ANNUAL REPORT 2004-05

# innovationinspired

SUN PHARMACEUTICAL INDUSTRIES LTD.

# innovationinspired

In a glittering ceremony on the evening of December 14th, 2004, His Excellency Dr APJ Abdul Kalam, The President of India, inaugurated our research centre SPARC, in Baroda. For the team at Sun Pharma, this was an event of solemn significance that places our foray into drug discovery innovation on a new platform altogether. This event gave impetus to a new way of looking at ideas, of creating work that can earn intellectual property. It bestowed a fresh confidence to reevaluate what is seemingly apparent. Against a different perspective sometimes what is obvious can present a new idea, a new path to a solution, perhaps someday an opportunity that can be reaped across world markets.

This approach to “seeing” is what the cover signifies, in the artist's representation of a crystal.

In crystalline forms, atoms or molecules are lined up in an orderly arrangement and connected by bonds, and these atoms or molecules have a repeating pattern known as lattice. Atoms or molecules in these crystal structures are held together by electrical forces or non bonding interactions such as hydrogen bonds in incredibly large numbers to form visible shapes-cubic, tetragonal, orthorhombic, monoclinic, hexagonal…depending on the prevailing conditions, or environment, a single substance may occur in more than one crystalline form in nature. Each of these would exhibit a different set of chemical and physical properties.

Each of these could be a starting point to a new idea or a new process. The difference is in the prevailing conditions, as much as in the perspective, and an openness to look at differing probabilities and outcomes.

"I visited just now SPARC, and I was very happy that such an important institution has come up in this part of the city, and I also realized the two important contributions, one in the medicinal area, that is biodegradable injectable drugs, and that's a very good effort what has happened in SPARC. Second one, the confidence that we can do it, that means from molecule to drug... the confidence, that's the most important thing."

*- excerpt from H. E. Dr. APJ Abdul Kalam's speech*





*His Excellency*
*Dr. APJ Abdul Kalam,*
*The President of India,*
*inaugurated our research*
*centre SPARC, in Baroda,*
*on 14th December, 2004*

# Operations

Technical capability encompasses bulk actives including anticancers that are made under highly controlled conditions and a range of formulations

**Turnover for the year ending March 31, 2005 was up 23%.**

**Domestic formulations, which is the sales of speciality prescription brand in India is the largest chunk of our business, grew 18%.**

**International formulations, a priority area for the company, grew 27%.**

**Export of speciality bulk actives grew 40%, driven by increasing number of international approvals for drug master files**

In the domestic market, Arian, Symbiosis and Radiant were the top 3 divisions in terms of growth with fairly high stretch, difficult targets.

Formulations for the domestic market are now largely sourced out of 2 large sites that offer tax benefits, in Jammu and in Dadra.

Exports of branded prescription drugs, to markets other than the US, have been growing at 40% plus for the third year in a row, as we implement the same focus and intent that has served us so well in the domestic market. We are excited about the potential that the international markets offer, specially as we rollout new products, including products with a technical complexity like Lipodox and Lupride Depot, which are under registration in some of the neighboring markets. We continue to be extremely careful about the resources that we commit to each market, and even in the investment phase, these have not been disproportionate to our earnings from that market. This conservatism, respect for profits and a willingness to modify the basic model in order to do whatever is required in a particular market is a key factor of our operations.

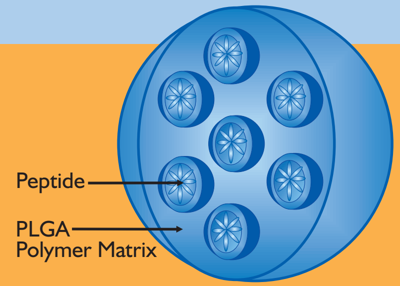
Speciality bulk actives was 17% of turnover, a growth of 17% across domestic and international. Increasing US sales at our subsidiary, Caraco, building on the advantage of backward integration, have helped it compete more aggressively in the competitive US generic market.

*(Rs. Mill)*

| Sales Breakup by type# | Mar 05 | Mar 04 |
|---|---|---|
| Domestic Formulations | 6800 | 5778 |
| Domestic Bulk | 908 | 960 |
| Others | 8 | - |
| Export Formulations | 3690 | 2900 |
| Export Bulk | 1345 | 961 |
| Export Others | 2 | 2 |

#Consolidated

*All financial numbers are on a consolidated basis, unless otherwise mentioned specifically.*




*Inside Lupride Depot: Leuprolide Microspheres*

*Over half the products launched every year have a delivery system advantage or technical complexity*

## Divisionwise representative strength (March 05)

| | |
|---|---|
| Sun | 263 |
| Spectra | 230 |
| Solares | 249 |
| Arian | 168 |
| Aztec | 167 |
| Synergy | 113 |
| Milmet | 70 |
| Avesta | 69 |
| Symbiosis | 91 |
| Sirius | 85 |
| Inca | 86 |
| Onco | 36# |
| Radiant | 80 |
| Ortus | 57 |
| Athena | 22# |

*#total strength*

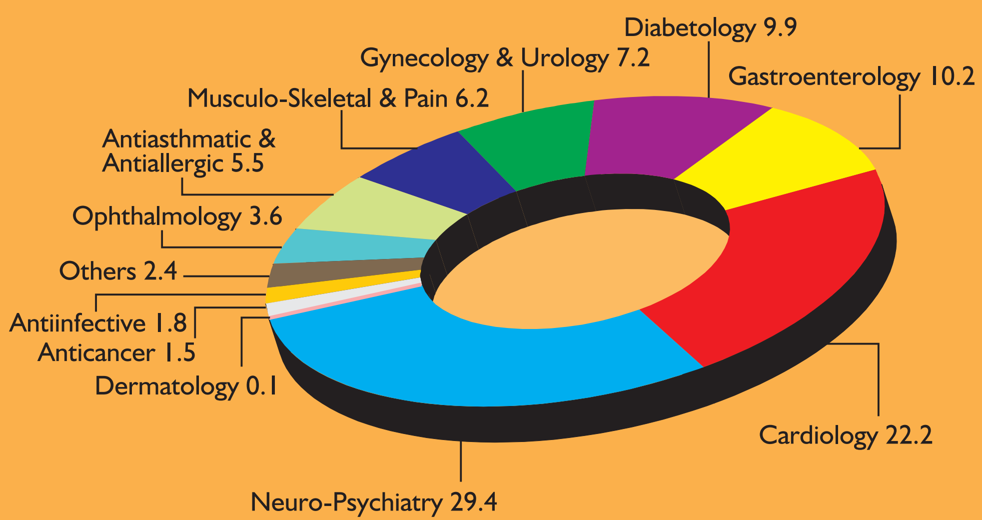
*A field force, divided by speciality therapy area, speaks the customer's language; this speciality focus earns customer trust and prescription share*

# C-MARC RANKS

| | NOV 02 to MAR 03 | MAR 04 to JUN 04 | MAR 04 to JUN 05 |
|---|---|---|---|
| Psychiatrists | 1 | 1 | 1 |
| Neurologists | 1 | 1 | 1 |
| Cardiologists | 3 | 1 | 1 |
| Ophthalmologists | 4 | 3 | 1 |
| Gastroenterologists | 3 | 2 | 2 |
| Diabetologists | 3 | 4 | 2 |
| Orthopedics | 6 | 4 | 3 |
| Oncologists | 6 | 8 | 3 |
| Chest Physicians | 4 | 4 | 5 |
| Consultant Physicians | 5 | 5 | 5 |
| Gynaecologists | 11 | 7 | 8 |
| ENT Specialists | 5 | 9 | 9 |

*The foyer, SPARC, Baroda*

*Bulk active plants can handle high pressure, volatile reactions*




*(Feb 2005 MAT data from IMS-ORG Retail Store Audit)*

# THERAPY WISE BREAK-UP (%)

*Core therapy areas account for 70% of domestic prescription sales, and for important products we make the bulk active*

Our speciality bulk active list comprises of high-end speciality drugs that have fairly stable margins and a few manufacturers the worldover. Of specific interest here is the capability that has been created to handle products like anticancers, steroids, hormones and peptides- all of these need controlled manufacturing conditions. The cephalosporins market, specially that of third generation cephalosporins has in the recent years, witnessed a change in the pricing structure with several manufacturers exiting cephalosporins to make higher margin products. This extensive opportunity with higher end cephalosporins is the reason for the acquisition of Phlox Pharma. In the 2-year timeframe that the merger proposal has taken through legal/ regulatory framework, extensive work has been done to create a formulations facility for both sterile and non-sterile formulations that would meet stringent regulatory standards such as the USFDA. This formulations plant would be operational in the first half of 2005-06. Capability with sterile formulations and bulk actives will help us make inroads into markets where we have at best been a marginal player with low margin cephalexin sourced out of the erstwhile Gujarat Lyka plant, a business that was subsequently discontinued due to changing business dynamics.

As many as 8 bulk actives and 18 processes for DMFs* were developed and scaled up. In all, 7 DMFs and 9 EDMFs have been received, 29 more filings for US and Europe have been made and are awaiting approval.

*(*DMF: Drug Master File; EDMF: European Drug Master File)*

*Anticancer process development; SPARC*

# Research & Development

*Above: SPARC Baroda and SPARC Mumbai*

# Across 137 labs over four floors, this research center now is staffed with close to 355 scientists.

During the course of this year and the last, additional 250,000 sq ft of research floor area across 2 high capability sites was added in Baroda and in Mumbai. This will help your company take ahead exciting projects in new chemical entity (NCE) and novel drug delivery systems (NDDS), bulk actives and formulations with renewed focus and enthusiasm.

At Baroda, the new chemical entity facilities enable us to take ahead a project from idea through animal testing and preliminary testing in humans under one roof.

Across 137 labs over four floors, this research center now is staffed with close to 355 scientists.

Our Mumbai research facility offers a state of the art pharmaceutics lab over 50,000 sq ft with 65 scientists offering technical support for our US projects, primarily for Caraco.

While our longer term projects are in the areas of NCE and NDDS, focus has also been maintained on medium to short term programs for projects that address India and the neighboring markets. This year, we brought over 40 products to market, over a half of which were delivery system based or had a complexity in manufacture, and have 22 products for the US/ European markets filed and awaiting approval. Cumulative to March 2005, 35 patents had been received and another 399 filed and awaiting approval. Processes for 26 bulk actives had been scaled up (including processes for US/Europe filings) and this list has complex products like capecitabine, flucticasone, imatinib polymorphic forms and tiagabine. Our priority is to balance both aspects- the dependable revenue stream delivering projects and the new to the world and exciting projects that may be uncertain but will deliver qualitatively and quantitatively superior revenue streams.


