrial Undertakings	**2.7**		6.7	
Others	**921.8**		620.5	
Security Deposits	**23.0**		17.3	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	**4.8**		5.5	
Temporary Book Overdraft	**0.2**		0.0	
Other Liabilities	**412.8**		362.1	
Interest accrued but not due	**17.3**	**1382.6**	0.0	1012.1
Provisions				
Proposed Dividend - Equity Shares	**602.9**		465.2	
- Preference Shares	**9.3**		20.6	
	612.2		485.8	
Corporate Dividend Tax	**78.4**		60.1	
Provision for Earned Leave	**43.1**	**733.7**	24.0	569.9
		2116.3		1582.0

	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2004 Rs in Million	Year ended 31st March, 2003 Rs in Million	Year ended 31st March, 2003 Rs in Million
SCHEDULE 13 : INCOME FROM OPERATIONS				
Gross Sale	**10669.5**		9032.3	
Less: Excise Duty	**839.5**		713.3	
Net Sales		**9830.0**		8319.0
Service Charges		**0.0**		0.6
Lease Rental and Hire Charges-TDS Rs.25,625 (Previous Year Nil)	**14.6**		1.2	
Add: Lease Equalisation Account	**1.9**	**16.5**	2.0	3.2
Conversion and Analytical Charges TDS Nil (Previous Year Rs.3,200)		**0.0**		0.0
		9846.5		8322.8
SCHEDULE 14 : OTHER INCOME				
Interest from Banks and Other Advances /Deposits (Refer Note 9 of Schedule 19)		**0.0**		12.1
Profit on Sale of Fixed Assets		**11.6**		31.6
Profit on Sale of Current Investments		**64.5**		0.0
Sundry Balances Written Back (Net)		**3.0**		1.2
Insurance Claims		**7.5**		2.1
Dividend (Previous Year Rs. 21,360) TDS Rs. Nil (Previous Year Rs. 2,026)		**0.8**		0.2
Miscellaneous Income-TDS Rs. 2.3 Million (Previous Year Rs. 1.8 Million)		**61.0**		40.0
		148.4		87.2

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2004		Year ended 31st March, 2003	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 15 : MATERIAL COST				
Inventories at the beginning of the year		**1827.4**		1451.3
Purchases during the year		**3099.1**		3230.5
Inventories at the end of the year		**(2540.5)**		(1827.4)
		2386.0		2854.4
SCHEDULE 16 : INDIRECT TAXES				
Sales Tax		**383.2**		277.4
Turnover Tax		**1.2**		1.3
Purchase Tax		**3.2**		2.7
		387.6		281.4
SCHEDULE 17 : PERSONNEL COST				
Salaries, Wages, Bonus and Benefits		**809.0**		566.0
Contribution to Provident and Other Funds		**74.2**		41.3
Staff Welfare Expenses		**84.7**		78.4
		967.9		685.7
SCHEDULE 18 : OPERATING AND OTHER EXPENSES				
Stores and Spares Consumed		**100.6**		58.3
Manufacturing Charges		**255.2**		177.0
Power and Fuel		**167.3**		149.8
Rent		**20.5**		14.2
Rates and Taxes		**26.9**		19.7
Insurance		**82.5**		33.3
Selling and Distribution		**297.9**		290.2
Commission and Discount		**54.7**		89.5
Repairs				
Building	**14.5**		14.3	
Plant and Machinery	**108.8**		85.6	
Others	**26.8**	**150.1**	23.5	123.4
Printing and Stationery		**20.0**		16.5
Travelling and Conveyance		**51.5**		41.4
Overseas Travel and Export Promotion		**254.2**		172.6
Communication		**44.0**		36.5
Research and Development		**208.3**		318.7
Provision for Doubtful Debts / Advances		**5.4**		0.1
Professional and Consultancy		**96.8**		31.4
Donations		**0.5**		0.5
Loss on Sale of Fixed Assets		**1.0**		0.5
Interest Expence (Refer Note 9 of Schedule 19)		**15.1**		0.0
Auditors' Remuneration (including service tax)				
Audit Fees	**3.5**		2.2	
Other Services	**0.5**		0.5	
Out of Pocket Expenses (Rs.42,277)	**0.0**	**4.0**	0.1	2.8
Miscellaneous		**298.9**		141.7
		2155.4		1718.1

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2004

SCHEDULE 19 : NOTES TO FINANCIAL STATEMENTS

1. SUBSIDIARIES / AFFILIATES

The Consolidated Financial Statements present the consolidated accounts of Sun Pharmaceutical Industries Ltd with its following subsidiaries / affiliates.

Name of Subsidiary	Country of Incorporation	Proportion of ownership interest	Year ending of subsidiary	Audited By
Indian Subsidiary				
Milmet Pharma Limited	India	99.60%	31/03/2004	Pravin Doshi & Co.
Foreign Subsidiaries				
Sun Pharma Global Inc.	British Virgin Islands	100.00%	31/03/2004	Valia & Timbadia
ZAO Sun Pharma Industries Limited	Russia	100.00%	31/12/2003	Best Audit
Sun Pharmaceutical (Bangladesh) Limited	Bangladesh	72.50%	31/03/2004	Rahman Rahman Huq
Caraco Pharmaceutical Laboratories Ltd (CARACO)	United States of America	61.80%	31/03/2004	Rehmann Robson
Name of Partnership Firm				
Sun Pharmaceutical Industries	India	95.00%	31/03/2004	Price Waterhouse
Sun Pharma Exports	India	80.00%	31/03/2004	Valia & Timbadia

2. (i) Significant Accounting Policies and Notes to these Consolidated Financial Statements are intended to serve as a means of informative disclosure and a guide for better understanding of the consolidated position of the Companies. Recognising this purpose, the Company has disclosed only such policies and notes from the individual financial statements which fairly represent the needed disclosures. Lack of homogeneity and other similar considerations made it desirable to exclude some of them, which in the opinion of the management, could be better viewed when referred from the individual financial statements.

(ii) The accounts have been prepared to comply in all material aspects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India.

(iii) The financial statements of the Parent and its subsidiaries have been consolidated on a line by line basis by adding together the book value of like item of assets, liabilities, income and expenses and adjustment are made to apply uniform accounting policies for all its subsidiaries and thereafter eliminating intra-group balances, intra-group transactions and unrealized profits.

(iv) CARACO follows calendar year as its accounting year. Accordingly, the audited financial statements of CARACO for the year ended December 31, 2003 are available. For the purpose of this consolidation, the accounts for the financial year April 1, 2003 to March 31, 2004 are considered and are complied based on the audited financial statements for the year ended December 31, 2003 and the adjustment thereto in respect of the unaudited financial statements for the quarters ended March 31, 2003 and March 31, 2004 which are certified by the Management of CARACO and filed with regulatory authorities. During the previous year as the audited financial statements for the year ended December 31, 2002 only were considered for consolidation, the results for the quarter ended Marh 31, 2003 have now been adjusted in the Profit and Loss Account of the current financial year as a prior period adjustment.

(v) The Parent Company hold 95% shares inProfit and losses of the Partnership Firm M/s. Sun Pharmaceutical Industries, India which started its business during the year. The parent Company's holding in CARACO has increased to 61.80% between January 1, 2004 to March 31, 2004 and accordingly the minority interest was considered at 38.20% for the purpose of this account.

(vi) The Company has initiated the process for Liquidation of ZAO Sun Pharma Industries Limited and has appointed Official Liquidator as per the terms of Resolution passed at the General Meeting of referred Subsidiary held on October 29, 2002.

3. SIGNIFICANT ACCOUNTING POLICIES

(i) **Basis of Accounting**

The financial statements have been prepared under historical cost convention on an accrual basis.

(ii) **Use of Estimates**

The presentation of financial statements in confirmity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statments and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known / materialsed.

(iii) **Fixed Assets and Depreciation / Amortisation**

Fixed Assets including Intangible assets are stated at historical cost less accumulated depreciation / amortisation thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to The Companies Act,1956. At CARACO depreciation is computed using the Straight Line Method over the estimated useful lives of the related assets, which range from 3 to 40 years. Intangible assets consisting of trademarks, designs, technical know-how, non compete fees and other intangible assets are amortised on Straight Line Method from the date they are available for use, over the useful life of the assets (10/20 years), as estimated by the Management. Leasehold land is amortised over the period of lease.

(iv) **Leases**

Assets acquired on finance lease prior to April 1, 2001, are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equalisation accounts have been created for the assets given on lease, where ever required.

(v) **Revenue Recognition**

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods. Export sales are recognised on the basis of Bill of Lading / Airway Bill. Sales includes sales tax, interest on delayed payments and are stated net of returns and chargebacks at CARACO. (Chargebacks are price adjustments given to wholesale customers selling products further to those parties with whom the Company has established contractual pricing).

(vi) **Investments**

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and net realisable value. Long Term investments are stated at cost less provision, if any, for permanent diminution in their value.

(vii) **Inventories**

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost and net realisable value, on a FIFO basis.

(viii) **Research and Development**
All revenue expenditures related to Research and Development are charged to the respective heads in the Profit and Loss Account.

(ix) **Foreign Currency Transactions**
Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currency at the year end and not covered by forward exchange contracts are translated at year end rates. In respect of monetary items which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognized as exchange difference and the premium on such forward contracts is recognised over the life for the forward contract. The exchange differences arising on settlement / translation are recognised in the revenue accounts, except those pertaining to the fixed assets acquired from outside India, which are adjusted to the cost of such fixed assets.
For the purpose of Consolidation, the amounts appearing in foreign currencies in the Financial Statements of the foreign subsidiaries are translated at the following rates of exchange:
a. Average rates for income and expenditure.
b. Year end rates for assets and liabilities.

(x) **Taxes on Income**
Provision for taxation comprises of Current Tax and Deferred Tax. Current Tax provision has been made on the basis of reliefs and deductions available under the Income Tax Act, 1961. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantively enacted at the Balance Sheet date.

(xi) **Terminal Benefits**
(a) The Company's contribution in respect of provident fund / social security funds is charged to Profit and Loss Account each year.
(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy and superannuation fund is charged off to Profit and Loss Account each year . The contribution for group gratuity policy is based on values as acturialy determined and demanded by the LIC at the year end .
(c) Liability for accumulated earned privileged leave of employees is ascertained and provided for as per Company Rules.

(xii) **Borrowing Costs**
Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recongnised as an expense in the period in which thy are incurred.

(xiii) **Common/Convertible Preferred Stock Issued**
Common/Convertible Preferred Stock is issued by CARACO from time to time in lieu of cash for directors fees and in exchange for fees towards formula for products developed by Parents & its affiliates and is recorded as compensatory expenses/research and development costs respectively.

4. AMALGAMATION

(i) Pursuant to the Scheme of Amalgamation of the erstwhile Phlox Pharmaceuticals Limited ("Phlox"), which is engaged in Pharmaceutical business, with the Company, as sanctioned by the Hon'ble High Court of Gujarat all the assets and liabilities of the erstwhile "Phlox" were transferred to and vested in the Company with effect from March1, 2004, the appointed date. The Scheme has accordingly been given effect to in these financial statements.

(ii) The amalgamation has been accounted for under the "Pooling of Interest Method" as prescribed under Accounting Standard (AS-14) Accounting for Amalgamations issued by the Institute of Chartered Accountants of India. Accordingly, all the Assets, Liabilities and Reserves of the erstwhile "Phlox" as at March 1, 2004 have been taken over at their respective book values subject to adjustments made for the differences in the accounting policies between the two companies.

(iii) The accumulated debit balance of Rs. 407.4 Million in the Profit and Loss Account of erstwhile "Phlox" has been adjusted in the Profit and Loss Account. Rs. 234.5 Million being the difference between the Net Assets of "Phlox" and the Share Capital to be issued has been transferred to Amalgamation Reserve.

(iv) "Phlox" depreciated its Fixed Assets on Written Down Value Method. Depreciation on Fixed Assets of "Phlox" has been recomputed as per Straight Line Method. Accordingly, Rs. 110.3 Million, being the excess depreciation provided for the period upto February 29, 2004 and Rs. 4.3 Million, being deferred tax Liability of "Phlox" for the period upto February 29, 2004 has been adjusted to Amalgamation Reserve in order to unify the accounting policies on amalgamation as is required under Accounting Standard (AS-14) Accounting for Amalgamations issued by the Institute of Chartered Accountants of India.

(v) As per the Scheme of Amalagamation as sanctioned by the Hon'ble High Court of Gujarat, Equity shares of Rs. 5 each of the Company are to be issued to the shareholders of the erstwhile "Phlox" in the ratio of 1 share of company for every 790 shares of erstwhile "Phlox". Pending allotment of aforesaid shares, the said consideration amounting to Rs. 0.1 Million has been stated under Share Capital Suspense as at March 31, 2004.

(vi) Subsequent to the Balance Sheet date, against the interest due on loans included under Secured loans arising out of amalgamation of “Phlox” , Preference Capital was issued by the erstwhile “Phlox” in March 2005 and the Secured loans including interest thereon and the 45,11,654 equity shares and all the preference shares of “Phlox” have been acquired by the Company from a company holding lender's interest in March, 2005. Further 1,53,24,700 Equity shares of Rs.10 each fully paid up and 25,98,300 equity shares of Rs.10 each Re.1 paid up of “Phlox” have been acquired by the Company in April, 2005.

(vii) As a result of the above, figures in respect of the current financial year are not comparable with those of the previous financial year.