*NMR labs at SPARC, Baroda and Process Chemistry labs: Deciphering the 3D arrangement of molecules crafted through new processes*

# INDIAN MARKET

This year, we introduced over 40 products (not counting line extensions) across marketing divisions. Some of the products were based on delivery systems that are not easy to replicate. The driving idea behind these technologies is to bring to market a product that offers quality of life advantages to the patient. (See the notes on Lupride Depot and Lipodox- drug delivery systems that we are excited about)

The table on the right lists a few of the delivery systems or complex technologies. These products, on account of the difficulties in development and design are not likely to be brought to market by competing companies, unlike other undifferentiated products that are easier to make. Our familiarity with these technologies places us in the right position to take this knowledge a step ahead with exciting, new to the world work.

| DRUG DELIVERY SYSTEMS |
|---|
| XL/CR including gastric retention systems, multiparticulate systems |
| Month/week long biodegradable depots |
| Liposomal drug delivery |
| Ophthalmic gels |
| CR/ SR |
| Mouth dissolving |
| DPIs/ metered dose, Nasal sprays |

*One of the dosage form product development suites at SPARC, a scaledown of an actual production area; a view of the analytical labs, SPARC Baroda*

# US GENERICS, EUROPE AND OTHER MARKETS

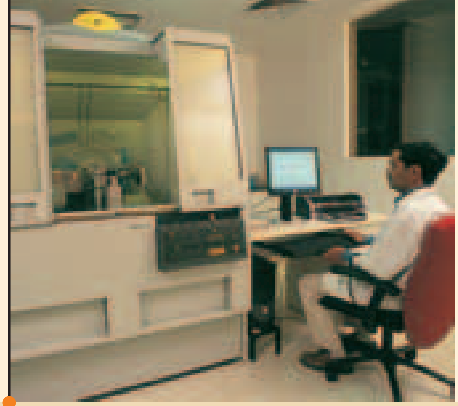
*In the pharmacokinetics labs, SPARC; tracing minute quantities of drug in the blood stream to establish bioavailability*

A dependable pipeline of filings is imperative for continuing success in the US generic market. Since the US market is prone to increasing pricing pressure, a continuously replenished pipeline of generics ensures that margins remain healthy going forward. With this year's filings we have in all 22 ANDAs awaiting approval between Sun Pharma and Caraco, some of which address interesting high growth opportunities. As an Indian company we are ideally placed to make good use of our quick product development ability, low cost manufacturing base and capability to make a product starting from the bulk active, in order to compete in this lucrative market.

The European market, while an exciting opportunity, is best served using a partnership approach. We seek to license out our products to an existing player, using our technical capability to develop and manufacture the product in India.

In the global markets, our intent is to launch products of technical complexity so that the products will deliver value to the patient and a brand can be established. Cummulative 350 registrations await approval across these markets, and another 739 registrations have been received. A foothold has been created in Brazil with a subsidiary established, and this is likely to emerge as one of the key markets going ahead.

X-ray diffractometer analyses the crystalline nature of the compound



## APIs

Starting with just 2 products in 1995, the API list has quickly grown to over 100, all of which had been developed in house. During the year, 26 APIs were taken from lab to plant, including 18 processes for drug master files. These APIs help us enter an interesting formulation market in India. When we take the product to the US, our ability to compete as a completely integrated manufacturer with our own bulk active helps us withstand pricing pressure better.

## INNOVATION

For our innovation based NCE program four therapy areas based on competitive intensity, therapy area gaps and patient requirements, have been highlighted. Longer-term programs are based on therapeutic analogues- molecular modifications on a known chemical structure, so they take ahead an existing body of knowledge, and build on science which is well understood. This approach cuts down the extent of risk that one normally associates with the new molecule program. This approach also helps conserve resources since it can help to identify a quicker and more carefully selected path to new product development based on work that is known.

We are very excited about the progress we have seen with these innovation-based projects, and our work has instilled assurance in the team about our ability to deliver, even if it is an approach that is being worked on for the first time in the world.

One of our projects has completed phase I human trials in Europe. This molecule will enter phase 2 trials shortly, and preparations are ongoing for an investigational new drug application in the US (or, USIND) application. Several of these projects use the capabilities of academia / research in alliances that would best draw on their experience.


In the solvent recovery area, Ahmednagar

Ability to take a bulk active from lab to plant offers an advantage to our dosage business

# NDDS TECHNOLOGIES

In the niche areas of NDDS we are pursuing complex technologies for delivery systems - complex technologies that nevertheless builds on a simple premise- applying the latest technology to make a product that is easier for the patient to take. A novel drug delivery system typically works with a known product with a well-understood action and side effect profile. New technology or new materials are then applied to make this product more convenient for the patient to take. An NDDS may offer the same molecule in a form that offers better action, lesser side effects, fewer doses or a product that is more stable.

In line with your company's incremental approach to new projects, the initial phase involves mastering technology, which is already available, and bringing to market products based on such technology to India and the emerging markets. The second and more complex stage involves taking this technology a step ahead, doing more than is currently available. In this phase we usually apply the knowledge and understanding that we have in order to develop intellectual property earning products that can meet patient needs better. It is envisaged that these products can be licensed out at later stages of research for select markets and brought directly by the company to a few other markets.

This phased approach helps us begin earning from India and several international markets while refining technology to a level where we own intellectual property.

**Platform technologies are being actively pursued at the company**

Controlled release or timed-release technology that can control the release of the drug at a uniform rate upto 24 hours. This technology is useful for the controlled release of highly soluble drugs which is otherwise difficult to retard because of high solubility.

Gastric retentive systems: Certain drugs pose a bioavailability problem in controlled release forms because they are absorbed in the upper part of the gut. We are working on systems that handle this problem by retaining the dosage form in the stomach for a long time.

Biodegradable Products where a depot is formed in the body and the drug is released in microgram quantities over a month long or three month long period. Typically, this would be used to deliver products such as hormones or anticancers.

Dry powder inhalers that are used in the treatment of asthma, where delivery of the drug to the inner sections of the lungs is critical because this determines how well the drug acts. We believe we have a product which is much more effective in terms of this delivery.

Targeted drug delivery for anticancers where the drug, generally an anticancer which can have a side effect on organs such as the heart and kidney, is designed to release only at the site of action- the tumor site.

This note highlights two important technologies that were developed entirely in house; making us one of the few companies worldwide to understand and develop such technology, as also new ways of applying these.

## LUPRIDE DEPOT

Lupride contains a chain of amino acids (technically called a peptide*) called leuprolide which is used in the treatment of prostrate cancer as well as in the treatment of gynecological problems like endometriosis and precocious puberty in adolescents.

Lupride Depot uses technology to deliver the medicine in a specially designed microsphere** based delivery system.

*** Peptides are chains of highly complex substances called amino acids that are arranged in a particular sequence. Since peptides occur naturally in the human body where they perform a particular function, any shortfall in the body's capability to make a peptide can be life threatening. These peptides also find use in the treatment of serious conditions like prostrate cancer or stomach cancer.**

*****"Microspheres" are a new kind of substance, about a millionth of a meter in diameter, or roughly one-hundredth the width of a human hair. Microspheres can be engineered to contain and protect the entrapped drug for extended periods and then gradually release medication into the bloodstream.***

*Preparative HPLCs are used for peptide purification*

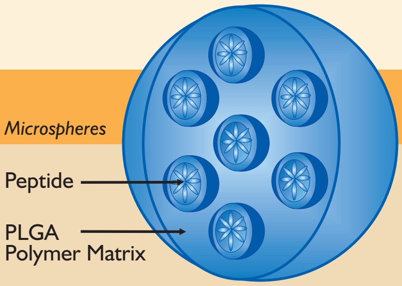
*Endometriosis is a leading cause of infertility*

Lupride Depot uses microspheres to cocoon the drug leuprolide acetate . In this specific instance, the microspheres consist of the drug embedded into the matrix of a material that the body can break down over a 1 month or a 3 month period; a bio degradable polymer called PLGA, which is also used in sutures and bone plates. The development of these microspheres is extremely intricate and a high skill manufacturing process. The manner in which the microsphere is built up determines the even and controlled release of the entrapped drug. The technology is so precise, using high sensitivity HPLCs that even a slight change in the process can influence drug release.

It took several years of hard work for an expert team of scientists, altering variables like formulation excipients, release modifiers, and timing parameters in order to create a product that matches the release profile of the international brand.

Lupride Depot has been successful launched in the Indian market. We have begun the registration procedure in key international markets. This is a product that we are actively working to take to the US market as a generic.

*Inside Lupride Depot: Leuprolide Microspheres*



# LIPODOX
## (TARGETED LIPOSOMAL DOXORUBICIN)

This is a new delivery system for doxorubicin, an anticancer drug that has been in use for over 2 decades.

Liopdox uses tiny fat globules called liposomes to deliver the anticancer medication right to the site of the tumor, leaving the drug molecule entrapped in a layer of tumour cells, largely leaving out the normal cells. On account of this site specific design, this medication is much safer on the heart as it does not accumulate there.

The liposomes or hollow fat globules that the medication is entrapped in, is very similar to the lipid walls of the human cells.

This medication, on account of its site specific action also avoids common anticancer side effects like nausea, fatigue and hair loss.

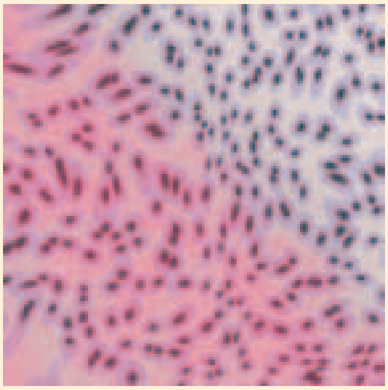
The liposome is designed with hair like strands coating , so as to put off detection and clearance by the immune system . The medication gets more time to reach the tumor tissue and slowly leak out to the tumor.