		As at 31st March, 2004 Rs in Million	As at 31st March, 2003 Rs in Million
5.	**CONTINGENT LIABILITIES NOT PROVIDED FOR**		
	Letters of Credit	**552.5**	241.4
	Liabilities Disputed		
	Sales Tax	**21.2**	86.7
	Excise Duty	**18.1**	27.6
	Income Tax	**90.1**	120.7
	Towards Price Equalisation Fund-DPEA	**10.0**	10.0
	Import Duty-JDGFT	**20.8**	19.1
	ESIC Contribution	**0.2**	0.2
	Claims against the Company not acknowledged as debts	**0.4**	0.4
6.	**CAPITAL COMMITMENTS - FIXED ASSETS**	**143.6**	94.3

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2004

			Year ended 31st March, 2004 Rs in Million		Year ended 31st March, 2003 Rs in Million
7.	**REMUNERATION TO DIRECTORS**				
	Managerial Remuneration U/s 198 of The Companies Act, 1956				
	Salaries and Allowances		**15.1**		14.3
	Contribution to Provident and Superannuation Funds		**1.9**		2.1
	Perquisites and Benefits		**6.0**		0.2
	Commission		**1.6**		1.2
	Total		**24.6**		17.8
8.	**RESEARCH AND DEVELOPMENT EXPENDITURE**				
	Revenue		**669.5**		603.1
	Capital		**598.3**		363.4
9.	**INTEREST EXPENSE AS UNDER**				
	Fixed Loans	**57.4**		19.9	
	Debentures	**7.5**		3.2	
	Others	**8.3**		5.9	
			73.2		29.0
	Less : INTERST INCOME AS UNDER				
	TDS Rs. 7.7 Million (Previous Year Rs. 5.7 Million)				
	Banks & Other Advance / Deposits	**7.6**		12.0	
	Interest on Loans / Deposits	**50.5**		29.1	
			58.1		41.1
	NET INTEREST EXPENSE (INCOME)		**15.1**		**(12.1)**

10. The net exchange gain of Rs.180.9 Million (Previous Year loss of Rs.10.41 Million) is included in the net profit for the year. Foreign exchange loss of Rs.10.6 Million (Previous Year gain of Rs.68.2 Million) on account of income and expenditure consolidation and foreign exchange gain of Rs.30.9 Million (Previous Year gain of Rs.18.2 Million) on account of consolidation of assets and liabilities of subsidiaries have been transferred to Currency Fluctuation Reserve Account.

11. **SECURED LOANS**
    (i) 14% Optionally Convertible Debentures of Rs. 100 each acquired on amalgamation from "Phlox", are secured by hypothecation of movable assets of the company and pari passu charge on fixed assets of the company. The said debentures were redeemable by "Phlox" on August 20, 2003 (with earliest redemption on November 20, 2002). Subsequent to the Balance Sheet date, the said debentures have been acquired by the Company from a lender company and in view of the amalgamation of "Phlox" with the Company, the same have been cancelled off on acquisition. Credit facilities from Bank are secured by hypothecation of stocks and book debts. The loans transferred from erstwhile "Phlox" on amalgamation are further secured by pari passu charge on present and future assets of the Company.
    (ii) Credit facilities from Banks are secured by hypothecation of stocks and book debts and with respect to Sun Pharmaceutical (Bangladesh) Ltd. is secured by hypothecation of fixed assets, equitable mortagage at Bangladesh Plant.
    (iii) Term Loan taken in Caraco Pharmaceutical Laboratories Ltd from Economic Development Corporation of the City of Detroit are secured by first mortgage on other property and first lien on furniture, fixtures, equipment and intellectual property located at Caraco Unit.
    (iv) Term Loan taken in Caraco Pharmaceutical Laboratories Ltd from Bank of Nova Scotia and Citibank are secured by Corporate Guarantee and standby letter of credit respectively, given by Parent Company.
    (v) Term Loan taken in Sun Pharmaceutical Industries from Citi Bank are secured by mortgage of Jammu Unit.

12. Based on the information available with the company, there are no dues to sundry creditors being small scale industrial undertaking in excess of 30 days.

13. The figures of Previous Year does not include Accounts of Sun Pharmaceutical Industries, India as the firm has started its business in the current year only.

14. As regards consolidation of Accounts of CARACO
    (i) During the year, Company has acquired additional 12.41% Common Stock and 16,79,066 Rights in respect of common stock in CARACO. On consolidation of accounts of CARACO, a sum of Rs.1,612.1 Million being excess of investment made during the year over the book value of net assets ascertained as of December 31, 2003 has been transferred to Goodwill. Further Rs. 327.8 Million being the impact in the share of net assets as on December 31, 2003 has been adjusted to General Reserve as in the previous year minority's share capital and losses had been adjusted against General Reserves.
    (ii) The current years miority profit of Rs. 106.6 million (i.e. for the year April 1, 2003 to March 31, 2004), minority interest in the profit for the period January 2003 to March 2003 amounting to Rs. 50.9 Million and fresh capital received from Miority Shareholders of CARACO aggregating to Rs. 161.1 Million is credited to General Reserve as in the previous year losses of Minority were absorbed by holding company.
    (iii) The parent's share of profit of Rs.49.6 Million for the period January 2003 to March 2003 is credited to the Profit & Loss Account.
    (iv) In the previous year Rs.1,006.8 Million being excess value of investment over the book value of net assets was reduced from General Reserve. Had this practice been followed reserves for the year would have reduced by Rs.1,612.1 Million on acquisition of further investment in CARACO and correspondingly Goodwill would have been decreased by the same amount.
    (v) The Goodwill arising out of consolidation on account of acquisition of additional stake is not amortised.
    (vi) With respect to routine litigation incidental to the business, Management believes that the ultimate disposition of these matters willl not have any material adverse effect on the financial statements.
    (vii) With respect to deferred tax, certain net operating losses available for set off will begin to expire from 2007 and utilisation of such loss may be limited due to ownership change.

15. **Disclosure with respect to Accounting Standards issued by the Institute of Chartered Accountants of India**
    (i) **Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure 'A' annexed.**
    (ii) **Accounting Standard (AS-20) on Earnings Per Share:**

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2004

	Year ended 31st March, 2004		Year ended 31st March, 2003	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
	Before Prior Year Adjustment	**After Prior Year Adjustment**	Before Prior Year Adjustment	After Prior Year Adjustment
Profit After Tax	**3445.8**	**3445.8**	2443.8	2443.8
Less : Dividend on Preference Shares	**9.3**	**9.3**	20.6	20.6
Less : Corporate Dividend Tax on Preference Shares	**1.2**	**1.2**	0.5	0.5
Less : Minority Interest	**151.2**	**151.2**	(42.8)	(42.8)
Less : Prior year adjustment - deferred taxation	**0.0**	**187.5**	0.0	0.0
Less : Prior year adjustment-Caraco for Jan'03 to Mar'03 Parent's Share	**0.0**	**(49.6)**	0.0	0.0
Profit used as Numerator for calculating Earnings per share	**3284.1**	**3146.2**	2465.5	2465.5
Weighted Average number of Shares used in computing basic earnings per share	**92786182**	**92786182**	93564866	93564866
Add: Potential number of equity shares that could arise on exercise of Options on convertible debentures / Bonus Shares (92755678) / Share Capital Suspense	**92758363**	**92758363**	92755678	92755678
Weighted average number of shares used in computing diluted earnings per share	**185544545**	**185544545**	186320544	186320544
Nominal value per share (In Rs.)	**5**	**5**	5	5
Basic Earnings Per Share (in Rs.)	**35.4**	**33.9**	26.4	26.4
Diluted Earnings Per Share (in Rs.)	**17.7**	**17.0**	13.2	13.2

(iii) **Accounting Standard (AS-17) on Segment Reporting:**

a) Primary Segment
The Company has identified "Pharmaceuticals" as the only primary reportable segment.

b) Secondary Segment (By Geographical Segment)

	2004	2003
Sales		
India	**6806.0**	6428.8
Outside India	**3863.5**	2603.5
Total	**10669.5**	9032.3
Service Charges		
India	**0.0**	0.0
Outside India	**0.0**	0.6
Total	**0.0**	0.6

In view of the interwoven / inter-mix nature of business and manufacturing facility, other segmental information is not ascertainable.

16. Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on thei agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the managements best estimates of useful lives of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obselescence, market demand for products, competition and their expected future benefits to the company.

17. The Company's tax liability arises under the provisions of section 115JB of the Income Tax Act, 1961. In view of the Accounting Standards Interpretation (ASI - 6) Acounting for taxes on Income in the context of section 115JB of the Income Tax Act, 1961, issued by the Institute of Chartered Accountants of India, the Company has recognised additional liability for deferred taxation arising out of the said interpretion by way of prior year adjustments.

18. In view of the clarification on Inter divisional transfers issued by the Institute of Chartered Accountants of India, the Company has restated the value of sales / material cost in the financial statements in accordance with the said clarification.

19. Proposed dividend and the corresponding corporate dividend tax with respect to equity shares on which the right to receive dividend was waived by certain shareholders has been transferred to Profit & Loss Account.

20. Subseqent to the Balance Sheet date on April 21, 2004 the Board has proposed to issue equity shares of Rs.5 each as bonus shares to the shareholders of the Company in the ratio of one bonus share for each existing equity share, subject to the approval of the shareholders. The earnings per shares has been computed after considering the effect of dilution on account of the said bonus issue.

21. Previous years' figures are restated/regrouped/ rearranged wherever necessary in order to confirm to current years' groupings and classifications.

Signatures to Schedule 1 to 19 form an integral part of Accounts

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Mumbai, 18th August 2005

KAMLESH H. SHAH
Company Secretary

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, 18th August 2005

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)

ANNEXURE 'A'

ACCOUNTING STANDARD (AS-18) "RELATED PARTY DISCLOSURE"

(Rs in Million)

Particulars	Key Management Personnel		Relatives of Key Management personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/04	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03	**31/03/04**	31/03/03
Purchases of goods	**0.0**	0.0	**0.0**	0.0	**1.7**	0.0	**1.7**	0.0
Sale of goods	**0.0**	0.0	**0.0**	0.0	**9.4**	6.3	**9.4**	6.3
Purchases of fixed assets	**0.0**	0.0	**0.0**	0.0	**0.0**	26.4	**0.0**	26.4
Receiving of Service	**0.0**	0.0	**0.0**	0.0	**0.0**	0.3	**0.0**	0.3
Rendering of Service	**0.0**	0.0	**0.0**	0.0	**0.1**	0.4	**0.1**	0.4
Rent Income	**0.0**	0.0	**0.0**	0.0	**0.1**	0.1	**0.1**	0.1
Director's Remuneration	**11.7**	11.6	**0.0**	0.0	**0.0**	0.0	**11.7**	11.6
Rent Paid	**0.0**	0.0	**0.3**	0.2	**0.0**	0.0	**0.3**	0.2
Outstanding receivables, net of Payables as on 31/03/04	**0.0**	0.0	**0.0**	0.0	**0.1**	(19.7)	**0.1**	(19.7)

Note :
Names of related parties and description of relationship

1	Key Management Personnel	Mr Dilip S. Shanghvi Mr Sudhir V. Valia Mr Sailesh T. Desai	
2	Relatives of Key Management Personnel	Mrs Vibha Shanghvi Mrs Kumud Shanghvi Mrs Meera Desai Mrs Nirmala Desai	Wife of Chairman Mother of Chairman Wife of Wholetime Director Mother of Wholetime Director
3	Enterprise under significant Influence of Key Management Personnel or their relatives	Sun Petrochemical Pvt Ltd Sun Speciality Chemicals Pvt Ltd Navjivan Rasayan (Gujarat) Pvt Ltd	

ZAO SUN PHARMA INDUSTRIES LTD. RUSSIA

Moscow, 117420, ul.Profsoyuznaya, dom 57, Office 722, tel. 334-28-77; fax 332-61-13

Informative Report enclosed to the annual report concerning the business activity of Company ZAO <Sun Pharma Industries Limited> during 2003.

In 2003 ZAO < Sun Pharma Industries Limited> did not perform the business activity.

The annual fiscal report for 2003 of ZAO < Sun Pharma Industries Limited> has been composed and has been submitted in the period of liquidation (the Solution of the Company Board Meeting was held on 29.10.2002 in Mumbai, India), a Liquidator is Mr.Sinarevsky Pavel Alexandrovich (the Power of Attorney of 29.10.2002 issued in Mumbai, India).

Here there are initial reasons, which have made their influence on the financial state of Company in 2003:

- the tax inspectorate has executed its control procedures on the subject of the Company liquidation; in result VAT was recalculated and the additional sum of VAT was equal to 2595 roubles; accordingly the additional sum of penalties, related with liabilities on the tax of income received by private persons, was equal to 520 roubles.
- the sum of non-sale expenses was equal to 3659 roubles.
- the sum of financial aid was equal to 892 roubles.

The sum of financial aid was included into the sum of non-sale income. Due to the financial aid Company managed to pay for the bank services (544 roubles) and penalties imposed on the tax of income received by private persons (520 roubles). The additional sum of VAT was not remitted because of the balance of other sums overpaid to the state budget.

Subsequently, by the end of 2003 the Balance Loss was equal to the sum 2767 roubles reflected in the Company accounting.

At the end of current the fiscal period 2003 the Company had come to the Debitor Indebtedness equal to 12167 roubles attributed as a debt of Migration Service (a non-returned guarantee loan paid for a foreign specialist to Migration Service -12024 roubles) and an over-paid tax in the sum 143 roubles, besides, there is a Credit Indebtedness equal the the sum of 85663 roubles, which is attributed as the liabilities in respect of the state budget.

A Loss introduced in the 3rd Section of the Balance Sheet (93426 roubles) means a financial result; a Loss of the previous years (90659 roubles) and the sum of a Loss of the fiscal period (2767 roubles).

Liquidator — P. A. Sinarevsky
January 24,2004

AUDITING COMPANY “BEST AUDIT”

Member of the Russian Soyuz of the Industrialists and Businessmen and the Member of Moscow Audit Chamber

117420, Moscow, ul.Profsoyuznaya, 57, Office 722
E-mail: best-audit@best-audit.ru
r/c № 40702810717000000102 b
ZAO <<KB<<GUTA-BANK>> Moscow,
k/c 30101810100000000716,
bik 044525716
INN 7727036330

Licence MF RF № E 004394
(general audit)

Tel / Fax 332-03-51

No.49 dt.30 April 2004

To the Management
ZAO <<Sun Pharma Industries Limited>>

Auditing Conclusion on the book keeping balance
ZAO <<Sun Pharma Industries Limited>>
For the Year 2003

Information of the Auditor.
ZAO Auditing Company “Best-Audit” (hereinafter referred to as the “Auditor”) was registered with the Moscow Registration Chamber on 17.02.94. State Registration N325095. General Director – Egorov Mikhail Evgenievich (Qualified Attested Auditor № 008955). Address : Moscow, Ul.Profsoyuznaya, Dom 57, Office 725, Tel 334-43-19, Fax 332-03-51, INN 7727036330, EGRN № 1027700591027.
Auditor has received the general licence of Ministry of RF № E 004394 dt.27.06.2003 (valid for 5 years).
The auditor is the member of non commercial professional affiliation << Moscow Auditors Chamber>> (The testimony on accreditation № 2 is issued by Ministry of Finance of RF)

Audited Subject.
ZAO <<Sun Pharma Industries Limited>> (hereinafter referred to as the “Company”) registered with the Moscow Registration Chamber dt.15.04.1994 (Registration Number 031055).
Charter capital of 20000 (Twenty thousand) roubles.
In the Unified state list of the legal persons state fixed number assigned to Company is 1037700003604.
Legal Address: RF, 109444, Moscow, ul.Sormovskaya, Dom 8, Korpus 2

Volume of Audit.
We have performed the audit of ZAO <<Sun Pharma Industries Limited>> accounting documentation for the period since January 01, 2003 till December 31, 2003.

The bookkeeping balance consists of:
The Balance Sheet (Form 1);
The Profit and Loss Accounts(Form 2);

It is the responsibility of ZAO <<Sun Pharma Industries Limited>> Executive Management to prepare and to submit the above mentioned accounting documentation. Our obligation is to make up the official opinion about the authenticity of the mentioned documentation and to check that the documentation is composed in accordance with the Russian Federation law by means of our audit.

We carried out the audit in accordance with:

- the Federal Law of RF “Auditing Activity” № 119-FZ dt.07.08.2001
- Federal Rules (Standards) worked out to execute the audit adopted by the RF Government Statement № 696 dt.23.09.2002 and № 405 dt.04.07.2003
- Auditing Rules (Standards) issued by the Moscow Auditors Chamber
- Auditing Rules (Standards) issued by Auditing Company <<Best-Audit>>

The audit was planned and carried out in order to get the confirmation that there had not been admitted any grave infringements in the internal accounting documentation.

During the audit we selected the appropriate material and studied them. We had checked the proofs confirming the authenticity of the accounting documentation and the information of ZAO <<Sun Pharma industries Limited>> business activity. We had considered the methods and principles applied in the bookkeeping balance along with the requirements applied during the preparation of the book keeping balance. We had determined the initial approach which the top management of the audited company had used during the preparation of the bookkeeping balance. We had received the entire idea about the bookkeeping balance.

The appended annual accounts are prepared by the audited company ZAO <<Sun Pharma Industries Limited>> in accordance with the rules of book keeping established under PBU 4/99 <<The Accounts of Organizations>> approved Order of the Ministry of Finance of the Russian Federation of July 6, 1999 № 43n, <<About the forms of the accounts of organizations>> approved Order of the Ministry of Finance of the Russian Federation of July 22, 2003 № 67n, the book keeping implemented in conformity of the Law of Russian Federation № 129-FZ <<About book keeping>>, Position on management of book keeping and reporting in Russian Federation under approved order of Ministry of Finance of the Russian Federation № 34n dt.29.07.1998.
We guess that the executed audit gives us the reason to confirm that the book keeping balance is true and has been maintained in accordance with the Russian Federation Legislation.
Audit was completed on 30 April 2004.

Auditors Conclusion
Our opinion is that the documentation is properly composed to define the exact financial situation of the audited company on the 31st of December, 2003 and the results of business activity for the period January 01 till December 31,2003.

General Director
ZAO <<AK <<Best-Audit>>: — Egorov M.E.
(Life Licence № K 008955)

30.04.2004

ZAO SUN PHARMA INDUSTRIES LTD. RUSSIA

BALANCE SHEET AS AT 31ST DECEMBER, 2003

		Amount (RRu) As at 31/12/2003	Amount (RRu) As at 31/12/2002
ASSETS			
I	**FIXED ASSETS**		
	Office Equipments	0	0
II	**CURRENT ASSETS**		
	Inventories	0	0
	Finished Goods	0	0
	Receivables (less than 12 months)		
	Debtors for goods & services	12,024	12,024
	Other Debtors	143	2,606
	Cash & Bank Balances		
	Bank Balances	70	1,051
	Other Current Assets	0	0
III	**PROFIT & LOSS ACCOUNT**		
	Profit & Loss Account	93,426	90,659
		105,663	106,340
LIABILITIES			
IV	**CAPITAL AND RESERVES**		
	Authorised Capital	20,000	20,000
	Paid up Share Capital	20,000	20,000
V	**CURRENT LIABILITIES**		
	Sundry Creditors		
	For Goods & Services	0	0
	Advances from Customers	0	0
	Other Liabilities	85,663	86,340
		105,663	106,340

P.A.Sinarevsky
Liquidator

Date - 24/01/2004
ZAO <Sun Pharma Industries Limited>

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Amount (RRu) As at 31/12/2003	Amount (RRu) As at 31/12/2002
Net Sales	0	0
Interest	0	0
Other Income	892	49,841
	892	49,841
Cost of Sales of Goods & Services	0	0
Commercial Expenses	0	0
Interest	0	0
Other Operating Expenses	3,659	63,714
Road Tax & Property tax	0	0
	3,659	63,714
Loss for the period	2,767	13,873
Add: Prelimnary Expenses	0	0
Balance brought forward	90,659	76,786
Balance carried over to Balance Sheet	93,426	90,659

P.A.Sinarevsky
Liquidator

Date - 24/01/2004
ZAO <Sun Pharma Industries Limited>

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

DIRECTORS' REPORT

To,

The Members of Sun Pharma Global Inc., British Virgin Island.

Your Directors take pleasure in submitting the 8th Annual Report and Statement of Audited Accounts for the period ended 31st March, 2004.

Financial Results

The working of the Company during the period has been satisfactory and the Company has made profit of USD 10,676,012 (Previous year USD 4,416,795) from its operations.

Dividend

No dividend (Previous Year Nil) for the Financial Year under review was paid to the equity shareholders of the Company.

Auditors

Your Company's auditors Valia & Timbadia retire at the conclusion of the forthcoming Annual General Meeting and have offered themselves for reappointment. The Members are requested to reappoint the auditors for the current year and fix their remuneration.

FOR AND ON BEHALF OF THE BOARD

DILIP S. SHANGHVI	SUDHIR V. VALIA
Director	Director

Mumbai, 20th April, 2004

AUDITORS' REPORT TO THE MEMBERS

We have audited the attached Balance Sheet of Sun Pharma Global Inc. British Virgin Island as at 31st March, 2004 and Profit and Loss Account of the Company for the period ended on that date annexed thereto and report that :

(a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

(b) In our opinion , proper books of account have been kept by the Company so far as appears from our examination of those books.

(c) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account.

(d) In our opinion and to the best of our information and according to the explanation given to us , the said accounts give a true and fair view :

i. In the case of the Balance Sheet of the state of affairs of the Company as at 31st March, 2004.

ii. In the case of the Profit and Loss Account of the profit of the Company for the period ended on that date.

For VALIA & TIMBADIA
Chartered Accountants

HITEN C TIMBADIA
Partner

Mumbai , 20th April, 2003

BALANCE SHEET AS AT 31ST MARCH, 2004

(Amount in USD)

	SCHEDULES	As at 31st March, 2004	As at 31st March, 2003
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	**500,000**	500,000
Reserves and Surplus			
Profit and Loss Account		**16,282,045**	5,606,033
		16,782,045	6,106,033
APPLICATION OF FUNDS			
Investments	2	**16,293,974**	5,577,025
Current Assets, Loans and Advances			
Current Assets	3	**691,470**	526,927
Loans and Advances	4	**196,976**	2,331
Less : Current Liabilities and Provisions			
Creditors		**400,375**	250
		488,071	529,008
		16,782,045	6,106,033
NOTES TO ACCOUNTS	8		

This is the Balance Sheet referred to in our report of even date.

For and on behalf of the Board

For **VALIA & TIMBADIA**
Chartered Accountants

HITEN C. TIMBADIA	**DILIP S. SHANGHVI**	**SUDHIR V. VALIA**
Partner	Director	Director

Mumbai, 20th April, 2004

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

(Amount in USD)

	SCHEDULES	For the year ended 31st March, 2004	For the period ended 31st March, 2003
INCOME			
Income from Operations	5	**11,715,373**	5,084,569
Interest Income		**3,989**	57,071
		11,719,362	5,141,640
EXPENDITURE			
Material Cost	6	**240,000**	330,000
Operating Expenses	7	**803,350**	394,845
		1,043,350	724,845
PROFIT FOR THE YEAR		**10,676,012**	4,416,795
BALANCE BROUGHT FORWARD		**5,606,033**	1,189,238
AVAILABLE FOR APPROPRIATION		**16,282,045**	5,606,033
BALANCE CARRIED TO BALANCE SHEET		**16,282,045**	5,606,033
NOTES TO ACCOUNTS	8		

This is the Profit and Loss Account referred to in our report of even date.

For and on behalf of the Board

For **VALIA & TIMBADIA**
Chartered Accountants

HITEN C. TIMBADIA	**DILIP S. SHANGHVI**	**SUDHIR V. VALIA**
Partner	Director	Director

Mumbai, 20th April, 2004

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

SCHEDULES TO THE ACCOUNTS

(Amount in USD)

	As at 31st March, 2004	As at 31st March, 2003
SCHEDULE : 1 SHARE CAPITAL		
Authorised		
500,000 Shares of US $ 1/- Each	**500,000**	500,000
Issued and Subscribed		
500,000 Shares of US $1/- each fully paid up	**500,000**	500,000
(Entire Share Capital is held by Holding Company Sun Pharmaceutical Industries Ltd., India.)	**500,000**	500,000
SCHEDULE : 2 INVESTMENTS		
A) Trade Investments (Quoted)		
Caraco Pharmaceutical Laboratories Ltd. U.S.A. 3,354,657 (Previous Year 3,354,657) Fully paid and Non Assessable Common Shares of No par value (Market Value $ 34,083,315) (Previous Year $ 9,460,133)	**5,364,914**	5,364,914
B) Trade Investments (Unquoted)		
Sun Pharmaceutical (Bangladesh) Ltd.		
I] 1- (Previous Year - 1) Equity Shares of 100 Takas each fully paid	**2**	2
ii] Equity Contribution (Previous Year - $ 98.16) pending allotment	**98**	98
iii] Caraco Pharmaceutical Laboratories Ltd., U.S.A. 1,632,000 (Previous Year NIL) Fully paid and Series B Convertible Preferred stock no par value	**10,928,960**	—
Others		
Promissory Note - Caraco Pharmaceutical Laboratories Ltd., USA	—	212,011
	16,293,974	5,577,025
SCHEDULE : 3 CURRENT ASSETS		
Inventories of finished goods (As certified by the Management)	**176,800**	16,800
Debtors - Considered good	**422,199**	437,756
Balance with Bank	**82,471**	62,371
Security Deposit	**10,000**	10,000
	691,470	526,927
SCHEDULE : 4 LOANS AND ADVANCES		
Alicia International	**146,976**	2,331
Art International Ltd.	**50,000**	—
	196,976	2,331

(Amount in USD)

	For the year ended 31st March, 2004	For the period ended 31st March, 2003
SCHEDULE : 5 INCOME FROM OPERATIONS		
Sales	**10,928,960**	4,412,928
Service Charges	—	12,915
Commission Received	**786,371**	658,326
Miscellaneous Income	**42**	400
	11,715,373	5,084,569
SCHEDULE : 6 MATERIAL COST		
Opening Stock	**16,800**	16,800
Purchases	**400,000**	330,000
Less : Closing Stock	**176,800**	16,800
	240,000	330,000
SCHEDULE : 7 OPERATING EXPENSES		
Conveyance	**66,323**	39,020
Office Expenses	**14,529**	8,811
Business Promotion Expenses	**95,576**	59,094
Printing and Stationery	**6,723**	3,860
Professional Charges	**87,693**	53,004
Rent	**42,000**	24,926
Repairs and Maintanance	**13,714**	8,041
Selling and Distribution Expenses	**193,297**	115,941
Entertainment Expenses	**42,694**	25,933
Car Hire	**7,387**	4,036
Communication Expenses	**32,438**	19,510
Miscellaneous Expenses	**58,964**	32,544
Salary	**141,887**	—
Audit Fees	**125**	125
	803,350	394,845

SCHEDULE 8

NOTES TO ACCOUNTS

1. Significant accounting policies
   i) Revenue is recognised on accrual basis
   ii) Shares/Stocks received in exchange of technology transfer are accounted at issue price.
   iii) Inventory is valued at lower of cost or market value.
2. Previous Period's figures represents 15 months Period from January, 2002 to March, 2003 and as such are not strictly comparable with that of current year.