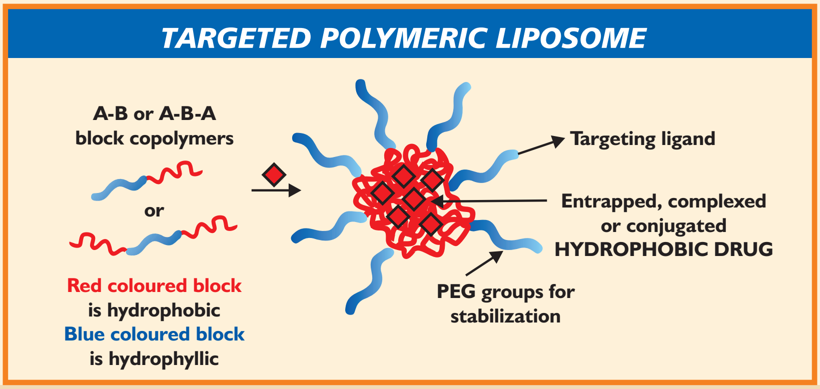
A team of expert scientists from across areas - formulation development, analytical, bioresearch, pharmacokinetics and clinical research have worked to develop this medication.

In extensive studies, Lipodox has been shown to be equivalent to the international brand across critical treatment related parameters.

Lipodox is a priority product for the company, a product that clearly has international potential both because of size of the markets and technical complexity which is a competitive advantage.

*Cancer cells*





# QUALITY

*Dissolution testing at SPARC, Mumbai.*

We recognize that for a company to be truly international, quality has to be a given. At Sun Pharma, the quality team begins to contribute to the product right from the development stage, which enables product /process improvements to be built right into the system. A central quality team is supported by dedicated teams at all locations and working in tandem, these ensure that strict quality standards are met.

This team often applies its learning beyond the reaches of the company, for instance working with a supplier of chemicals or a packaging manufacturer to ensure consistency in delivery or meeting schedules as much as meet expected quality standards. Clearly detailed quality polices that are regularly updated in line with international requirements , training programs that help share and update knowledge levels across the organization are key characteristics of the quality policy. An ability to respond to quickly changing regulatory requirements is a definite plus, the team has the ability to handle manufacturing for complex products across locations and across complex delivery systems such as biodegradable membrane based products.

The consistent pace at which product approvals are received from the USFDA, the confidence level that this regulatory authority has shown with regards to the quality of filing, the pace at which new approvals are received, all point to a demonstrably high level of quality commitment.

2 facilities for bulk actives have been re-cleared by the USFDA and the European regulatory authorities.

During the course of the year several regulatory approvals were sought- USFDA, UKMHRA, ANVISA, INVIMA, South African MCC for the Halol plant, OHSAS18001:1999 for the Nagar plant. Inspections were also carried out by large innovator companies that form our customer base.

Production has been streamlined at Caraco's plant in Detroit


# International markets

## US generics

Increasing pricing pressure and market complexity in order to better handle the pricing pressure have shaped quick changes in the US market. The increasing trend of authorized generics in the market- a situation not very different from the launch of generic generics by pharma majors in the Indian market, have reduced the immediate attractiveness of para 4 filings. The drug industry, through bodies such as the PhRMA also lobbied extensively to check the imports of lower priced generics into the US. FTC began to examine several deals in order to establish whether these were in the best interests of the consumer.

Our sales in the US market through our subsidiary Caraco continued to increase at a healthy rate in a tremendously competitive market. This is one of the fastest growing parts of our business, and clearly amongst the most profitable despite pricing pressures.

In the year to December 2004, Caraco posted sales of over $60mill, up from $45 mill in the previous year based on growth from its existing products. On this turnover, it had net cash from operations of $22 mill, without sales from any new products to spur growth.

Caraco has a basket of 19 products of which 15 are sold actively. In addition, 10 filings await approval (as of June 05), and several of these address interesting generic opportunities. Caraco has seen its turnover increase from $2.3 mill to $60mill in just 5 years based entirely on plain vanilla generics, without any patent challenges or exclusivities. This is a major pointer to the production efficiencies that have been put into place here.

This year also witnessed an increase in the pace of ANDA filings out of India, with a clear checklist differentiating the products filed out of India and out of Caraco. We expect to maintain or increase the pace of filings that we make in this year and the next year too. This increased pace of filings is indicative of our confidence for the US market as much as the complexity of products that we are now exploring- products with a regulatory or legal challenge, complex products other than solid oral dosage forms.

A trial batch at the tablet development lab, SPARC Mumbai

*Analytical lab, SPARC Mumbai*

Net cash of
**$22 mill**
from operations

Caraco posted sales of
**$60 mill**

**Caraco has seen its turnover increase from $2.3 mill to $60* mill in just 5 years**

** Dec 2004*

With the purchase of some brands from the San Diego based Women's First Healthcare, we took a major step forward from the generics only strategy that we have been following so far. These are brands with strong brand recall with consultants that prescribe them- Midrin, an antimigraine product with several decades of history and a women's healthcare product Ortho-Est (Estropipate) with a decent brand recall. These products, with sales of over $5 mill were bought for a total of $3.7 mill[#]. In the first phase, adequate supplies have been made available, and promotion using a telemarketing force and mailers will begin shortly.

The flexibility of manufacture either in the US or in India, as well as the capability to substantially increase volumes without having to necessarily add onsite capacity strengthens Caraco's ability to compete for large volumes in parts of the market that have not been explored as yet, such as the large chains. In just the last 2 years, Caraco has invested a total of $4 mill in expanding production lines.

## Branded markets

In 26 markets across South East Asia, Russia, China, the Middle East and Africa, for the last few years we have been competing with branded products with a new structure in place, with 260 representatives promoting the products. This structure allows us to choose the right mix of products for a market, promote it in a manner appropriate for that market, and use the method of distribution that is likely to work the best in that market. While we believe we are still in the investment phase, this dedicated, on the ground approach that views every country as a profit center should work well for us in the future too. The template of speciality products has worked very well for us in India and will likely bring in the same reliable business of consistently increasing prescription share as we build our portfolio with differentiated products such as Lipodox or Lupride Depot.

*USFDA approved unit at Ahmednagar: Using bulk active strengths for advantages in the US generic market*

## API marketing:

Starting with just 2 APIs that were sold largely to trade in the unregulated markets, this part of our business has grown quickly to cater to the needs of large generic companies including innovator companies in the US/ Europe, on the back of an increasing number of regulatory approvals, including the capability to make complex products like peptides, anticancers and steroids. This customer base endows a degree of stability to the bulk active business, which otherwise is prone to quick price erosion.

*([#] After subsequent event)*

*The USFDA approved bulk active plant at Panoli*

# Manufacturing

**A comprehensive ERP solution developed in house was implemented across all locations and distribution points, including the Caraco operations. This was a mammoth task involving over 330 products in 4 strengths on an average each, across 27 C&F agents and 11 manufacturing units across India. The distribution system experienced some stretch with issues like the destocking of psychotropics and the issues about the partial rollout of VAT across the country with some states keeping away. Both these issues were beset with a high degree of uncertainty and lack of clarity about the final form that the law would take. Significant system changes had to be implemented to ensure that adequate stocks would be available at all locations, that neither inventory stockouts or buildups derailed the system. It is to the department's credit that these changes were handled well without causing stockouts or stock pileups, and were handled smoothly in conjunction with trade.**

**Significant capacity increases were seen at the bulk and formulation plants. Our facilities were inspected by the USFDA, the UKMHRA as well as regulatory authorities from a number of markets like Brazil, Columbia, South Africa and Tanzania.**

*Steroid bulk active unit, Panoli*

*A view of the Ahmednagar plant*

*Silvasa 2 plant for dosage forms*

## Bulk actives

*A view of Ahmednagar bulk active plant - USFDA approved and ISO 9002, ISO 14001 certified*

We doubled the capacity and the area at the bulk active site in Panoli. This plant, originally built in 1994 and expanded several times over the years, is a large supplier of bulk actives to the regulated markets and has dedicated areas for steroid manufacturing. With the completion of this expansion, 269,000 sq ft area have been added to the plant, doubling the manufacturing area, and offering additional 129 KL reactor capacity for the regulated markets.

With this capacity across Panoli and Ahmednagar, we have in place capacity for the US / European markets including dedicated/controlled areas for difficult to make products like anticancers, peptides and steroids.

## Formulations

With the recent commissioning of the new dosage form sites at Dadra and Jammu, which offer over 70,000 sq ft of manufacturing floor area and 2160 mill/year tabs capacity, production for the local market has been shifted to these sites, leaving the capacity at the Halol plant to make value added formulations such as oncologicals, steroids and peptides as well as products for the international markets. After recent expansion at these sites to add substantial capacity, capacity additions are not immediately planned at Jammu and Dadra.

*Quality control at Halol formulations plant*

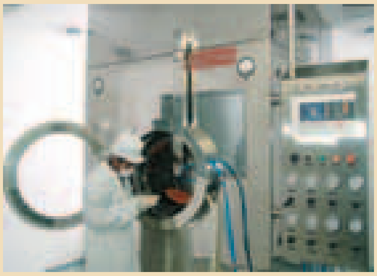
At Halol, which is a state of the art manufacturing unit for formulations, a new injectable area was added. This plant offers 36,000 sq ft in the production area alone, which possibly is amongst the largest in Asia, with the latest manufacturing design and pharmaceutical technology. This area can handle a high volume of injectables and eyedrops in a closed and dedicated area. This plant has been tested with scale up batches in July 2005. The establishment of a separate, stand-alone manufacturing area for parenterals also frees up substantial area for expansion for oncologicals. This offers additional area for expansion for products like Lipodox and Lupride, and several interesting projects that we have in the pipeline.

At all the sites, comprehensive upgradation programs, with emphasis on GMP, SOP, and work safety were completed, ensuring that the plant continues to comply with international requirements.

## Caraco

Over the last 2 years, manufacturing expansions totalling $ 4 mill. have been completed at Caraco, and the administration and marketing functions moved out to a different building.

*Dhaka Plant*



## Bangladesh

This year, a 33,600 sq ft plant, the company's first site to be set up under a joint venture, began commercial production in Dhaka. While we have been selling brands in Bangladesh for long, this venture gives us the ability to take production to the next stage of growth as a local company.

## Halol

Manufacturing areas dedicated to the US have been created at the Halol plant, with standards of machinery, operating procedures and systems that are sought by the world's most stringent regulatory agency. Several dedicated tablet manufacturing suites with high capacity machines have been installed to enable the company compete in large volume areas.

# Bulk Drugs

- Acamprosate Calcium
- Alendronate Sodium
- Budesonide
- Buprenorphine HCl
- Bupropion HCl
- Carbamazepine
- Carboplatin
- Carvedilol
- Cisplatin
- Citalopram Hydrobromide
- Clomipramine HCl
- Clonazepam
- Clopidogrel Bisulfate
- Desloratidine
- Desmopressin Monoacetate
- Divalproex Sodium
- Dobutamine HCl
- Dothiepin Hcl
- Escitalopram HBr
- Esomeprazole Magnesium
- Flurbiprofen
- R(-) Flurbiprofen
- S(-) Flurbiprofen
- Flurbiprofen Sodium
- Fluticasone Propionate
- Fluvoxamine Maleate
- Gabapentin
- Glimeperide
- Irebesartan
- Isradipine
- Lacidipine
- Lercanidipine HCl
- Letrozole
- Leuprolide Acetate
- Losartan Potassium
- Loteprednol Etabonate
- Magnesium Valproate
- Meloxicam
- Mesalamine (5 ASA)
- Metamizol Magnesium
- Metaxalone
- Metformin HCl
- Methylphenidate HCl
- Metoprolol Succinate
- Metoprolol Tartrate
- Mirtazapine
- Modafinil
- Mometasone Furoate
- Naltrexone HCl
- Octreotide
- Olanzapine
- Ondansetron HCl Dihydrate
- Oxaliplatin
- Oxcarbazepine
- Oxethazaine
- Pamidronate Disodium
- Pentoxifylline
- Riluzole
- Rivastigmine Tartrate
- Ropinirole
- Rosiglitazone Maleate
- Sertraline HCl
- Sodium Valproate
- Sumatriptan Succinate
- Tizanidine HCl
- Topiramate
- Tramadol HCl
- Valproic Acid
- Venlafaxine HCl
- Zolpidem Hemitartate
- Ziprasidone HCl

# New Products

| DIVISION / PRODUCT | THERAPY AREA / USE |
|---|---|
| **SYNERGY** | |
| Modalert (*Modafinil*) | Sleep disorders, Narcolepsy |
| Arpizol (*Aripiprazole*) | Antipsychotic |
| Nexito Forte (*Escitalopram +Clonazepam*) | Antidepressant |
| Duzela (*Duloxetine*) | Antidepressant |
| Adcapone (*Entacapone*) | Parkinsons disease |
| **SYMBIOSIS** | |
| Admenta (*Memantine*) | Alzeimers |
| Attentrol (*Atomoxetine*) | ADD |
| Sizodon MD (*Risperidone mouth dissolving*) | Antipsychotic |
| **ORTUS** | |
| Tazotop (*Tazarotene*) | Plaque Psoriasis |
| Rolsical Ointment (*Calcitriol*) | Psoriasis Vulgaris |
| Clenz (*Clindamycin*) | Topical Antibiotic |
| Am Laquer (*Amorolfine nail laq*) | Antifungal |
| **SIRIUS** | |
| Tigatel (*Tiagabine*) | Antiepileptic |
| Betatrop (*Propanolol*) | Migraine, Essential Tremor |
| Strocit (*Citicoline*) | Nootropic |
| Gravitor (*Pyridostigmine*) | Myasthenia |
| Lamosyn (*Lamotrigine*) | Epilepsy |
| **SUN** | |
| Adfovir (*Adefovir Dipivoxil*) | Chronic Hepatitis-B |
| Neucobal Forte SGC (*Methylcobalamin + Vitamins*) | Vitamin- Antioxidant |
| Ursocol SR (*Ursodeoxycholic Acid*) | Gallstone Disease |
| Flexura D (*Metaxolone + Diclofenac*) | Muscle Relaxant |
| **SUN ONCOLOGY** | |
| Anabrez (*Anastrozole*) | Breast Cancer |
| Gemtaz (*Gemcitabine*) | Non Small Cell Lung Cancer |
| Lipodox (*Liposomal Doxorubicin*) | Anticancer |
| Caxeta (*Capecitabine*) | Anticancer |
| Voraze (*Voriconazole*) | Antifungal |
| **INCA** | |
| Durize (*Dutasteride*) | BPH |
| Tamflo F (*Tamulosin + Finasteride*) | BPH |

| DIVISION / PRODUCT | THERAPY AREA / USE |
|---|---|
| **SOLARES** | |
| Sompraz D (*Esomeprazole + Domperidone*) | Gastric Prokinetic |
| Predmet (*Methyl Prednisolone*) | COPD, Bronchial asthma, Neuropathy |
| Dulane (*Duloxetine*) | Antidepressant |
| Deslor MD (*Desloratidine Mouth Dissolving*) | Antiallergic |
| Rofaclo, Rofaclo P (*Aceclofenac*) | Pain Management |
| **AZTEC** | |
| Gemer P (*Pioglitazone + Glimepiride + Extended Release Metformin*) | Oral Antidiabetic |
| Amditor (*Amlodipine Besylate + Atorvastatin Calcium*) | Antihypertensive - Cholesterol Reducing agent |
| Aztor EZ (*Atorvastatin + Ezetimibe*) | Cholesterol Reducer |
| Fibator (*Atorvastatin +Fenofibrate*) | Cholesterol Reducer |
| Eptiflo (*Eptifibatide*) | During Coronary Angioplasty, Myocardial Infarction and Angina |
| **ARIAN** | |
| TRIGLUCORED FORTE (*Glibenclamide + Metformin HCl + Rosiglitazone*) | Oral Antidiabetic |
| **MILMET** | |
| Timolet P (*Timolol Maleate SOC*) | Glaucoma |
| Tear Drops (*Carboxymethyl cellulose*) | Lubricating Eye Drops |
| Ocepred E/D (*Ofloxacin + Prednisolone*) | Antiinfective, Antiinflamatory |
| **AVESTA** | |
| Gatilox DM (*Gatifloxacin + Dexamethasone*) | Atiinfective, Antiinflammatory |
| **SPECTRA** | |
| Krimson (*Cyproterone Acetate + Ethinyl Estradiol*) | Treatment of Androgen dependent diseases in women, such as Acne, Alopecia Hirsutism, PCOS |
| **RADIANT** | |
| Tiotrop MDI (*Tiotropium*) | Once-daily treatment for COPD-linked bronchospasm. |
| Fomtrop (Formoterol + Tiotropium) | Asthma |

# Directors' Report

Your Directors take pleasure in presenting the Thirteenth Annual Report and Audited Accounts for the year ended 31st March, 2005.

## FINANCIAL RESULTS

(Rs. Millions)

| FINANCIAL RESULTS | **Year ended 31st March, 2005** | Year ended 31st March, 2004 |
|---|---|---|
| Total Income | 12468 | 9598 |
| Profit after tax | 3057 | 2594# |
| Dividend | | |
| Preference Shares | 1 | 9 |
| Equity Shares Final | 696 | 603 |
| Corporate Dividend tax | 98 | 79 |
| Transfer to various Reserves | 1500 | 1003 |
| Rate of dividend on equity shares | 75% | 65%* |
| Book value per equity share (Rs. 5 paid up) | 60 | 93* |

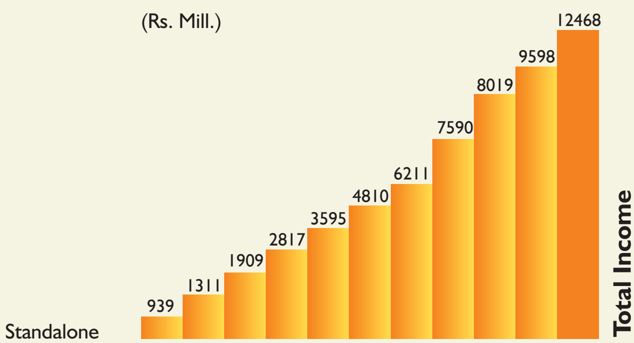
** shown at Post Bonus rate for the purpose of comparison. The Pre-Bonus Dividend rate is 130%.*

*# before prior period adjustment.*

The current year's results include the figures of erstwhile . Bazley Finvest Limited,Dhaval Finvest Limited and Manish Finvest Limited which has merged with the Company with effect from 1st March,2005.

## Acquisition in Europe

Your Directors are glad to share a subsequent period event: In August 2005, the company, through its wholly owned subsidiary has acquired a stake in a Hungary based pharmaceutical company , ICN Company Hungary Limited , from Valeant Pharmaceuticals International USA.




## Dividend

Your Directors are pleased to recommend a preference share dividend 6% p.a. on paid up amount of preference shares to those preference shareholders of the company whose preference shares are still outstanding and not redeemed and equity dividend at the rate of 75% post bonus (previous year 65% post bonus/130% pre bonus) for the year ended 31st March, 2005 on the equity share capital.

*In process analytical area at the pharmaceutics lab. SPARC Baroda*

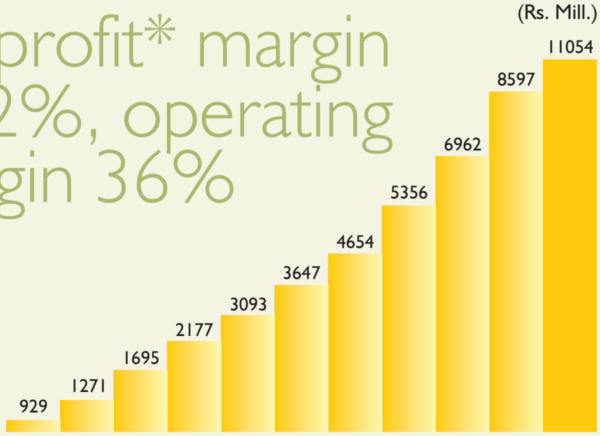
# Management Discussion and Analysis

The pharma sector closed the year with a 4.2% growth rate (March 2005 IMS-ORG Retail Sales Audit), largely due to the impact of VAT being implemented from April 1, which had led to a trade impasse and reduction in the inventory levels at retailers. This issue related to the mechanism of VAT implementation will likely be resolved in the first quarter of the next financial year, and is hence not expected to have a long term impact.

However, in our estimate the pharma sector is growing at about 10% in unit terms. This is partly on account of growth from smaller/regional companies that are not large enough to be covered by the market research agencies in their healthstore audits. The other contributing reason is the large price erosion in some important products like clopidogrel that has resulted in a significant unit increase.