DIRECTORS' REPORT

To

The Members of

MILMET PHARMA LIMITED.

Your Directors have pleasure in presenting you the 8th Annual Report of your Company together with the Audited Accounts for the year ended on 31st March, 2004.

FINANCIAL RESULTS

In Rs.

	Year ended 31st March, 2004	Year ended 31st March, 2003
Income from operation	**Nil**	2,12,42,051
Profit Before Tax	**46,749**	10,87,276
Profit After Tax (after adjustment for earlier year)	**1,34,534**	7,27,886
Balance B/f from Previous Year	**16,67,524**	9,39,639
Surplus carried to Balance Sheet	**18,02,059**	16,67,524

DIVIDEND

In view to conserve the resources of the Company, your Directors do not recommend any dividend on the equity capital of the Company.

OPERATIONS

During the year under review the Company has not carried out any operational activity. The Company has earned other income by way of interest of Rs. 0.74 Lakh as compared to Rs. 0.88 Lakh of previous year.

DIRECTORS:

Shri Kashyap Upadhyay retires by rotation at the forthcoming Annual General Meeting of the Company and being eligible has offered himself for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) that in the preparation of the annual accounts for the financial year under review, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were 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 and on the profit of the Company for the year under review;

(iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) that the Directors have prepared the annual accounts for the financial year ended under review on a 'going concern' basis.

PUBLIC DEPOSIT:

The Company has not accepted any deposit from the public during the period under provisions of the Companies Act, 1956 and rules framed thereunder.

INFORMATION ON CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUT GOES AS REQUIRED UNDER SECTION 217 (11) (E) OF THE COMPANIES ACT, 1956.

The Company has no activities relating to conservation of energy or technology absorption. The Company has no foreign exchange earnings and out goes.

PARTICULARS OF EMPLOYEES:

Pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, your Company has no person in its employment drawing salary in excess of Rs.24,00,000/- per annum or Rs.2,00,000/- per month.

AUDITORS:

The Auditors of the Company, M/s. Pravin Doshi & Co., Chartered Accountants, Vadodara, retire at the conclusion of forthcoming Annual General Meeting. The Company has received letter from them to the effect that their reappointment, if made, will be in accordance with the provisions of section 224(1B) of the Companies Act, 1956

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

SAILESH T. DESAI DIRECTOR

KASHYAP UPADHYAY DIRECTOR

PLACE: VADODARA

DATE : 19th April, 2004

AUDITORS' REPORT
TO THE MEMBERS OF MILMET PHARMA LIMITED

We have audited the attached Balance Sheet of Milmet Pharma Limited as at 31st March, 2004 and also the Profit and Loss Account of the Company for the year ended on that date, annexed thereto. 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. We report that:

As required by the Companies (Auditor's Report) Order, 2003, issued by the Company Law Board 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 enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the said Order.

Further to our comments in the Annexure referred to in paragraph 1 above,

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) 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 the books;

c) the Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account;

d) in our opinion the Profit & Loss Account and Balance Sheet dealt with by this report are in compliance with the Accounting Standards referred to in of section 211 (3C) of the Companies Act, 1956, to the extent applicable;

e) on the basis of the written representations received from the directors of the Company, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004; and

(ii) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date.

For and on behalf of

PRAVIN DOSHI & CO.

Chartered Accountants

PRAVIN M. DOSHI

Partner

Baroda, 19th day of April, 2004

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in Paragraph (1) thereof)

1. The Company has not granted or taken any loans, secured or unsecured from companies, firms or parties listed in the register maintained under Section 301 of the Companies Act, 1956.

2. According to the records of the Company, Provident Fund dues have *generally* been regularly deposited during the year with the appropriate authorities. There are no arrears in respect of any of the statutory dues.

3. According to the information and explanations given to us, there were no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty, that were outstanding as at 31st March, 2004 for a period of more than six months from the dates they become payable.

   The matters specified in items (i), (ii), (iv), (v), (vi), (vii), (viii), (x), (xi), (xii), (xiii), (xiv), (xv), (xvi), (xvii), (xviii), (xix), and (xx) of paragraph 4 of the Companies (Auditors' Report) 2003 are not applicable to the Company.

For and on behalf of

PRAVIN DOSHI & CO.

Chartered Accountants

PRAVIN M. DOSHI

Partner

Baroda, 19th day of April, 2004

MILMET PHARMA LIMITED

BALANCE SHEET AS AT 31ST MARCH, 2004

(Amount in Rupees)

	Schedules	As at 31st March, 2004		As at 31st March, 2003	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	A	**500,000**		500,000	
Reserves and Surplus	B	**1,802,059**	**2,302,059**	1,667,524	2,167,524
			2,302,059		2,167,524
APPLICATION OF FUNDS					
Current Assets, Loans and Advances					
Sundry Debtors	C	**2,428,403**		5,911,540	
Cash and Bank Balances	D	**63,435**		249,148	
Loans and Advances	E	**146,316**		1,174,543	
		2,638,154		7,335,231	
Less : Current Liabilities and Provisions	F	**337,985**	**2,300,169**	5,170,542	2,164,689
Miscellaneous Expenditure					
(To the extent not written off or adjusted)					
Preliminary Expenses			**1,890**		2,835
			2,302,059		2,167,524
NOTES TO ACCOUNTS	K				

AS PER OUR REPORT OF EVEN DATE ATTACHED

For PRAVIN DOSHI & CO.
Chartered Accountants

PRAVIN M. DOSHI
Partner

BARODA : 19th APRIL, 2004

FOR AND ON BEHALF OF THE BOARD

SAILESH T. DESAI
DIRECTOR

KASHYAP UPADHYAY
DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

(Amount in Rupees)

	Schedules	Year ended 31st March, 2004		Year ended 31st March, 2003	
INCOME					
Income from Operations	G	—		21,242,051	
Other Income	H	**73,529**	**73,529**	87,996	21,330,047
EXPENDITURE					
Personnel Expenses	I	—		14,289,917	
Operational Expenses	J	**26,780**	**26,780**	5,952,855	20,242,771
PROFIT BEFORE TAX			**46,749**		1,087,276
LESS: PROVISION FOR TAXATION			**3,650**		362,590
ADD: TAX ADJUSTMENT FOR EARLIER YEAR			**91,435**		3,200
PROFIT AFTER TAX			**134,534**		727,886
BALANCE BROUGHT FORWARD			**1,667,524**		939,639
BALANCE CARRIED TO BALANCE SHEET			**1,802,059**		1,667,524
EARNINGS PER SHARE (BASICS AND DILUTED)			**2.69**		14.56
NOTES TO ACCOUNTS	K				

AS PER OUR REPORT OF EVEN DATE ATTACHED

For PRAVIN DOSHI & CO.
Chartered Accountants

PRAVIN M. DOSHI
Partner

BARODA : 19th APRIL, 2004

FOR AND ON BEHALF OF THE BOARD

SAILESH T. DESAI
DIRECTOR

KASHYAP UPADHYAY
DIRECTOR

SCHEDULES TO ACCOUNTS

(Amount in Rupees)

	As at 31st March, 2004	As at 31st March, 2003
SCHEDULE A : SHARE CAPITAL		
Authorised		
50,000 Equity Shares of Rs.10 each	**500,000**	500,000
Issued and Subscribed		
50000 (Previous Year 50000) Equity Shares of Rs. 10 each fully paid up	**500,000**	500,000
(Out of above 49,800 (Previous year 49,800) Equity Shares of Rs.10 each are held by Sun Pharmaceutical Industries Limited (the Holding Company))	**500,000**	500,000
SCHEDULE B : RESERVES AND SURPLUS		
Profit and Loss Account As per Annexed Account	**1,802,059**	1,667,524
	1,802,059	1,667,524
SCHEDULE C : SUNDRY DEBTORS		
(Unsecured and considered good)		
Over six months	**1,036,381**	—
Others	**1,392,022**	5,911,540
(Debt due from holding company- Sun Pharmaceutical Industries Limited)	**2,428,403**	5,911,540
SCHEDULE D : CASH AND BANK BALANCES		
Cash in hand	**46,413**	93,821
Balances with Scheduled Banks on current account	**17,022**	155,327
	63,435	249,148
SCHEDULE E : LOANS AND ADVANCES		
(Unsecured and considered good)		
Advances recoverable in cash or in kind or for value to be received	**66,473**	1,064,029
Advance Payment of Income Tax (Net of provision)	**79,843**	110,514
	146,316	1,174,543
SCHEDULE F : CURRENT LIABILITIES & PROVISION		
Sundry Creditors	**1,185**	88,892
Other Liabilities	**336,800**	5,081,650
	337,985	5,170,542

(Amount in Rupees)

	Year ended 31st March, 2004	Year ended 31st March, 2003
SCHEDULE G : INCOME FROM OPERATIONS		
Commission	—	21,242,051
	—	21,242,051
SCHEDULE H : OTHER INCOME		
Interest -Tax Deducted at Source Nil (Previous Year Nil)	**70,629**	87,906
Miscellaneous Income	**2,900**	90
	73,529	87,996
SCHEDULE I : PERSONNEL EXPENSES		
Salaries,Wages,Bonus and Benefits	—	13,256,383
Contribution to Provident and Other Funds	—	800,702
Other Welfare Expenses	—	232,832
	—	14,289,917
SCHEDULE J : OPERATIONAL EXPENSES		
Rent	—	120,000
Rates and Taxes	**1,360**	1,000
Insurance	—	49,898
Selling and Distribution	**2,768**	3,423,840
Travelling and Conveyance	—	1,688,716
Communication Expenses	—	76,957
Miscellaneous Expenses	**9,692**	579,484
Auditors' Remuneration		
- Audit Fees	**12,960**	12,960
	26,780	5,952,855

SCHEDULE ' K ' : NOTES TO ACCOUNTS

1. **SIGNIFICANT ACCOUNTING POLICIES**

   i. BASIS OF ACCOUNTING

   The Financial statement are prepared under historical cost convention on an accrual basis and comply with the accounting standards referred to in Section 211(C) of the Companies Act, 1956

   ii. REVENUE RECOGNITION

   All revenues are accounted on accrual basis.

   iii. TERMINAL BENEFITS

   Provision for Gratuity will be made as and when statutorily required. Liabilities for accumulated earned leave of employees is ascertained and provided for as on the date of the Balance Sheet

   iv. PRELIMINARY EXPENSES

   Preliminary Expenses are written off equally over a period of 10 years.

2. The company has no carry forward losses nor any timing difference which will result in the creation of deferred tax asset/ liability as envisaged in AS 22.

3. Disclosure with respect to Accounting Standards issued by the Institute of Chartered Accountants of India

   Accounting Standard (AS-20) on Earning Per Share :

		Year ended 31st March, 2004 Amount Rs.		Year ended 31st March, 2003 Amount Rs.
(a) **Net Profit**				
Net Profit for the year		**134,534**		727,886
Profit used as Numerator		**134,534**		727,886
(b) Weighted Average number of Equity Shares used as Denominator		**50,000**		50,000
(c) Nominal value per share	**Rs.**	**10**	Rs.	10
(d) Earnings Per Share (Basic and Diluted)	**Rs.**	**2.69**	Rs.	14.56

4. Additional information pursuant to Part II of Schedule VI to the Companies Act, 1956 are not applicable.

5. Previous year figures have been recasted / regrouped wherever necessary.

6. **BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

I. Registration Details

Registration No. 04/31523

Balance Sheet Date 31st March, 2004 State Code 04

II. Capital Raised during the year (Amount in Rs.Thousands)

Public Issue	Right Issue
NIL	NIL
Bonus Issue	Private Placement
NIL	NIL

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

Total Liabilities	Total Assets
2302	2302
Sources of Funds	
Paid-up Capital	Reserves and Surplus
500	1802
Secured Loans	Unsecured Loans
0	0
Application of Funds	
Net Fixed Assets	Investments
0	0
Net Current Assets	Miscellaneous Expenditure
2300	2
Accumulated Losses	
0	

IV. Performance of Company (Amount in Rs.Thousands)

Turnover	Total Expenditure
74	27
Profit Before Tax	Profit After Tax
47	135
Earning Per Share in Rs.	Dividend Rate %
2.69	NIL

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

(As per Monetary Terms)

Item Code No. (Itc Code) NOT APPLICABLE

Product Description NOT APPLICABLE

SUN PHARMACEUTICAL (BANGLADESH) LIMITED

DIRECTORS' REPORT

To,

The Members of Sun Pharmaceutical (Bangladesh) Limited.

Your Directors take pleasure in presenting the Third Annual Report and Audited Accounts for the Year ended on 31st March 2004.

Financial Results

There were no commercial activities during the accounting year and as such no Profit and Loss Account is prepared for the year under review.

Project

During the accounting period the project was completed in all respect and ready for trial production. All other necessary permissions from respective authorities have been obtained.The Drugs Administration & Licencing Authority (Drugs) has approved the project and the Company will commence the production very shortly.

Auditors

Your Company's Auditors, M/s. Rahman Rahman Huq, Chartered Accountants, Dhaka, retire at the conclusion of the forthcoming Annual General Meeting. Your company has received a letter from them to the effect of their re-appointment, if made, will be in accordance with the provision of Section 210 of the Companies Act, 1994.

Acknowledgements

Your Directors wish to thank all shareholders, Board of Investment, your Company's bankers for their continued support and valuable co-operation.