Net profit* margin 32%, operating margin 36%

* Consolidated




Standalone

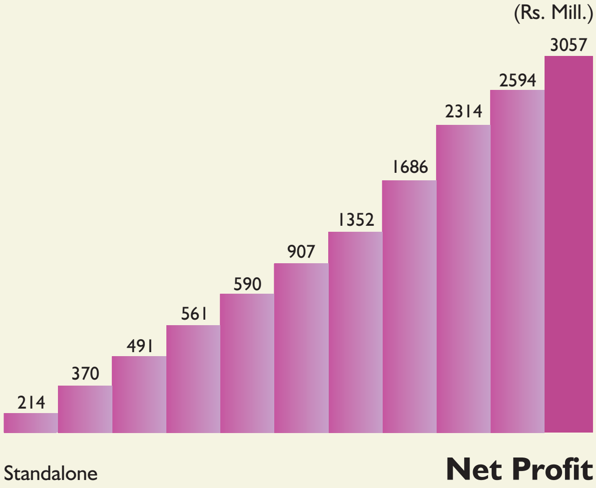
Net Worth

12.7%*
growth rate
at Sun Pharma

(* IMS-ORG)

Speciality therapy areas continued to grow faster than industry average, although some areas did witness entry of lower priced products and a value slowdown. On the other hand, an improving economy, increasing awareness of treatments and solutions, better affordability and increasing social acceptance of treatments in areas such as depression or psychosis now means that a larger part of Indian society has the money to seek treatments and pay for them. Continuing migration into the cities makes medical care more accessible, even at the primary level.

In the last 2 years, in preparation for making India patent compliant, significant resources have been committed by the authorities in creating and maintaining a patent office and infrastructure. A new patent act that makes India TRIPS compliant, yet recognizes the limited paying ability of the population and the effective lack of a public health system have been put into force. The first of landmark litigations that test the limits of the new patent law have been contested with pre 1995 molecules such as imatinib which is a contentious area with the Indian lobby and the multinational lobby differing over whether or not such products qualify for patent protection; a dry run, so to speak, of the legal system and a check on its state of readiness.




On the personnel supply side, both clinical research and intellectual property related fields are quickly emerging as career choices for college goers on par perhaps with the ever attractive IT and consulting sectors.

The DPCO continues to be contested at the courts and a new drug policy that seeks to make basic medication available to people who need it the most , is likely on the anvil.

The last few months of the current financial year were affected by lack of clarity about the storage and distribution norms for psychotropics because of new rules that would require extensive documentation to be kept at the chemist level; however, the chemist lobby maintained that it lacked the wherewithal for such a paper trail. This caused a month long slowdown in the offtake of psychiatry products, which impacted companies like ours, that have a major presence in this segment. The other speciality therapy segments that we have a presence in, continued to grow at higher than industry rates of growth.

Our speciality therapy segments continued to grow at higher than industry rates of growth

*Malvern particle size analyzer, analytical area, SPARC Baroda*

**Net profit increased to Rs. 3962 mill**

**Sales of branded prescription products in India increased by 18%**

**International formulations increased by 27% (including US)**

## Company performance

Total income increased 23%. Sales of branded prescription products in India increased 18%, despite the VAT related slowdown and the issue with psychotropics.

International formulations (consolidated with Caraco) increased 27%. Export of prescription formulations increased over 40%, the third year in a row, which is an enthusing sign since this too, is the business of speciality prescriptions, a sticky business that builds for the long term.

Caraco, our US subsidiary, posted sales of $60.3 mill for the year to December 2004, an increase of 33% over the previous year, with net cash from operations at $22mill. For this year, Caraco has forecast a 15-20% growth in an extremely competitive market environment.

*SPARC Baroda*

Customer relationships and the credibility and trust that the prescriber has in the company are critical parameters that the company tracks with alertness.

## Approach

The sustainable growth that we've shown over the last two decades is a function of the speciality product strategy that we've followed in India. Speciality brands build over time, and is therefore a difficult business to build up, but one where the patient stays on the prescription for a few years if not lifelong. Customer relationships and the credibility and trust that the prescriber has in the company are therefore critical parameters that the company tracks with alertness. There is a company wide appreciation of the fact that a prescription lost once, is a prescription lost to the competition forever.

The same attention to detail that is common across the domestic formulations business is the learning that we're trying to replicate across all parts of our business, as we become better at managing the intricacies of operations across international markets and research.

## India formulations

We begin this discussion with a closer look at the domestic branded prescription market. We closed the year ending 31st March 2005, with a 5th rank , with a 12.7% growth rate, considerably higher than the 4.2% growth number reported for the sector. Market share was at 3.36%, up from 3.11% last year (at 3.44% for June 2005) and closer to our stated objective of reaching 3.5% market share in the next 2 years. We had shared two years ago, our objective of reaching 3.5% market share, now our objective is to reach 4% market share in the next two years.

Over 177 brands* (out of a product list of 330 brands) ranked among the top 3 by molecule- exemplifying what we're working towards- offering a complete disease management basket so that the maximum number of products can be prescribed from our range. Products introduced in the last 3 years accounted for 21% of domestic formulation sales.

*(*June 2005 IMS-ORG data)*

In cardiology, where the company had been working to increase prescription share, 1st rank was attained

Analytical lab, Ahmednagar bulk active plant

Process chemistry lab, SPARC Baroda

## CMARC's speciality list

Our ranks with key speciality groups continued to demonstrate the staying power of our product basket and underlined a simple fact - prescriptions for speciality products are written for life. In cardiology, where the company had been working to increase prescription share, the final hurdle was breached and the 1st rank attained. In neurology and in psychiatry, the company continued to be the top rated with specialists. In areas like gynecology and oncology where a modest start was made a few years ago with product baskets that had been acquired, considerable increases in prescription share and ranks were seen. Our practice of using a product with a technical complexity to complete a product offering has helped us quickly make a mark in therapy areas where we have been recent entrants.

SPARC Mumbai works on US projects

A worldclass injectables manufacturing site, occupying 36,000 sq ft of manufacturing floor area

*Analytical area, Caraco*

*Analytical labs, SPARC Baroda*

*One of the 10 process chemistry labs, SPARC Baroda*

## New manufacturing facilities

We've seen over the last few years how Indian pharma companies have begun to be taken seriously in the US market. As the US generic market continues to witness price erosion for large molecules after patent expiry, the competitive advantages that set Indian companies apart become even more evident. Strong process chemistry skills, efficient bulk active manufacturing, proven product development skills that have been tested with years of quick new product introduction in the Indian market. Skills that can help the sector deliver with a range of ANDA filings, albeit with a higher degree of complexity and regulatory detail. And the intent to get these processes to work together, development and filings for ANDAs, DMFs and regulatory, at the right time, so that one is well equipped to compete in the most rewarding generic space internationally.

Over the year, substantial manufacturing expansion was completed in select areas across bulk actives and formulations, capacity that will better equip us to compete across international markets. A worldclass injectables manufacturing site, occupying 36,000 sq ft of manufacturing floor area with 7 highspeed lines to make injectables and eyedrops for the regulated markets was completed this year and will be commissioned in the first quarter of 2005-06. Approvals will be sought from regulated markets for this plant. Expansions were also completed at the oncologicals injectable area in order to make liposomal doxorubicin, a technically complex anticancer that we've introduced in the Indian market and are preparing to take to international markets.

In our last report to you, we had written about the new sites being commissioned at Dadra and Jammu, adding substantial capacity for the domestic markets. These plants have been set up in partnership between Sun Pharma and Sun Pharma Key Employees Benefit Trust. A large part of the manufacturing for the domestic market has been shifted out of existing plants such as the Halol plant to these plants. This frees up substantial capacity for the regulated markets, especially for difficult to make formulations.

In the year to December 2004, our US subsidiary, Caraco, posted strong sales at $60.3 mill (up from just $2.2 mill, five years ago). Net cash from operations was $22 mill. After accounting for a non cash R&D charge, an indicator of a strong pipeline, Caraco posted a net loss of $0.1mill. Caraco has shared estimates of a 15-20% turnover growth for the year, after factoring in likely price base competition. Caraco now markets 15 ANDAs and has 10 more filings that await approval. The top 3 products- metformin, metoprolol and tramadol, account for a large part of Caraco's sales. For 7 of its products, the bulk active is sourced from an USFDA approved Sun Pharma owned site.

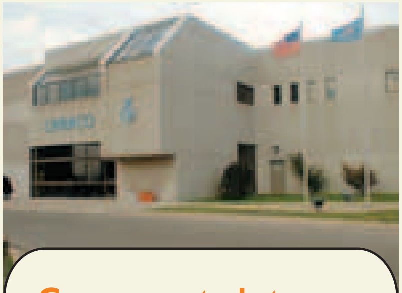
Starting 2004, Sun Pharma independently also began to make filings for the US generic markets from an Indian site, with 13 ANDA filings (as of March) awaiting approval at the USFDA. The idea is to use this base to enter into products that are other than tablets (Caraco can currently only make tablets), products with a legal challenge or a regulatory complexity, or products where margins are very thin.

In 2004, a set of brands with current sales of $ 5 mill was bought for $ 3.7* mill from the San Diego based Women's First Healthcare. These products offer good potential for growth in the branded products space and we can learn customer-focused promotion, the next stage up the value chain.

Manufacturing capacity was doubled at the Panoli bulk active plant. This plant, our first bulk active facility commissioned in 1995, will occupy double the area and will have 129 KL additional reactor capacity on offer. This too, will be used primarily for the US and European markets. Caraco sources the bulk actives for its important products like metformin and metoprolol from the plants at Ahmednagar and Panoli. In order to tackle the increasing demand for Caraco's products, capacity expansion has been planned at Ahmednagar over the next year.

*(*corrected for subsequent event)*

*Caraco Pharm Labs, Detroit*



**Caraco posted strong sales over $60 mill**

**Caraco now markets 15 ANDAs**

**Caraco has 10 filings awaiting approval (June 05)**

*Our Halol dosage form facility: USFDA, UKMHRA approved*

*Left and below:*
*Panoli: USFDA approved bulk actives plant*

The sales of branded generic products in 26 markets across South East Asia, Russia, Africa and the Middle East have been growing in excess of 40%

# International markets

## Dosage forms, excluding US

The sales of branded generic products in 26 markets across South East Asia, Russia, Africa and the Middle East have been growing in excess of 40%. As we bring products based on technically complex systems to market, we continue to be tremendously excited by the opportunities for growth. In the 26 key markets identified, there is a 260 person strong team of representatives on the ground (in addition to agent recruited field force). In all, 739 active registrations have been received, 350 product dossiers are awaiting approval.

The process of applying for regulatory clearance for some difficult to make products has begun. The consistent increase in numbers is a validation enough of the hypothesis that the speciality template that we have built our core business around, stands the reality test in international markets too.

As we make inroads into new markets like Brazil and Mexico with technically complex products, we expect to have much more to share in our next report to you.

## Bulk actives

Between the plants at Panoli and Nagar, a total of 16 filings for US and Europe stood cleared at the end of March 05. Another 29 filings await approval, of which as many as 6 filings have been cleared by the FDA and await activation of ANDA. During the course of the year, the Nagar site received OHSAS 18001:1999 approval, a health and safety assessment in addition to the USFDA approval it holds. All sites for bulk actives are now ISO 9002 approved, of which 2 plants are earmarked for the US markets. Increased volumes, specially in the US market, and exciting new products where the value addition can be much higher, such as anticancers- these are some of the characteristics that indicate a good outlook for bulk actives.

200, 000 sq. ft. of research floor area

355 scientists

One molecule in phase 1, 2 NDDS close to phase 2

*SPARC Baroda - our campus for innovation*

# Research & Development

The year witnessed a number of early stage licensing deals across the sector, indicative of the advantage that India offers, high quality science at a reasonable cost and a flexibility to work on projects across continents. While landmark patent challenges from Indian companies make their way across the legal framework in the US, reversals of some judgements and the tendency of brand name companies to enter into the fray with authorized generics has increased the degree of complexity severalfold for patent challenges in the US generic market. Yet another hurdle for the sector to negotiate in its ambition to make a mark in the US market.

The most significant happening was the inauguration of our new R&D center SPARC, at the hands of His Excellency the President of India, Dr APJ Abdul Kalam, formally setting on track our plans to invest in drug discovery innovation.

SPARC, Baroda, which had been operational since mid 2004, saw strong activity across departments. We now have one molecule lead in phase I and two delivery system based projects close to phase 2b, with plans to file an IND for the US in the next year. When these intellectual property based products reach market, they will result in a rapid change in the revenue streams and outlook for the company.

Based on the work done at SPARC, over 40 new products were introduced, of which 22 were based on a delivery system or complex technologies.

739 international product registrations have been received, and 350 dossiers await clearance from the less regulated/ neighboring markets. Between Caraco and Sun Pharma, 22 filings awaited approval at the end of March 2005.

This year saw significantly higher R&D spend, related to the establishment of the R&D centers and higher costs associated with innovation projects. We expect to maintain R&D spend at 10-11% of the turnover on a larger base as we bring exciting research ideas to market.

*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.

## Human Resource

Your Directors would like to place on record the continued endeavor of Team Sun Pharma which is comprising of workforce of above 4000 and its Human Resources whose collective efforts drive the fast pace of continuous growth of the Company. Your Company continues to draw energy from a strong and tenacious team.

As always industrial relations have been harmonious at all our locations. Relationship with the management, at all levels, continues to be cordial. Human Resources continues to keep the enthusiasm high through customized, large scale training and development efforts.

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. 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 or Registered office address of the Company.

cohesive and well knit team of over 4000 employees

## 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.

*Raman I R spectroscope, Analytical area, SPARC Baroda*

# Internal control systems and adequacy

Well established, documented operating systems exist for all functions. The Company also has a system of internal audit being conducted by the independent firm of Chartered Accountants for all locations so as to cover various areas of operations on continuous basis. The summarized Internal Audit Observations/Reports are reviewed by the Audit Committee on a regular basis. The finance and accounts function of the Company is well staffed with qualified and experienced members.

# 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

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.

# Capital Raising

During Nov./Dec., 2004, the Company issued 350,000 (Three Hundred and Fifty Thousands) Foreign Currency Convertible Bonds (FCCB) of US$ 1,000 each aggregating to US$ 350,000,000 (Three Hundred and Fifty Millions) (including US$ 75,000,000 allotted on exercise of "Green Shoe Option"), which are convertible into the equity shares of the Company at the option of the Bondholder, at a conversion price of Rs. 729.30 per share of Rs. 5 each (with a fixed rate of exchange on conversion of Rs. 45.01= US$ 1) which price was fixed at 50% premium over the closing price of 17th November, 2004. While the bonds carry a zero coupon rate, if the conversion option is not exercised by the bondholders, the bondholders would be entitled to a redemption premium, which would ensure a 4.61% per annum yield to maturity on redemption after 5 years on November 26,2009 or in case of certain defined earlier redemptions. The Company subject to satisfaction of certain conditions, has an option to redeem the bonds at any time on or after November 26,2007 and prior to November 16,2009.

The Company had issued 350,000 Foreign Currency Convertible Bonds (FCCB) of US $1,000 each aggregating to US $350,000,000

*The galleries and central courtyard, SPARC Baroda*

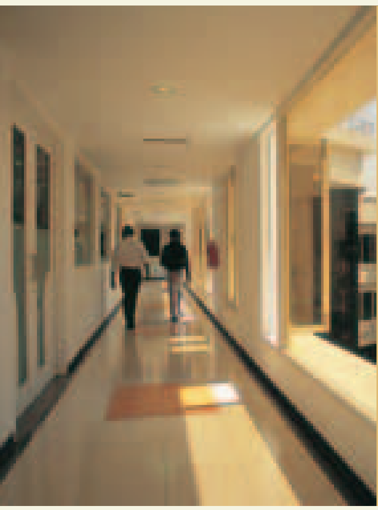
# Directors

Shri Sailesh T. Desai and Shri Dilip S. Shanghvi retire by rotation and being eligible offer themselves for reappointment.

The monthly remuneration of Shri Sailesh T. Desai, the Whole-time Director of the Company, is proposed to be revised upwardly. Your Directors recommend the approval of the increase in monthly upper remuneration limit of Shri Desai to be effective from 1st April, 2005 for the remaining period of his appointment up to 31st March, 2009.

# 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, 2005, 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, 2005 on a 'going concern' basis.

# Auditors

Your Company's auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, retire at the conclusion of the forthcoming Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

# 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.

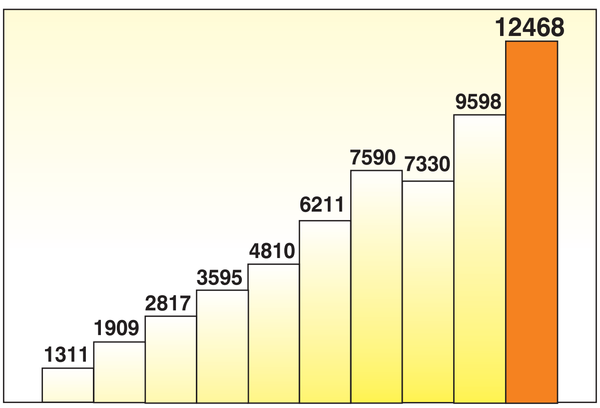
# FINANCIAL HIGHLIGHTS

(Rs in Million)

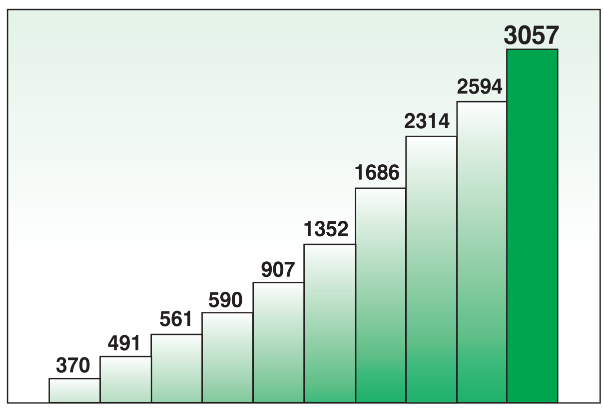
| Particulars | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | **2004-05** |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Income | 1311 | 1909 | 2817 | 3595 | 4810 | 6211 | 7590 | 7330 | 9598 | **12468** |
| Net Profit | 370 | 491 | 561 | 590 | 907 | 1352 | 1686 | 2314 | 2594 | **3057** |
| Gross Block | 598 | 973 | 1371 | 2020 | 2442 | 2766 | 3373 | 4077 | 5362 | **6600** |
| Net Worth | 1271 | 1695 | 2177 | 3093 | 3647 | 4654 | 5356 | 6962 | 8597 | **11054** |
| R&D Expenses | | | | | | | | | | |
| Capital | 26 | 45 | 35 | 45 | 102 | 71 | 197 | 363 | 598 | **418** |
| Revenue | 18 | 25 | 77 | 53 | 99 | 179 | 139 | 294 | 479 | **741** |
| % of Turnover | 3.85 | 4.13 | 4.21 | 2.75 | 4.20 | 4.09 | 4.50 | 9.14 | 12.83 | **11.64** |
| Exports | 275 | 309 | 507 | 894 | 1137 | 1181 | 1396 | 1470 | 2177 | **2874** |
| Debt Equity ratio | 0.14 | 0.11 | 0.18 | 0.21 | 0.13 | 0.08 | 0.02 | 0.02 | 0.36 | **1.64** |
| Current ratio | 4.62 | 4.32 | 4.21 | 4.04 | 4.00 | 3.78 | 3.91 | 3.66 | 2.57 | **7.92** |

(Rs in Million)

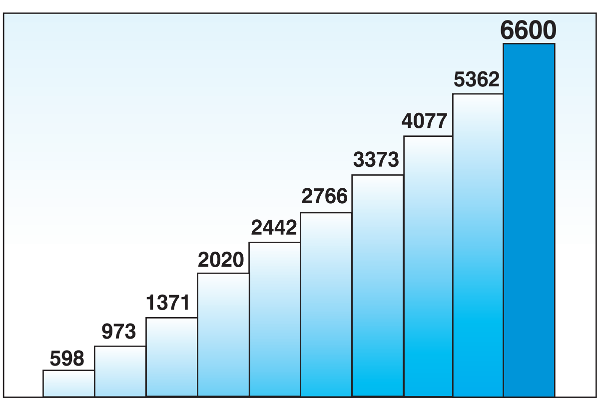
## Total Income



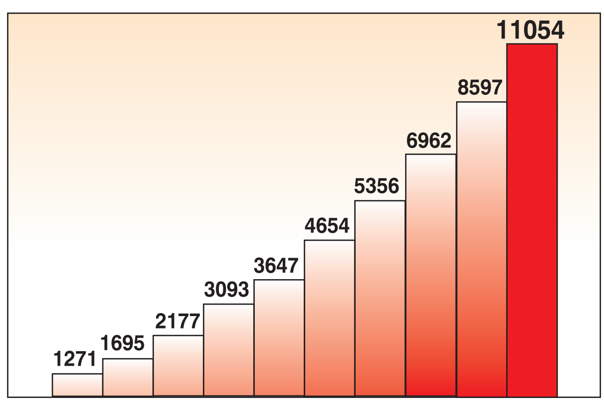

## Net Profit




## 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 as at March 31, 2005, 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. 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.

4. 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, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 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, 2005;

      (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

SUN PHARMACEUTICAL INDUSTRIES LTD.