For and on behalf of the Board of Directors

Dhaka, 19th April, 2004	**Girish R. Desai** Chairman	**Sukumar Ranjan Ghosh** Managing Director

AUDITORS' REPORT TO THE SHAREHOLDERS OF SUN PHARMACEUTICAL (BANGLADESH) LIMITED

We have audited the accompanying balance sheet of Sun Pharmaceutical (Bangladesh) Limited as of 31 March 2004 and the related cash flow statement and statement of changes in shareholders' equity for the year then ended. The preparation of these financial statements are the responsibility of the company's management. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. 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.

In our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the company's affairs as of 31 March 2004 and of the results of its operations and its cash flows for the year then ended and comply with the Companies Act 1994 and other applicable laws and regulations.

We also report that:

a) 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 and made due verification thereof;

b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of these books; and

c) the company's balance sheet dealt with by the report is in agreement with the books of account.

Rahman Rahman Huq
Dhaka, 19th April, 2004

BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedule	As at 31st March, 2004 Taka	As at 31st March, 2003 Taka
Sources of fund			
Shareholders' equity :			
Share capital	1	100,000	100,000
Share money deposits	2	111,415,547	108,845,547
		111,515,547	108,945,547
Loan Funds:			
Secured Loan	3	50,667,403	40,000,000
Unsecured Loan	4	4,135,000	3,850,000
		54,802,403	43,850,000
		166,317,950	152,795,547
Applications of fund			
Property, plant and equipment	5	138,328,718	137,392,162
Preliminary and pre-operating expenses	6	31,751,165	20,125,475
Current assets:			
Advance, deposit and prepayments	7	1,738,025	2,303,613
Cash and bank balances	8	6,945	28,888
Total current assets		1,744,970	2,332,501
Current liabilities:			
Sundry creditors	9	(5,506,903)	(7,054,591)
Net current assets		(3,761,933)	(4,722,090)
Net assets		166,317,950	152,795,547
Notes to Financial Statements	10		

The Schedule 1 to 10 form an integral part of these financial statements.

Dhaka, 19 th April, 2004

As per our annexed report of same date.

Rahman Rahman Huq Auditor	**Sukumar Ranjan Ghosh** Managing Director	**Girish R. Desai** Chairman

Suresh R. Ajmera
Commercial Manager

CASH FLOW STATEMENT AS AT 31ST MARCH, 2004

	For the period Year ended on 31st March, 2004 Taka	For the period Year ended on 31st March, 2003 Taka
A) Cash flows from pre-operating activities		
Payment to employees, suppliers etc.	(13,173,378)	(41,828,654)
B) Cash flows from investing activities		
Purchase of property, plant and equipment	(936,556)	(5,158,782)
Advance deposits and prepayments	565,588	(1,003,075)
Net cash out flows from investing activities	(370,968)	(6,161,857)
C) Cash flows from financing activities		
Share money deposits	2,570,000	2,428,700
Loan fund	10,952,403	43,850,000
Net cash used in financing activities	13,522,403	46,278,700
D) Net increase in cash and bank balances (A+B+C)	(21,943)	(1,711,811)
E) Cash and bank balances at opening	28,888	1,740,699
F) Cash and bank balance at closing (Schedule 8)	6,945	28,888

Sukumar Ranjan Ghosh Managing Director	**Girish R. Desai** Chairman

Suresh R. Ajmera
Commercial Manager

SUN PHARMACEUTICAL (BANGLADESH) LIMITED

NOTES TO FINANCIAL STATEMENTS

SCHEDULES 1 TO 10 FORMING PART OF BALANCE SHEET AS AT 31ST MARCH, 2004

		As at 31/03/2004 Taka	As at 31/03/2003 Taka
1	**Share capital**		
	Authorised:		
	600,000 Ordinary shares of Tk 100 each	**60,000,000**	60,000,000
	Issued, subscribed and paid-up:		
	1,000 Ordinary shares of Tk 100 each fully paid	**100,000**	100,000
	Shareholding position of the company is as follows:		

	2004 Nominal value Taka	**2004** % of present holding	2003 Nominal value Taka	2003 % of present holding
Sun Pharmaceutical Industries Limited	**72,400**	**72.4**	72,400	72.4
Sun Pharma Global Inc.	**100**	**0.1**	100	0.1
City Overseas Limited	**27,500**	**27.5**	27,500	27.5
	100,000	**100.0**	100,000	100.0

		As at 31/03/2004 Taka	As at 31/03/2003 Taka
2	**Share money deposits**		
	Sun Pharmaceutical Industries Limited	**75,620,966**	75,620,966
	Sun Pharma Global Inc.	**5,328**	5,328
	City Overseas Limited	**35,789,253**	33,219,253
		111,415,547	108,845,547
3	**Secured Loan**		
	From Bank - Term Loan	—	40,000,000
	- Over Draft (Schedule 3.1)	**50,667,403**	—
		50,667,403	40,000,000

3.1 Total overdraft facility limit sanctioned with Standard Chartered Bank as at 31 March 2004 was Tk 55,000,000. Interest rate is 11% per annum with quarterly rest. Credit facilities from bank are secured by hypothecation of plant and machineries as well as demand promissory notes.

		As at 31/03/2004 Taka	As at 31/03/2003 Taka
4	**Unsecured Loan**		
	From Director	**4,135,000**	3,850,000

5 Property plant and equipment

	At 1 Apr. 2003 Taka	Addition during the year Taka	**At 31 March, 2004 Taka**
Air-conditioner	182,500	—	**182,500**
Computer	713,720	224,105	**937,825**
Furniture and fixtures	1,973,840	97,000	**2,070,840**
Electrical instaliation	8,335,400	8,082	**8,343,482**
EPBX system	115,050	—	**115,050**
Leasehold land	33,000	—	**33,000**
Vehicles	995,200	5,000	**1,000,200**
	12,348,710	334,187	**12,682,897**
Work-in-progress:			
Building	56,625,777	103,849	**56,729,626**
Plant and machinery	68,417,675	489,520	**68,916,195**
	125,043,452	602,369	**125,645,821**
	137,392,162	936,556	**138,328,718**

		As at 31/03/2004 Taka	As at 31/03/2003 Taka
6	**Preliminary and pre-operating expenses**		
	Licence fees and company registration expenses	**176,380**	123,930
	Travelling expenses, car rental charge and motor car exp.	**3,670,633**	3,389,972
	Salary and allowances	**5,461,686**	3,482,620
	Office rent	**2,545,600**	1,705,600
	Telephone and trunk call	**1,043,981**	834,988
	Bank charges,L/c opening charges, Financial charges, etc.	**871,851**	857,195
	Interest to Bank	**8,267,208**	3,220,707
	Security services	**2,023,094**	1,332,294
	Insurance premium	**1,690,914**	805,400
	Power and fuel	**1,576,206**	1,081,126
	Unloading charges	**440,807**	436,436
	Office expenses and entertainment	**788,271**	601,590
	Printing and stationery	**311,171**	269,748
	Factory expenses (Schedule 6.1)	**480,933**	321,186
	Soil testing fees	**75,000**	75,000
	Legal and professional fees	**75,800**	65,350
	Books and periodicals	**89,594**	72,851
	Advertisement	**128,981**	56,340
	Audit fee	**126,900**	80,000
	Quality control chemical	**48,695**	48,695
	Subscription	**64,820**	49,820
	Utilities	**230,690**	159,469
	Postage and stamps	**33,654**	27,576
	Bonus and gift	**91,056**	58,306
	Repairs and maintenance	**366,243**	84,250
	Rates and taxes	**61,580**	30,000
	Garden Exp	**81,001**	36,602
	Promotional exp	**897,479**	799,568
	Others	**30,937**	18,856
		31,751,165	20,125,475

6.1 Factory expenses

The amount is net off of sundry income of Tk 67,650.

		As at 31/03/2004 Taka	As at 31/03/2003 Taka
7	**Advance, deposits and prepayments**		
	Advances:	**1,184,025**	1,883,806
	Deposits:	**291,500**	313,500
	Pre-payments:	**262,500**	106,307
		1,738,025	2,303,613
8	**Cash and bank balances**		
	Cash in hand	—	—
	Cash at bank:		
	Standard Chartered Bank	—	22,498
	First Security Bank Limited	**2,980**	3,180
	State Bank of India	**3,965**	3,210
		6,945	28,888
9	**Sundry creditors**		
	Sun Pharmaceutical Industries Limited (Related party)	**2,825,696**	2,730,458
	Others	**2,653,724**	4,305,005
	TDS payable	**27,483**	19,128
		5,506,903	7,054,591

SUN PHARMACEUTICAL (BANGLADESH) LIMITED

10 Notes to the Financial Statements for the year ended 31st March, 2004

i) Company profile

Sun Pharmaceutical (Bangladesh) Limited is a private limited company incorporated on 29 March 2001 [registration no. C-42777 (2136)/2001] in Bangladesh under the Companies Act 1994 with an authorised capital of Tk 60 million divided into 600,000 ordinary shares of Tk 100 each.

The company was formed jointly with Sun Pharmaceutical Industries Limited (SPIL), a company incorporated in India, City Overseas Limited (COL), a company incorporated in Bangladesh and Sun Pharma Global Inc (SPGI), A company incorporated under the laws of British Virgin Island.

ii) Nature of business

The objective of the company is to provide essential and speciality medicines for chronic disease ailing patients at affordable prices in support of "BETTER HEALTH FOR ALL" policy of WHO. The main activity of the company will be to produce various pharmaceutical products for cardiology, neurology, psychiatry, oncology, gastroenterology etc. and to sell them in the local and overseas markets.

iii) Licence from Drug Administration

Drugs Administration & Licencing Authority (Drugs) has approved the project and the Company will commence production in the near future.

iv) Significant accounting policies

a) Basis of accounting

These accounts have been prepared under the historical cost convention, in accordance with Bangladesh Accounting Standards and the requirements of the Companies Act, 1994 and other laws and rules applicable in Bangladesh.

b) Foreign currency transactions

Transactions in foreign currencies are translated into Bangladesh taka at the exchange rates ruling on the date of transactions. Monetary foreign currency assets and liabilities are restated at the balance sheet date using rates prevailing on that day.

c) Reporting currency and level of precision

The figures in the financial statements represent Bangladesh taka and are rounded off to nearest integer.

d) Reporting period

Financial statements of the company cover the period from 1 April 2003 to 31 March 2004.

v) Number of employees

The number of permanent employees engaged for the whole year who received a total remuneration of Tk 36,000 and above was 5 (2003:5).

vi) General

Previous year's figures have been rearranged, where necessary to conform to current year's presentation.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

Dear Shareholders and Friends:

2003 was an excellent year for our Company. We posted our third consecutive year of triple-digit growth in sales, recorded our first-ever full year of profitability, significantly improved our balance sheet, expanded our formulary, improved production capacity, and set the stage for continued growth with several interesting products in the development pipeline in 2004.

Record Operating Results.

Our net sales for the year increased 103% to a record $45.50 million, from last year's record sales of $22.40 million. Operating income was $12.40 million, a noteworthy improvement from an operating loss $0.70 million for 2002. Our gross profit for 2003, likewise, increased a hearty 151% to $26.0 million, from $10.3 million for 2002. Our net income for 2003 was a record $11.20 million, equivalent or $0.44 per fully diluted share, a sharp turnaround from 2002's net loss of $2.30 million, equivalent to $(0.10) per fully diluted share.

The positive operating results enabled us to reduce the stockholders' deficit to $5.0 million, from $19.60 million at the close of 2002. Our balance sheet was also improved through the payoff of a $10 million loan to Sun Pharmaceutical Industries Ltd. and the restructuring of our mortgage. We signed a new six-year agreement for our mortgage loan with the Economic Development Corporation of the City of Detroit. Interest rates and repayment terms of the restructured loan are more favorable than the original mortgage.

We had strong positive cash flow for the year. Net cash generated from operations was $15.50 million for 2003, as opposed to net cash of $0.84 million used in operating activities for 2002.

Our SG&A expense for 2003 was $7.40 million, up significantly from $3.80 million in 2002. However, 2003's expense included non-cash variable-compensation cost of $2.30 million for changes to stock-option terms for two former directors and severance compensation to our former CEO. In comparison, these costs were only $0.26 million in 2002.

Total R&D expenses for the year declined by 14% to $6.20 million from $7.40 million in 2002. This was due to slowdown in R&D activities first half of 2003. Total R&D for 2003 included non-cash R&D expense of $3.10 million, compared to non-cash R&D expense of $3.9 million for 2002. The non-cash expense is to recognize the preferred-convertible stock paid to Sun Pharma Global, Inc. (a wholly owned subsidiary of Sun Pharmaceutical Industries, Ltd.) for one new product received under our R&D Agreement . The expense is a GAAP (Generally Accepted Accounting Principle) requirement. Our R&D agreement with Sun Global is especially beneficial to us because: 1) we are able to acquire new products without impairing our cash flow, and 2) we are able to roll-out new products at a much faster pace than would otherwise be possible through our own R&D Group in Detroit.

Three FDA Approvals Received.

Four Drugs Launched. 2003 was an active year from a product standpoint. We received approval from the FDA for two Abbreviated New Drug Applications (ANDAs). These were for tizanidine hydrochloride (generic form of Elan Pharma's Zanaflex, a muscle relaxant) and digoxin (generic form of SmithKlien Beecham's Lanoxin, a cardiac drug). In addition, the FDA approved one additional strength (25mg) of metroprolol tartrate (generic form of Novartis' Lopresor, a beta-blocker/ antihypertensive) in first quarter of 2004.

We also launched four drugs in 2003. These were clozapine (generic form of Novartis' Clozaril, an antipsychotic drug), ticlopidine (generic form of Roche Palo's Ticlid, a platelet-aggregation inhibitor) and tizanidine hydrochloride and digoxin, noted above. At the close of the year, our formulary stood at 17 drugs, which were available in 31 different strengths and 70 package sizes.