## ANNEXURE TO THE AUDITORS' REPORT

**(Referred to in paragraph 3 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 six parties. At the year end the outstanding balances of such loans granted aggregated to Rs. 3118.1 Million from six parties and the maximum amounts involved during the year was Rs. 3233.4 Million from six 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 firms 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:

    a. According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including, Provident Fund, 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.

    b. 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, 2005 on account of any dispute, are referred to in Annexure 'A'.

11. The Company does not have accumulated losses as at March 31, 2005. 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. Pursuant to the merger of Phlox Pharmaceuticals Limited with the Company, effective from March 1, 2004, the balances of Debentures amounting 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, were outstanding in the books of the Company as at the beginning of the accounting year. The said dues in respect of the said debentures have been fully settled as at the year end.

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. Pursuant to the merger of Phlox with the Company effective from March 1, 2004, Debentures issued by the erstwhile Phlox that were outstanding as at the beginning of the year have been fully settled 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 had been created in respect of such debentures issued by the erstwhile Phlox.

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

## ANNEXURE 'A' TO AUDITORS' REPORT

**Referred to in paragraph 10 (b) 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, 2005.**

| 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 | 92.30 | 01/08/1995 to 31/03/2004 | 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 | 2002-2003 | Jt. Commi. Central Excise, Vapi |
| | Shortages of input | 0.88 | 2000 | Commissioner C. Ex. & Customs (Appeals) Mumbai |
| | Destruction of Expired dated Finished Goods | 6.29 | July 2004 | Central Excise Commissionerate, Daman |
| | Differential duty on physician samples | 16.58 | 2001-02 | Appeal Cegat W2B-Mumbai |
| | Differential duty on physician samples | 52.96 | 2002-2005 | Central Excise Commissionerat-Div II-Silvassa |
| | Reversal of excise duty on clearance of exempted goods | 13.91 | 2002 | Appellate Tribunal, Mumbai |
| | Reversal of excise duty on clearance of exempted goods | 6.06 | 2003 | Joint Commissioner (Appeals) |
| | Reversal of excise duty on clearance of exempted goods | 13.95 | 2004 | Commissionerate (Appeals) |
| | Availment of cenvat credit w.r.t. export | 6.41 | 1994-95 | 1st Appellte Authority |
| | Differential duty-erstwhile Amalgamating Company | 19.60 | Earlier Year | CEGAT |

| Name of the statute | Nature of dues | Amount (in Rs. lakhs) | Period to which the amount relates | Forum where the dispute is pending |
|---|---|---|---|---|
| | Offence case on excess finish Goods | 0.32 | 1998 | Central Excise, Vapi |
| | Inadmissible Modvat document (invoice) | 0.24 | 1999 | Central Excise, Vapi |
| | Excise duty on destroyed expired finish Goods<br>Penalty | 8.77<br>2.00 | 2002<br>2002 | Cegat, Mumbai |
| | Short duty on Physician Sample | 5.33 | 2004 | Jt. Commi. Central Excise, Vapi |
| | Clearance of exempted Goods | 39.20 | 2003-04 | Addl. Commi. Central Excise & Customs - Aurangabad |
| | Cenvat on Inputs | 7.55 | 2003 | First Appelate Authority |
| The Income Tax Act, 1961 | U/s 143 (3) /148 | 40.80 | A.Y. 98-99 | Appeal file with ITAT, Ahmedabad |
| | U/s 143 (3) /148 | 19.73 | A.Y. 99-00 | Appeal file with ITAT, Ahmedabad |
| | Tax Demand as per CIT Appeal | 6.25 | A.Y. 88-89 to 07-12-98 | Appeal file with ITAT, Ahmedabad |
| | Tax Demand as per u/s 143 (3) dt 31/03/05 | 196.36 | A.Y. 00-01 | CIT ( Appeals) Ahmedabad |
| | Tax Demand as per u/s 143 (3) dt 31/03/05 | 623.13 | A.Y. 01-02 | CIT ( Appeals) Ahmedabad |
| | Tax Demand as per u/s 147/143 (3) dt 31/03/05 | 1182.09 | A.Y. 02-03 | CIT ( Appeals) Ahmedabad |
| | Tax Demand as per order dt 29/03/04 for Amalgamated Company | 6.77 | A.Y. 90-91 | ITAT, Ahmedabad |
| | Tax Demand as per order dt 05/09/03 for partnership Firm | 15.10 | A.Y. 97-98 | CIT ( Appeals) Mumbai |

| Name of the statute | Nature of dues | Amount (in Rs. lakhs) | Period to which the amount relates | Forum where the dispute is pending |
|---|---|---|---|---|
| | Tax Demand as per order dt 10/07/03 for partnership Firm | 25.94 | A.Y. 98-99 | CIT ( Appeals) Mumbai |
| | No Details available | 0.16 | A. Y. 1989-90 | No Details available |
| | Levy of Additional Income Tax | 0.94 | A. Y. 1991-92 | CIT (Appeals XII), Chennai |
| | Dispute relating to Section 80 HHC deduction | 8.61 | A. Y. 1994-95<br>1996-97<br>1997-98 | ITAT, Chennai |
| | Disallowance of claim u/s 35 D & Addition of interest income of erstwhile Amalgamating Company | 1.40 | A.Y. 2001-02 | ITAT, Ahmedabad |
| | Addition of interest income of erstwhile Amalgamating Company | 2.17 | A.Y. 2002-03 | ITAT, Ahmedabad |
| Central Sales Tax Act | Assessed demand of erstwhile Amalgamating company for sales made to a Govt. hospital. | 0.68 | 1981-82 to 1985-86 | AAC, Chennai |
| | Assessed demand of erstwhile Amalgamating company | 24.75 | 1994-95 | Sales Tax Authority, Chennai |
| | Assessed/Re-assessed demand of erstwhile Amalgamating Company | 12.80 | 1997-98 | 2nd Appellate Authority of Sales Tax |
| | Disallowance of consignment sales of erstwhile Amalgamating Company | 1.95 | 1998-99 | Assessing Officer & A.O., Chennai |
| | Purchase Tax u/s 15 B / Interest | 6.80 | 2000-01 & upto July 01 | Sales Tax Tribunal |
| | Ex -party Order Passed for CST for erstwhile Amalgamating Company | 107.19 | 1993-94 to 1998-99 | Nani-Daman 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 |
|---|---|---|---|---|
| Uttar Pradesh Sales Tax Act | Non-submission of 'F' Form | 0.06 | 2000-01 | 1st Appeal Authority of Sales Tax Dept. |
| | Trade Tax Matter/ Non submission of sales tax and other documents | 5.02 | 1997-98 | 1st Appeal Authority of Sales Tax Dept. |
| West Bengal Sales Tax Act | Non- submission of " F " Forms/ Non acceptance of C/N | 1.20 | 2001-02 | 1st Appeal Authority of Sales Tax Dept. |
| Bihar Sales Tax Act | Disallowance of differential price | 12.23 | 2000-01 | 1st Appeal Authority of Sales Tax Dept. |
| Karnataka Sales Tax Act | Excess recoupment of sales tax and other levies | 1.61 | 1999-00 & 2000-01 | Sales Tax Tribunal |
| Gujarat Sales Tax Act | Excess Interest & Penalty | 2.94 | 1993-94 | Gujarat Sales Tax Dept. |
| | 4 % of B. T. Wrongly assessed as Deferred Tax Liability | 8.00 | 1994-95 to 1996-97 | Gujarat Sales Tax Dept. |
| | Purchase Tax – u/s15 B / B. T. Ratio / Interest | 4.19 | 2000-01 & upto 17/07/2001 | Gujarat Sales Tax Dept. |
| | Purchase Tax – u/s 15 B | 4.93 | 2000-01 | Gujarat Sales Tax Dept. |
| Daman Sales Tax Act | Demand by S. T. O. | 2.14<br>1.27 | 1993-94 to 1996-97<br>2000-01 | Nani-Daman Sales Tax Dept |
| Tamilnadu General Sales Tax Act | Dispute for sales tax charged on supplies to ESI | 5.93 | 1981-82 to 1985-86 | Sales Tax Department |
| | Assessed demand | 0.66 | 1999-2000 | Sales Tax Appelate Tribunal |
| Orrisa Sales Tax Act | Price Difference | 3.68 | 1999-2000 | Appelate authority of Sales Tax |
| Indian Customs Act | Demand made by JDFT, Chennai against import materials | 171.92 | 1993-94 | High Court, Chennai |
| DPCO | Demand raised for Unintended Benefits enjoyed | 130.00 | 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, 2005

| | Schedules | As at 31st March, 2005 Rs in Million | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | |
| **Shareholders' Funds** | | | | | |
| Share Capital | 1 | 941.6 | | 618.3 | |
| Share Capital Suspense | 1A | 0.1 | | 0.1 | |
| Reserves and Surplus | 2 | 10112.8 | 11054.5 | 7977.3 | 8595.7 |
| **Loan Funds** | | | | | |
| Secured Loans | 3 | 139.2 | | 514.6 | |
| Unsecured Loans | 4 | 18007.3 | 18146.5 | 2607.9 | 3122.5 |
| **Deferred Tax Liability (Net)** | 5 | | 853.0 | | 740.6 |
| **TOTAL** | | | 30054.0 | | 12458.8 |
| **APPLICATION OF FUNDS** | | | | | |
| **Fixed Assets** | | | | | |
| Gross Block | 6 | 6120.5 | | 5100.8 | |
| Less: Depreciation / Amortisation / Impairment and Lease Terminal Adjustment | | 1729.0 | | 1428.9 | |
| Net Block | | 4391.5 | | 3671.9 | |
| Capital Work-in-Progress (including advances on capital account) | | 479.4 | 4870.9 | 260.7 | 3932.6 |
| **Investments** | 7 | | 9852.4 | | 5589.3 |
| **Current Assets, Loans and Advances** | | | | | |
| Inventories | 8 | 1866.2 | | 1614.5 | |
| Sundry Debtors | 9 | 2349.7 | | 1283.7 | |
| Cash and Bank Balances | 10 | 8900.3 | | 757.5 | |
| Loans and Advances | 11 | 4429.1 | | 1150.6 | |
| | | 17545.3 | | 4806.3 | |
| **Less: Current Liabilities and Provisions** | 12 | | | | |
| Current Liabilities | | 1370.1 | | 1135.7 | |
| Provisions | | 844.5 | | 733.7 | |
| | | 2214.6 | | 1869.4 | |
| | | | 15330.7 | | 2936.9 |
| **TOTAL** | | | 30054.0 | | 12458.8 |