Additionally, a bio-equivalency study for one product was completed in the fourth quarter of 2003 and two products in the first quarter of 2004. Two of these three ANDA's were filed with the FDA subsequent to the close of the year. These submissions raise the number of our ANDA products pending FDA approval to four. In all, we have 15 drugs in various stages of development, with seven at an advanced stage of development.

Plant Improvement & Upgrades.

At the plant level, we continued the ongoing program of adding production capacity and enhancing efficiency through the installation of faster, higher-capacity production equipment and larger production batches. In 2003, we completed $2.5 million investment in plant renovations and improvements. These included the addition of equipment to balance capacity as well as adding new manufacturing suites and support facilities. We recently moved our regulatory affairs, sales and marketing, accounting, and commercial departments to an adjacent 55,000-square-foot leased facility, which also serves as our primary warehouse. These improvements, which will continue into 2004, will provide us with sufficient production, warehouse and support capacity to take us through 2006.

Our operations were inspected by the FDA in November 2002 and were found to be generally in compliance with current Good Manufacturing Practices (cGMP). We will continue our strong focus on compliance activities at levels of our Company.

New Directors.

Subsequent to the close of the year, we added three new independent directors. William C. Brooks, 70, will serve on the Audit and Compensation committees. He will chair the Audit Committee. He is Chairman, President and CEO of United American Healthcare Corporation and a member of numerous corporate, civic and chartable institutions. Georges Ugeux, 58, will also serve on the Audit and Compensation committees. Mr. Ugeux founded Galileo Global Advisors LLC and serves on numerous corporate, civic and charitable organizations. Prior to starting Galileo, he was Group Executive President, International & Research and member of the office of the Chief Executive of the New York Stock Exchange (NYSE). Timothy S, Manney, CPA, 45, will serve on the Audit Committee and Independent Directors Committee. Mr. Manney is President and Director of Synova, Inc. prior to his position as president of synova Mr. Manney served as Chief Financial Officer of Convansys Corp. a publicly held information technology solutions company. Our Board of Directors now comprises seven members, of which three are independent.

2004. A Year of Promise.

Looking forward, we are optimistic about the generic-drug sector, which is expected to continue its strong growth in overall sales in 2004. The positive outlook for the sector reflects higher acceptance of generics by physicians and consumers, and rising support for generic drugs from a wide range of cost-conscious interest groups, including medical and health insurers, HMOs and other managed-care providers, labor unions, and government entities such as Medicare and Medicaid. Recent Medicare/Medicaid legislations adds additional preference for generic drugs. Also boding well for the generic sector are industry estimates that point to $35 billion in proprietary drugs likely to come off-patent in this decade.

We are also optimistic about the outlook for our Company. We expect our 2004 sales to increase by 20% to 25%, fueled by growth of our current formulary. We expect to receive one or two ANDA approvals in 2004.

We anticipate developing and filing five to six new ANDAs in 2004. The development of new products will increase our non-cash R&D expense and will affect net earnings. However, cash from operations will be available to repay loans and reduce interest burden, meet increased working-capital requirements, and finance capital investments, among other things. This, in turn, will strengthen our balance sheet and build shareholder value.

During the first quarter of 2004, we repaid the balance of the ICICI Bank loan of $4.4 million, out of cash from operations. In order to augment short-term working capital and to reduce interest expense by paying off higher interest-bearing loans, we have recently secured a $10 million line of credit with Citibank NA, with a better market based rate of interest. As of April 2004, we have fully repaid entire balance of EDC loan of $ 6.00 million, with the help of this line of credit, to achieve the above objective.

We will continue to move aggressively to develop new products received from Sun Pharma, via Sun Global, pursuant to our product agreement. Sun Pharma has a proven record of accomplishment and has already provided us with quality products. Moreover, Sun Pharma's increased beneficial ownership in us, to approximately 63% of our outstanding shares, should, we believe, provide it with sufficient incentive to continue to help us succeed. Sun Pharma has provided us, in past, with millions of dollars in capital, loans, and guarantees of loans, and with providing management and technical personnel, raw materials and equipment, which have significantly helped us to date.

In 2004, we expect to build upon our working relationship with Sun Pharma. One of the areas that Sun Pharma will help us with in 2004 is further developing our vertical-integration capabilities, at which Sun Pharma has been highly successful.

Sun Pharma is among several FDA approved suppliers that we use in bids for active substances. Sun Pharma has one plant in India approved by the US FDA for active-substance production and is working on the approval of a second plant. Sun Pharma provides us with products at very competitive prices.

- Management's focus in 2004 will continue to be on several key areas:
- Continued focus on FDA compliance.

  Continued research and development activities.
- Continued expenditures for capital investment including equipment and expansion of capacity.
- Increasing market share for certain existing and recently introduced products
- Enhancing customer reach and satisfaction.
- Prompt market introductions of new products.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

- Increasing the number of products, as well as anticipated volume increases for existing products, which, in turn, will improve manufacturing capacity utilization.
- Considering alternative ways of increasing cash flow, including developing, manufacturing and marketing ANDAs owned by Sun Pharma.
- Locating and utilizing facilities of contract-manufacturers to enhance production and sales.
- Raising of additional lines of credit, for short term, to support increasing working capital requirements and reduction of debt.
- Attracting and retaining the best employees to help us differentiate our Company from competitors.

In closing, I would like to extend my sincere thanks to all of our shareholders for your trust, to the other members of the Board of Directors for your support and guidance, and to all of our talented employees for your hard work and commitment to our Company's growth and success.

(SS)
Jitendra N. Doshi
Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

Stockholders and Board of Directors
Caraco Pharmaceutical Laboratories, Ltd.
Detroit, Michigan

We have audited the accompanying balance sheets of Caraco Pharmaceutical Laboratories, Ltd. (a Michigan corporation) as of December 31, 2003 and 2002, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caraco Pharmaceutical Laboratories, Ltd. as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

REHMANN ROBSON

Troy, Michigan
February 23, 2004

BALANCE SHEETS

	December 31 2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	**$ 4,206,282**	$ 534,228
Accounts receivable, net	**4,538,472**	5,484,135
Inventories	**9,610,810**	5,615,962
Prepaid expenses and deposits	**562,030**	471,314
Total current assets	**18,917,594**	12,105,639
Property, plant and equipment		
Land	**197,305**	197,305
Buildings and improvements	**7,917,986**	7,346,797
Equipment	**6,991,024**	5,458,314
Furniture and fixtures	**364,140**	232,112
Total	**15,470,455**	13,234,528
Less accumulated depreciation	**5,963,780**	5,487,018
Net property, plant and equipment	**9,506,675**	7,747,510
Total assets	**$ 28,424,269**	$ 19,853,149

LIABILITIES AND STOCKHOLDERS' DEFICIT	December 31 2003	2002
Current liabilities		
Accounts payable	**$ 1,386,160**	$ 1,958,809
Accounts payable, Sun Pharma	**3,839,815**	2,024,028
Accrued expenses	**4,917,216**	1,391,623
Current portion of subordinated notes payable to stockholder	—	5,850,000
Current portion of loans payable to financial institutions	**8,750,000**	625,000
EDC loan payable, current	**1,115,213**	1,004,000
Preferred stock dividends payable, current	—	350,380
Accrued interest	—	549,052
Total current liabilities	**20,008,404**	13,752,892
Long-term liabilities		
Loans payable to financial institutions	**8,125,000**	15,275,000
EDC loan payable, net of current portion	**5,270,277**	6,598,547
Subordinated notes payable to stockholder, net of current portion	—	3,850,000
Total liabilities	**33,403,681**	39,476,439
Commitments and contingencies (Notes 5, 9 and 12)		
Stockholders' deficit		
Series A preferred stock, no par value; no shares issued or outstanding	—	—
Series B convertible preferred stock, no par value; 544,000 shares to be issued as of December 31, 2003	—	—
Common stock, no par value; authorized 30,000,000 shares, issued and outstanding 24,577,828 shares (23,767,532 shares in 2002)	**41,442,311**	40,457,028
Additional paid-in capital	**2,718,735**	282,858
Preferred stock dividends payable	—	(350,380)
Accumulated deficit	**(49,140,458)**	(60,012,796)
Total stockholders' deficit	**(4,979,412)**	(19,623,290)
Total liabilities and stockholders' deficit	**$ 28,424,269**	$ 19,853,149

STATEMENTS OF OPERATIONS

	Year Ended December 31 2003	2002
Net sales	**$ 45,498,400**	$ 22,380,964
Cost of goods sold	**19,507,406**	12,047,410
Gross profit	**25,990,994**	10,333,554
Selling, general and administrative expenses	**7,363,341**	3,827,707
Research and development costs - affiliate (Note 7)	**3,112,294**	3,887,423
Research and development costs	**3,103,370**	3,348,789
Operating income (loss)	**12,411,989**	(730,365)
Other income (expense)		
Interest expense	**(1,233,531)**	(1,539,075)
Interest income	**9,102**	13,436
Gain on sale of property, plant and equipment	**25,531**	—
Other income	9,627	—
Other expense - net	**(1,189,271)**	(1,525,639)
Net income (loss)	**$ 11,222,718**	$ (2,256,004)
Net income (loss) per share:		
Basic	**$ 0.46**	$ 0.10
Diluted	$ 0.44	$ 0.10

CARACO PHARMACEUTICAL LABORATORIES, LTD.

STATEMENTS OF STOCKHOLDERS' DEFICIT

	Preferred Stock		Common Stock		Additional Paid-in	Preferred Stock	Accmulated	
	Shares	Amount	Shares	Amount	Capital	Dividends	Deficit	Total
Balances at January 1, 2002	285,714	$ 1,000,000	21,173,818	$ 34,111,543	$ —	$ (300,000)	$ (57,756,792)	$ (22,945,249)
Preferred stock dividends	—	—	—	—	—	(50,380)	—	(50,380)
Issuance of common stock to directors in lieu of cash compensation	—	—	36,000	41,400	—	—	—	41,400
Issuance of common stock under private placement	—	—	635,000	1,692,000	—	—	—	1,692,000
Issuance of common stock to affiliate in exchange for product technology transfers	—	—	1,632,000	3,887,423	—	—	—	3,887,423
Common stock subscribed	—	—	—	7,520	—	—	—	7,520
Preferred stock converted to common stock	(285,714)	(1,000,000)	285,714	717,142	282,858			
Net loss	—	—	—	—	—	—	(2,256,004)	(2,256,004)
Balances at December 31, 2002	—	—	**23,762,532**	**40,457,028**	**282,858**	**(350,380)**	**(60,012,796)**	**(19,623,290)**
Payment of preferred stock dividends	—	—	—	—	—	350,380	(350,380)	—
Issuance of common stock to directors in lieu of cash compensation	—	—	31,000	112,310	—	—	—	112,310
Stock options exercised	—	—	784,296	872,973	2,435,877	—	—	3,308,850
Net income	—	—	—	—	—	—	11,222,718	11,222,718
Balances at December 31, 2003	—	$ —	24,577,828	$ 41,442,311	$ 2,718,735	$ —	$ (49,140,458)	$ (4,979,412)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2003	2002
Cash flows from operating activities		
Net income (loss)	**$ 11,222,718**	$ (2,256,004)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	**683,339**	539,374
Capital stock issued or to be issued in exchange for product formula	**3,103,370**	3,887,423
Common shares issued in lieu of compensation	**112,310**	41,400
Gain on sale of property, plant and equipment	**(25,531)**	—
Variable compensation expense for stock options extended to director and officer	**2,435,877**	262,265
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**945,662**	(3,997,627)
Inventories	**(3,994,848)**	(2,706,907)
Prepaid expenses and deposits	**(90,716)**	(292,112)
Accounts payable	**1,243,139**	3,019,936
Accrued expenses and interest	**(126,829)**	663,652
Net cash provided by (used in) operating activities	**15,508,491**	**(838,600)**
Cash flows from investing activities		
Purchases of property, plant and equipment	**(2,493,173)**	(1,592,802)
Proceeds from sale of property, plant and equipment	**76,200**	—
Net cash used in investing activities	**(2,416,973)**	**(1,592,802)**

	Year Ended December 31	
	2003	2002
Cash flows from financing activities		
Proceeds from loans payable to financial institution	**1,600,000**	900,000
Repayments of loans payable to financial institution	**(625,000)**	—
Payment of preferred stock dividends	**(350,380)**	—
Repayments of short-term borrowings	—	(75,000)
Net repayments of subordinated stockholder notes payable	**(9,700,000)**	—
Proceeds from subordinated stockholder notes payable	—	1,400,000
Repayments of EDC loan payable	**(1,217,057)**	(1,200,000)
Proceeds from issuance of common stock	**872,973**	1,699,520
Net cash (used in) provided by financing activities	**(9,419,464)**	**2,724,520**
Net increase in cash and cash equivalents	**3,672,054**	**293,118**
Cash and cash equivalents, beginning of year	**534,228**	241,110
Cash and cash equivalents, end of year	**$ 4,206,282**	**$ 534,228**

The accompanying notes are an integral part of these financial statements.

CARACO PHARMACEUTICAL LABORATORIES, LTD.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Caraco Pharmaceutical Laboratories, Ltd. ("Caraco" or the "Corporation"), based in Detroit, Michigan, develops, manufactures and markets generic, prescription and over-the-counter pharmaceuticals in the United States. The process of developing a line of proprietary drugs requires approvals by the Food and Drug Administration (FDA) of Abbreviated New Drug Applications (ANDA). The Corporation's present product portfolio consists of a limited number of products in certain strengths and package sizes. The Corporation's drugs relate to a variety of therapeutic segments including the central nervous system, cardiology, pain management and diabetes.

Over the years, significant sources of funding for the Corporation have been received from private placement offerings, stockholder and financial institution loans and debt financing from the Economic Development Corporation of the City of Detroit (the "EDC"), which loaned approximately $9.1 million to the Corporation in accordance with a Development and Loan Agreement dated August 10, 1990 (see Note 5). During 2002 and 2001, the Corporation also obtained total credit facilities of $17.5 million from two foreign banks in the form of term loans.

The Corporation and a Mumbai, India based speciality pharmaceutical manufacturing company, Sun Pharmaceutical Industries Ltd. ("Sun Pharma") completed an agreement, in 1997, whereby Sun Pharma invested $7.5 million into the common stock of the Corporation, and was required to transfer to the Corporation the technology formula for 25 generic pharmaceutical products over a period of five years through August 2002 in exchange for 544,000 shares of Caraco common stock to be issued for each ANDA product and 181,333 shares for each DESI (Drug Efficacy Study Implementation) product. As of December 31, 2003, Sun Pharma had delivered to Caraco the formula for 13 products under this agreement and beneficially owns approximately 48% of the outstanding common stock of the Corporation (see Note 12 for subsequent stock acquisition). With the expiration of the 1997 agreement, a new agreement was reached in November 2002 with Sun Pharma Global (Sun Global) a wholly-owned subsidiary of Sun Pharma. Sun Global agreed to transfer to the Corporation the technology formulations for 25 generic pharmaceutical products over a period of five years through November 2007 in exchange for 544,000 shares of a new convertible preferred stock for each generic drug transferred when such drug passes its bio-equivalency study (Note 7).

In addition to Sun Pharma's equity holdings, the product and technology transfers (which include various research and development activities conducted on an ongoing basis by Sun Pharma), loans made directly to the Corporation and loans guaranteed on behalf of Caraco (see Note 5), Sun Pharmahas also supplied Caraco with certain raw materials and equipment (see Note 4) and transferred to the Corporation a number of qualified technical and management professionals having pharmaceutical experience. Furthermore, four of the seven Caraco directors are or were affiliated with Sun Pharma. Caraco is substantially dependent on the active involvement and continued support of Sun Pharma.

In addition to its substantial dependence on Sun Pharma, the Corporation is subject to certain risks associated with companies in the generic pharmaceutical industry. Profitable operations are dependent on the Corporation's ability to market its products at reasonable profit margins. In addition to achieving profitable operations, the future success of the Corporation will depend, in part, on its continuing ability to attract and retain key employees, obtain timely approvals of its ANDAs, and develop new products.

Operations

During the last three quarters of 2002 and throughout 2003, the Corporation, for the first time since inception, achieved sales necessary to support operations. Operating results for 2003 improved such that the Corporation generated its first annual net profit of approximately $11. 2 million, an improvement of approximately $13.4 million over the 2002 net loss of $2.2 million. During 2003 and 2002, results of operations include approximately $3.1 million and $3.9 million, respectively, of research and development costs related to technology transfers from Sun Pharma and its subsidiaries in exchange for capital stock of Caraco as explained above. While management views these results as positive developments, the Corporation must still overcome its stockholders' deficit, which is $5.0 million as of December 31, 2003. Caraco's ability to realize a major portion of its assets is thus dependent upon its ability to meet future financing requirements and the success of future operations. Management believes that continued improvement in profitability and cash flows, along with sustained financial and operating support from Sun Pharma, are key factors in the Corporation's ability to continue to operate in the normal course of business. While management has a basis to reasonably believe that Sun Pharma's substantial investment in Caraco provides Sun Pharma with sufficient economic incentive to continue to assist Caraco in developing its business, and Sun Pharma has expressed its intent to continue to support Caraco's operations in the near term, as it has done in the past, there can be no assurance that such support will, in fact, continue for a period of time sufficient to ensure Caraco's ultimate business success. For example, Sun Pharma, which is subject to the prevailing regulatory process in India, may be constrained from fully pursuing its business interests outside of India.

Management's plans for the remainder of 2004 include:

- Continued focus on FDA compliance.
- Continued research and development activities.
- Continued expenditures for capital investment, including equipment and expansion of capacity.
- Increased market share for certain existing products and recently introduced new products and enhanced customer reach and satisfaction.
- Prompt introduction of newly approved products to the market.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase the number of products, as well as anticipated volume increases for existing products that, in turn, will improve manufacturing capacity utilization.
- Considering alternative ways of increasing cash flow including developing, manufacturing and marketing ANDAs owned by Sun Pharma.
- Locating and utilizing facilities of contract-manufacturers to enhance production and therefore sales.
- Raising of additional lines of credit to support increasing working capital requirements.
- Further reducing debt, if adequately supported by positive cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.Significant estimates include, but are not limited to, valuation allowances for accounts receivable and the recoverability of the Corporation's property, plant and equipment.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Company invests its excess cash primarily in deposits with major banks within the State of Michigan and in other high quality short-term liquid money market investments. During the normal course of business, the Company may maintain cash on deposit in excess of federally insured limits with financial institutions. The Company maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Revenue Recognition

The Corporation recognizes revenue at the time its products are shipped to its customers as, at that time, the risk of loss or physical damage to the product passes to the customer, and the obligations of customers to pay for the products are not dependent on the resale of the product or the Corporation's assistance in such resale. Customers are permitted to return unused product, in certain instances, after approval from the Corporation upon the expiration date of the product's lot.

Provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer "chargebacks", can be reasonably determined in the normal course of business based on historical results and contractual arrangements. "Chargebacks" are price adjustments given to wholesale customers for product such customers resell to parties with whom the Corporation has established contractual pricing. The chargeback represents the difference between the sales price to the wholesaler and the contracted price. Approximately 92% of the current allowance for trade receivables has been established to provide for estimated charge backs.

Amounts billed by the Corporation, if any, in advance of performance for contracts to render certain manufacturing or research and development services are deferred and then recognized upon performance of those services.

Accounts Receivable

The Corporation sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Corporation provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Corporation has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Inventories

Inventories, which consist principally of raw materials, as well as work-in-process and finished goods, are stated at the lower of cost, determined by the first-in, first-out method, or market.

Income (Loos) Per Share

Income (loss) per share is computed using the weighted average number of common shares outstanding during each year and considers a dual presentation and reconciliation of "basic" and "diluted" per share amounts. Diluted reflects the potential dilution of all common stock equivalents.

At December 31, 2002, options to purchase 310,000 shares, were excluded from the computation of loss per share because the options' exercise prices were greater than the average market price of the common shares.

The following table sets forth the computation of basic and diluted income (loss) per common share for the years ended December 31:

	2003	2002
Numerator:		
Income (loss) from continuing operations	**$ 11,222,718**	$ (2,256,004)
Preferred stock dividends	**—**	50,380
Income (loss) available for common stockholders	**$ 11,222,718**	$ (2,306,384)
Denominator:		
Weighted average shares outstanding, basic	**24,137,108**	22,031,425
Incremental shares from assumed conversion of common stock options	**1,344,851**	—
Weighted average shares outstanding, diluted	**25,481,959**	22,031,425
Income (loss) per common share		
Basic	**$ .46**	$ (.10)
Diluted	**$ .44**	$ (.10)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Depreciation is computed using the straight line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Management annually reviews these assets for impairment and reasonably believes the carrying value of these assets will be recovered through cash flow from operations, assuming the Corporation is successful in continuing to operate in the normal course of business.

FEDERAL INCOME TAXES

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and federal income tax basis of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. The principal difference between assets and liabilities for financial statement and federal income tax return purposes is attributable to accounts receivable allowances and the anticipated utilization of net operating losses.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs settled in cash are charged to expense as incurred.

Series B convertible preferred stock (Note 7) may be issued from time to time to Sun Pharma Global and its affiliates in exchange for the formulations of technology products delivered by Sun Pharma Global to the Corporation. The amount of research and development costs associated with the issued stock and charged to operations is determined based on the fair value of the preferred shares on the date the respective product formula has passed the bio-equivalency studies.

COMMON STOCK ISSUED TO DIRECTORS

Common stock is issued from time to time in lieu of cash for director's fees, and is recorded as compensation expense at the fair values of such shares on the dates they were earned.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their values due to the short-term maturities of these financial instruments. The carrying amounts of short-term borrowings, notes payable to stockholders, and loans payable approximate their fair values because the interest rates are representative of, or change with, market rates.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 46 "Consolidation of Variable Interest Entities". This standard clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" and addresses consolidation by business enterprises of variable interest entitles, more commonly known as "Special Purpose Entities" or "SPE's". FIN 46 requires existing unconsolidated variable interest entities' interests to be consolidated by their primary beneficiaries if the entities do not effectively disperse risk among the parties involved. FIN 46 also enhances the disclosure requirements related to variable interest entities. The interpretation is effective with respect to interests in variable interest entities created after January 31, 2003. For interests in variable interest entities created before February 1, 2003, the interpretation applies to the first interim or annual reporting period beginning after June 15, 2003. The subject matter of FIN 46 is not currently applicable to the Corporation; accordingly, it is not expected that the provisions of FIN 46 will have a material impact on financial position, results of operations or cash flows of the Corporation.

In April 2003 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments imbedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6 (b) of SFAS No. 133, clarifies when a derivative contains a financing component, amends a definition to conform to language used in FASB interpretation No. 45, and amends certain other existing pronouncements. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The subject matter of SFAS No. 149 is not currently applicable to the Corporation; accordingly, it is not expected that the provisions of SFAS No. 149 will have a material impact on the financial position, results of operations or cash flows of the Corporation.

In May 2003 the FASB issued SAFS No. 150, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both debt and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective for the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. It is not expected that the provisions of Statement No. 150 will have a material impact on the financial position, results of operations or cash flows of the Corporation.

2. SUPPLEMENTAL CASH FLOWS INFORMATION

OTHER CASH FLOWS INFORMATION

Cash paid for interest during 2003 and 2002 was approximately $1,783,000 and $1,820,000, respectively.

3. ALLOWANCES FOR SALES ADJUSTMENTS AND DOUBTFUL ACCOUNTS RECEIVABLE

Accounts receivable and related allowances are summarized as follows as of December 31:

	2003	2002
Accounts receivable	**$ 20,328,472**	$ 14,774,382
Allowances:		
Chargebacks (Note 1)	**14,783,000**	8,972,247
Sales returns and allowances	**650,000**	223,000
Doubtful accounts	**610,000**	95,000
Total allowances	**15,790,000**	9,290,247
Accounts receivable, net of allowances	**$ 4,538,472**	$ 5,484,135

4. INVENTORIES

Inventories consist of the following amounts at December 31:

	2003	2002
Raw materials	**$ 4,226,363**	$ 3,117,293
Goods in transit	**1,874,625**	801,043
Work in process	**1,633,963**	1,153,913
Finished goods	**1,875,859**	543,713
Total	**$ 9,610,810**	$ 5,615,962

The principal components used in the Corporation's business are active and inactive pharmaceutical ingredients and packaging materials. Some of these components are purchased from single sources, however, the majority of the components have an alternate source of supply. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers.

During 2003 and 2002, the Corporation purchased inventory components of approximately $1.3 million and $2.4 million, respectively, from Sun Pharma.

5. LONG-TERM DEBT (INCLUDING RELATED PARTY DEBT)

EDC LOAN

The EDC loan was restructured on April 23, 2003, with the revised terms effective as of January 1, 2003. The agreement provided for a six year extension of the loan of approximately $7.8 million, with interest rates starting at 2.75% per annum and increasing to 5.16% per annum over the term of the extension. The EDC retains a first mortgage on the property, and a first lien on furniture, fixtures, equipment, ANDA's and intellectual property. The EDC removed its first lien on accounts receivable and inventory. In addition to other covenants, the Corporation may not redeem any of its outstanding shares, pay any dividends with respect to its outstanding common or preferred shares or merge or consolidate with any other corporation or entity without the prior written approval of the EDC. In addition, the EDC eliminated the prior restriction on capital investment in excess of $2 million by permitting the Corporation, so long as it is not in default of any of its obligations, to purchase new capital assets and sell its existing capital assets so long as a result of such transactions the book value of its assets is not reduced below the balance as of December 31, 2002 and the Corporation retains the proceeds of any such sales.

LOANS PAYABLE TO FINANCIAL INSTITUTIONS

Loans payable to financial institutions consist of the following obligations as of December 31:

	2003	2002
Term loan payable to ICICI Bank of India, with quarterly principal payments of $625,000 commencing on December 31, 2003 and ending on September 30, 2005. Interest is adjusted semi-annually and is charged at the LIBOR rate plus 140 basis points (effective rate of 2.6% per annum at December 31, 2003), and is due in quarterly installments. (see below)	**$ 4,375,000**	$ 5,000,000
$12.5 million term loan payable to Bank of Nova Scotia, with semi-annual principal payments of $3,125,000 commencing in February 2004 and ending in August 2005. Interest is charged at the LIBOR rate plus basis points that range from 155 to 180 depending on the outstanding balance (effective rate of 2.9% per annum at December 31, 2003), and is due in quarterly installments. An additional annual fee of $15,000 is charged.	**12,500,000**	10,900,000
Total loans payable to financial institutions	**16,875,000**	15,900,000
Less current portion	**8,750,000**	625,000
Loans payable to financial institutions, net of current portion	**$ 8,125,000**	$ 15,275,000

The term loan to ICICI Bank of India was paid in full on February 23, 2004. The repayment of the Bank of Nova Scotia term loans is guaranteed by Sun Pharma.

The Corporation had at December 31, 2002 $9.8 million of subordinated notes payable to Sun Pharma which were repaid in full during 2003. Interest incurred on these notes amounted to $0.5 million and $0.8 million in 2003 and 2002, respectively. Accrued expenses on the accompanying balance sheets at December 31, 2002 include approximately $0.4 million of accrued interest payable on these Sun Pharma notes.

Scheduled future minimum principal payments on long-term debt for each of the five years succeeding December 31, 2003 are summarized as follows:

Year ending December 31	Amount
2004	$ 9,870,000
2005	7,750,000
2006	1,260,000
2007	1,310,000
2008	1,370,000

NEW LINE OF CREDIT

The Corporation began negotiations to secure a $10 million line of credit with a financial institution. Management expects the line of credit to be approved sometime in 2004.

6 INCOME TAXES

The Corporation's deferred income taxes result principally from its net operating loss (NOL) carryforwards and allowances recorded against accounts receivable. At December 31, 2003 a deferred income tax asset of approximately $14.0 million (computed using a 34% tax rate) relating to these temporary differences exists. Based on the Corporation's prior operating results and operating characteristics, utilization of these deferred tax assets to offset future taxable income is not reasonably assured. Accordingly, Caraco has recorded a valuation allowance to fully offset the deferred tax asset, resulting in no net deferred tax asset or liability in the accompanying balance sheets. The valuation allowance decreased by approximately $4.1 million in 2003 and increased by approximately $0.8 million in 2002, respectively.

At December 31, 2003, net operating loss carryforwards of approximately $23.0 million, which expire between 2012 and 2017, are available to offset future federal taxable income, if any. As discussed in Note 12, Sun Pharma acquired a majority of the Corporation's common stock subsequent to year end. Under rules established by the Internal Revenue Code, such change in ownership may effect the Corporation's ability to utilize these net operating loss carry forwards in future years.

7 STOCKHOLDERS' DEFICIT

COMMON STOCK

During 2003, the Corporation's shareholders approved the authorization of an additional 20,000,000 shares of common stock. The Corporation has not yet filed an amendment to its articles of incorporation to effect this change.

PREFERRED STOCK

During 2003, the Corporation's shareholders approved the authorization of an additional 10,000,000 shares of preferred stock bringing to 15,000,000 the number of total preferred shares authorized. The Corporation has not yet filed an amendment to its articles of incorporation to effect this change. The shares are issuable in series with the terms and amounts set at the Board of Directors' discretion.

The Corporation has designated two series of preferred stock: Series A and Series B. Each share of Series A Preferred Stock is nonvoting and is convertible, at the option of the holder, into one share of common stock. The Series A preferred shares require annual dividends of $0.21 per share on a cumulative basis. Accrued dividends of $0.4 million on Series A preferred shares were paid during 2003, and the holder, then a company director, converted all such outstanding shares into an equivalent number of common shares.

In November 2002, in connection with the new technology transfer agreement established with Sun Pharma Global (Note 1), the Corporation designated a new series of preferred stock, the Series B Convertible Preferred Stock. The Series B preferred shares are non-redeemable and have no par value. In addition, the Series B Preferred Stock has no voting or dividend rights or liquidation preference other than priority liquidation based on their values on the dates they were earned, and can be converted after 3 years from the issuance date into one share of common stock, subject to a conversion adjustment (Note 1).

OTHER COMMON STOCK ISSUANCES (also see notes 2)

During 2002, the Corporation issued 1,632,000 shares of common stock to an affiliate of Sun Pharma in exchange for the formula for three ANDA products delivered to Caraco. Research and development expense charged to operations related to the issued shares, which was based on the fair value of the respective shares on the dates bio-equivalency passed, totaled $3.9 million in 2002. These shares are also included in the calculation of the weighted average number of common shares outstanding in the year the respective formula was delivered.

During 2002, 285,714 shares of Series A preferred stock was converted into 285,714 shares of common stock. The Corporation recorded additional paid-in capital of $0.3 million for the difference between the fair value of the common stock on the conversion date and the stated value of the Series A preferred stock.

During 2002, the Corporation issued 635,000 shares of common stock in connection with a private placement offering resulting in net proceeds of $1,692,000 or approximately $2.66 per share.

During 2003 and 2002, the Corporation issued 31,000 and 36,000 shares, respectively, of common stock to non-employee directors in exchange for services rendered. The Corporation recorded compensation expense of $112,310 and $41,400, respectively, based on the fair values of such shares on the dates they were earned.

8 COMMON STOCK OPTIONS

Common Stock Option Plans

As of December 31, 2003, the Corporation maintains one stock option plan, the 1999 Plan (all options under the 1993 were exercised during 2003), under which the Corporation may grant options to employees and non-employee-directors for the purchase of up to 3,000,000 shares of common stock. The exercise price of options granted may not be less than the fair value of the common stock on the date of grant. Options granted under this plan generally vest in annual installments, from the date of grant, over a five year period, and expire within six years from the date of the grant. Activity with respect to these options is summarized as follows:

	2003		2002	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	687,138	$ 1.04	701,138	$ 1.03
Exercised	410,138	0.97	—	—
Terminated	—	—	(14,000)	1.74
Outstanding, end of year	277,000	$ 1.00	687,138	$ 1.01
Options exercisable, end of year	102,500	$ 1.07	288,075	$ 1.04

Options at December 31, 2003

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Remaining Contractual Life *	Exercise Price *	Shares	Exercise Price *
$0.68 to $1.00	152,000	2.4 years	0.79	76,000	0.79
$1.01 to $2.00	125,000	3 years	1.25	62,500	1.25
Total	277,000	2.7 years	1.00	178,500	1.07

*Weighted average

OTHER COMMON STOCK OPTION AGREEMENTS

The Corporation has issued other stock options outside of the 1999 and 1993 Plans. These stock options have been issued with various vesting schedules and expire at various dates through October 2006. Activity with respect to these options is summarized as follows:

	2003		2002	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,250,824	$ 2.00	2,250,824	$ 2.00
Exercised	374,158	1.16	—	—
Outstanding, end of year	1,876,666	$ 2.01	2,250,824	$ 2.00
Options exercisable, end of year	1,876,666	$ 2.01	2,250,824	$ 2.00

Options at December 31, 2003:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Shares	Remaining Contractual Life *	Exercise Price *
$0.66 to $1.00	100,000	1.0 year	$ 0.88
$1.01 to $2.00	800,000	1.8 years	1.06
$2.01 to $3.00	666,666	2.3 years	2.63
$3.01 to $4.00	310,000	0.4 years	3.50
Total	1,876,666	1.7 years	$ 2.01

*Weighted average

As mentioned in Note 12, Sun Pharma acquired a majority of these options subsequent to year-end.

The Corporation follows only the disclosure aspects of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". The Corporation continues to apply Accounting Principles Board (APB) Opinion No. 25 in accounting for its plans and, accordingly, no compensation cost has generally been recognized in the financial statements for its outstanding stock options. No options were granted during 2003 or 2002.

In December 2001, the Board of Directors extended the exercise date to December 31, 2005 with respect to options for 224,158 shares of Caraco common stock previously granted to a then independent director. Variable compensation expense of $2.1 million and $0.3 million triggered by the extension was recorded during 2003 and 2002 in recognition of this modification.

On October 2, 2003, the Corporation entered into a severance agreement with its former Chief Executive Officer. The agreement allowed vesting of options for the purchase of 40,000 common shares held by the former officer to be accelerated. The modification resulted in the options being treated as variable rather than fixed in accordance with Financial Accounting Standards Board Interpretation 44 (FIN 44). As a result variable compensation expense of $0.3 million was charged to operations during 2003 for the difference between the fair value of the underlying common stock and the exercise price of the respective options.

The options modified for the independent director and for the former officer were exercised during 2003 resulting in an increase to additional paid in capital of $2.4 million during 2003.

STRATEGIC ALLIANCE STOCK OPTION ARRANGEMENT

Pursuant to an agreement between the Corporation and Hexal-Pharma GmbH & Co., KD, a German pharmaceutical company and its United States affiliate (together, "Hexal") dated as of October 1, 1993, Hexal agreed to convey to the Corporation the formulations, technology, manufacturing processes and know-how, and other relevant information, and to pay for the bio-equivalency studies required for the preparation of ANDAs for two products. Pursuant to the agreement, the Corporation was required to pay Hexal (i) a Sign-Up Option to purchase 100,000 shares of Common Stock at $3.50 per share; and (ii) a Product Option to purchase shares to an exercise price of $3.50 per share. These options may be exercised and payment for shares may be made only out of royalties and any interest earned on the royalties while held by the Corporation. No options have yet been exercised.

Pursuant to the agreement, Caraco received a formulation for one product, Metoprolol Tartrate, from Hexal in March 1995. However, Caraco has determined that the formula provided to it by Hexal with respect to Metoprolol Tartrate is different than the formula submitted in an ANDA to the FDA in 1995, approved by the FDA in 1996 and manufactured and introduced by Caraco since 1997. Accordingly, since April 2003, Caraco has discontinued to accrue royalties.

9. LEASES (INCLUDING RELATED PARTY)

The Corporation entered into two noncancelable operating leases during 2000 with Sun Pharma to lease production machinery. The leases each require quarterly rental payments of $4,245 and expire during 2005.

The Corporation entered into a noncancelable operating lease with an unrelated party during 2002 to lease additional warehouse space. This lease was subsequently canceled during 2003 in lieu of a new noncancelable operating lease for additional space at this warehouse. The new lease requires monthly payments that increase from $15,458 to $16,892 over the term of the lease that expires in 2007.

Net rental expense on these operating leases was $176,065 and $51,460 in 2003 and 2002, respectively.

The following is a schedule of annual future minimum lease payments required under the operating leases (including the leases with Sun Pharma) with remaining noncancelable lease terms in excess of one year as of December 31, 2003:

Year	Amount
2004	$ 237,828
2005	205,223
2006	198,276
2007	50,676
Total minimum payments due	$ 692,003

The Corporation also paid approximately $0.5 million and $0.3 million to Sun Pharma during 2003 and 2002, respectively, for the purchase of various parts and machinery needed for operations.

10. RETIREMENT PLAN

The Corporation maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Corporation may make discretionary matching and profit sharing contributions under the provisions of the Plan. The Corporation made no discretionary contributions during either 2003 or 2002.

11. CONCENTRATIONS AND COMMITMENT

Major Products

Shipments to one wholesale customer accounted for approximately 61% and 65% of sales in 2003 and 2002, respectively. Balances due from this customer represented approximately 57% and 80% of gross accounts receivable at December 31, 2003 and 2002, respectively.

The loss of this customer could have a materially adverse effect on short-term operating results.

Major Products

Sales of two products accounted for approximately 87% of sales in 2003 and 78% of sales in 2002.

Major Supplier

Approximately 73% and 20% of Caraco's raw material purchases in 2003 and 2002, respectively, were made from Sun Pharma.

Labor Contract

The majority of the Corporations hourly work force is covered by a collective bargaining agreement that expires in May 2004.

PRODUCT SALES COMMITMENT

Certain of the Corporation's customers purchase its products through designated wholesale customers, who act as an intermediary distribution channel for the Corporation's products. One such customer, the Veterans Administration, an agency of the United States Government, entered into a sales contract with the Corporation effective August 5, 2002 to ship approximately $13,000,000 of product per year over a one year base contract period that ended June 30, 2003. The contract has four one-year option periods, the first of which was exercised. The agreement may be terminated by the purchaser without cause and in such case, Caraco would only be entitled to a percentage of the contract price, plus reasonable charges that have resulted from the termination. The agreement further provides for certain penalty provisions if the Corporation is unable to meet its sales commitment.

12. OTHER MATTERS

Employment Contract

The Corporation has employment agreements with two of its executive officers that provide for fixed annual salaries and a six-month continuance including insurance benefits and immediate vesting of stock options upon termination without cause.

Litigation

On February 12, 2003, C. Arnold Curry filed a complaint in the Wayne County Circuit Court alleging breach of a written employment agreement. Mr. Curry is seeking 175,000 shares of the Corporations' common stock (35,000 shares for each of the first five ANDAs approved by the FDA). The Corporation and the plaintiff, have each filed a motion for summary judgment. The Corporation intends to vigorously defend itself against these claims, which it believes will have no merit.

The Corporation had been named as one of two defendants and as one of several defendants in two separate product liability suits, involving Miraphen, which contains phenylpropanalomine (PPA), one in federal court in Pennsylvania and another in state court in New Jersey, respectively. These lawsuits seek damages generally for personal injury as well as punitive damages under a variety of liability theories including strict products liability, breach of warranty and negligence. The Federal lawsuit does not set forth a specific dollar amount of damages requested; the state lawsuit seeks damages of $20 million. The plaintiff in the federal lawsuit stipulated to a dismissal of the lawsuit and the federal court formally dismissed the case in December 2003. The Corporation believes that the state lawsuit has not been appropriately served on the Corporation and the Corporation is treating the matter as if it is not an active party.

PRODUCT LIABILITY AND INSURANCE

The Corporation currently has in force general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Corporation's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all. There can be no assurance that the coverage limits of such policies will be adequate to cover the Corporation's liabilities, should they occur.

SUBSEQUENT TRANSACTIONS WITH AND RELATING TO SUN PHARMA

During the first quarter of 2004, Sun Pharma acquired 3,452,291 additional shares of common stock and 1,329,066 stock options directly from two former directors and a significant shareholder, thereby increasing its beneficial ownership of the Corporation from approximately 48% to 63%.

February of 2004, Sun Global earned 544,000 shares of Series B preferred stock pursuant to the products transfer agreement (Note 1).

Notes

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