**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, 2005

| | Schedules | **Year ended 31st March, 2005** Rs in Million | Rs in Million | Year ended 31st March, 2004 Rs in Million | Rs in Million |
|---|---|---|---|---|---|
| **INCOME** | | | | | |
| Income from Operations | 13 | 12151.3 | | 9446.3 | |
| Other Income | 14 | 317.1 | 12468.4 | 151.2 | 9597.5 |
| **EXPENDITURE** | | | | | |
| Cost of Materials / Goods | 15 | 5563.9 | | 3803.7 | |
| Indirect Taxes | 16 | 412.4 | | 378.7 | |
| Personnel Cost | 17 | 827.8 | | 685.5 | |
| Operating and Other Expenses | 18 | 2101.2 | | 1554.0 | |
| Depreciation / Amortisation | | 328.3 | 9233.6 | 235.5 | 6657.4 |
| **PROFIT BEFORE TAXATION** | | | 3234.8 | | 2940.1 |
| Provision for Taxation - Current Tax | | | 65.3 | | 85.3 |
| - Deferred Tax | | | 112.4 | | 261.2 |
| **PROFIT AFTER TAX BEFORE PRIOR YEAR ADJUSTMENT** | | | 3057.1 | | 2593.6 |
| **Prior Year Adjustment - Deferred Tax** | | | — | | 187.6 |
| **PROFIT AFTER TAX AND PRIOR YEAR ADJUSTMENT** | | | 3057.1 | | 2406.0 |
| **BALANCE OF PROFIT BROUGHT FORWARD** | | | 1905.7 | | 1542.5 |
| Adjustment of Carried Forward Profit / (Loss) of Amalgamating Company | | | 1.9 | | (407.4) |
| **AMOUNT AVAILABLE FOR APPROPRIATION** | | | 4964.7 | | 3541.1 |
| **APPROPRIATIONS** | | | | | |
| Proposed Dividend | | | | | |
| Preference Shares | | 0.8 | | 9.3 | |
| Equity Shares-Final | | 695.7 | | 602.9 | |
| Proposed Dividend and Dividend distribution tax written back (Refer note 20 of Schedule 19) | | (65.9) | | (58.1) | |
| Corporate Dividend Tax | | 99.1 | 729.7 | 78.8 | 632.9 |
| Transfer to General Reserve | | 1500.0 | | 1000.0 | |
| Transfer to Capital Redemption Reserve on Redemption of Preference Capital | | 140.5 | 1640.5 | 2.5 | 1002.5 |
| **BALANCE OF PROFIT CARRIED TO BALANCE SHEET** | | | 2594.5 | | 1905.7 |
| **EARNING PER SHARE (Refer note 14 (ii) of Schedule 19)** | | | | | |
| **On Profit before Prior Year Adjustment** | | | | | |
| Basic (Rs.) | | | 16.5 | | 27.8 |
| Diluted (Rs.) | | | 16.0 | | 13.9 |
| **On Profit after Prior Year Adjustment** | | | | | |
| Basic (Rs.) | | | 16.5 | | 25.8 |
| Diluted (Rs.) | | | 16.0 | | 12.9 |
| **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 LTD.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

| | Year ended 31st March, 2005 Rs in Million | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| **A. Cash Flow From Operating Activities:** | | |
| Net Profit Before Tax | **3,234.8** | 2,940.1 |
| Adjustments for: | | |
| Depreciation | **328.3** | 235.5 |
| Interest Expense | **114.8** | 36.1 |
| Interest Income | **(219.5)** | (73.9) |
| Income From Investment-Dividend | — | (0.8) |
| (Profit)/Loss On Fixed Assets Sold (net) | **6.7** | (10.6) |
| (Profit)/Loss on sale of Investments | **(68.5)** | (64.5) |
| Miscellaneous Expenditure written off | — | 1.5 |
| Goodwill written off | **24.5** | — |
| Provision for Bad and Doubtful Debts | **19.0** | — |
| Provision for Doubtful Advances | — | 5.4 |
| Liability No Longer Required Written Back | **(58.6)** | (1.4) |
| Provision For Gratuity and Leave Encashment | **7.2** | 19.1 |
| Unrealised Foreign Exchange (Gain) / Loss | **15.3** | (32.3) |
| Dividend writeback | **65.9** | 58.1 |
| Lease Terminal Adjustment | **(1.9)** | (1.9) |
| **Operating Profit Before Working Capital Changes** | **3,468.0** | 3,110.4 |
| **Adjustments for Changes In Working Capital :** | | |
| (Increase)/Decrease in Sundry Debtors | **(1,049.1)** | 713.9 |
| (Increase)/Decrease in Other Receivables | **(22.5)** | (666.1) |
| (Increase)/Decrease in Inventories | **(251.7)** | (46.7) |
| Increase/(Decrease) in Trade and Other Payables | **152.5** | 331.7 |
| **Cash Generated From Operations** | **2,297.2** | 3,443.2 |
| Taxes (Paid) / Received (Net of TDS and Refund) | **(99.1)** | (143.7) |
| **Net Cash Generated From Operating Activities** | **2,198.1** | 3,299.5 |
| **B. Cash Flow From Investing Activities:** | | |
| Purchase of Fixed Assets / Capital Work in Progress | **(1,275.2)** | (831.9) |
| Proceeds From Sale of Fixed Assets | **37.0** | 36.0 |
| Proceeds From Sale of Investments | **13,517.6** | 10,921.3 |
| Purchase of Investments | **(17,714.6)** | (15,589.0) |
| Loans/Inter Corporate Deposits Given | **(9,415.5)** | (3,042.6) |
| Loans/Inter Corporate Deposits Received Back | **6,090.6** | 3,114.9 |
| Interest Received | **125.7** | 73.5 |
| Dividend Received (Net of TDS) | — | 0.8 |
| **Net Cash Used In Investing Activities** | **(8,634.4)** | (5,317.0) |
| **C. Cash Flow From Financing Activities:** | | |
| ECB Loan taken | **(80.5)** | 1,888.8 |
| Zero Coupon Foreign Currency Convertible Bonds | **15,753.5** | — |
| Zero Coupon Debenture | **262.3** | — |
| Redemption of Zero Coupon Debenture | **(125.6)** | — |
| Repayment of Deferred Sales Tax Loan | **(52.3)** | — |
| Equity Share Buyback | — | (1.4) |
| Equity Share Buyback (amount in excess of face value) | — | (78.9) |
| Redemption of Preference Share Capital | **(140.5)** | (2.5) |
| Short Term Loan Repaid | **(358.0)** | (0.1) |
| Borrowing from Bank | **13.9** | 690.5 |
| Interest Paid | **(69.2)** | (36.1) |
| Dividend Paid | **(552.4)** | (418.3) |
| Dividend Tax Paid | **(72.3)** | (53.9) |
| **Net Cash Generated In Financing Activities** | **14,578.9** | 1,988.1 |

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

| | **Year ended 31st March, 2005 Rs in Million** | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| **Net Increase/(Decrease) In Cash and Cash Equivalents** | **8,142.6** | (29.5) |
| **Cash and Cash Equivalents (Opening)** | **757.5** | 786.8 |
| Cash and Cash Equivalents Acquired on Amalgamation | **0.2** | 0.2 |
| **Cash and Cash Equivalents (Closing)** | **8,900.3** | 757.5 |
| **Cash and Cash Equivalents Comprise:** | | |
| Cash and Cheques in hand | **4.6** | 10.4 |
| Balances with Scheduled Banks on- | | |
| Current Accounts | **28.6** | 41.5 |
| Deposit Accounts | **8,860.9** | 700.8 |
| Unpaid Dividend Accounts | **6.2** | 4.8 |
| | **8,900.3** | 757.5 |

**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 statement excludes assets (other than cash and cash equivalents) / liabilities acquired on amalgamation of Baizley Finvest Limited, Dhaval Finvest Limited and Manish Finvest Limited.
4. Cash and cash equivalents includes Rs. 6.2 Million (Previous Year Rs. 4.8 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

SUN PHARMACEUTICAL INDUSTRIES LTD.

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|
| **SCHEDULE 1 : SHARE CAPITAL** | | |
| **Authorised** | | |
| 307,900,000 (Previous Year 252,000,000) Equity Shares of Rs. 5 each | **1539.5** | 1260.0 |
| 25,000,000 (Previous Year 300,000,000) Preference Shares of Re.1 each | **25.0** | 300.0 |
| 2,015,000 (Previous Year Nil) Preference Shares of Rs.100 each | **201.5** | 0.0 |
| (Refer note 23 Schedule 19) | **1766.0** | 1560.0 |
| **Issued, Subscribed and Paid Up** | | |
| 185,511,356 (Previous Year 92,755,678) Equity Shares of Rs. 5 each | **927.6** | 463.8 |
| 14,030,430 (Previous Year 154,517,050) 6% Cumulative Redeemable Preference Shares of Re.1 each | **14.0** | 154.5 |
| | **941.6** | 618.3 |

**Notes:**
**Of the above :**

1) 127,192,844 [Includes 92,755,678 Shares of Rs. 5 each (issued during the year) and 34,437,166 Shares of Rs. 10 each] equity shares were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve Account.

2) 413,633; 208,000; 477,581; 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) 187,177,232 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, 224,698( Previous Year 2,529,798) Preference shares were redeemed at par and 140,261,922 (Previous Year Nil) Preference shares have been bought back 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 Nil (Previous Year 292,800) equity shares of Rs. 5 each, under the buy-back scheme, through open market route.

### SCHEDULE 1A : SHARE CAPITAL SUSPENSE

| | | |
|---|---|---|
| 29,713 (Previous Year 29,713) 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** | 0.1 |

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 2 : RESERVES AND SURPLUS** | | | | |
| **Capital Reserve** | | | | |
| As per last Balance Sheet | **16.7** | | 6.7 | |
| Transferred from Amalgamating company | **250.5** | **267.2** | 10.0 | 16.7 |
| **Capital Redemption Reserve** | | | | |
| As per last Balance Sheet | **351.3** | | 344.7 | |
| Add : Transferred from Profit and Loss Account | **140.5** | | 2.5 | |
| Transferred from General Reserve | — | | 1.4 | |
| Transferred from Share Capital Buyback Reserve | — | | 2.7 | |
| | **491.8** | | 351.3 | |
| Less: Utilised for Issue of Bonus Equity Shares | **351.3** | **140.5** | — | 351.3 |
| **Share Capital Buyback Reserve** | | | | |
| As per last Balance Sheet | — | | 2.7 | |
| Less: Transfer to Capital Redemption Reserve | — | — | 2.7 | — |
| **Amalgamation Reserve** | | | | |
| As per last Balance Sheet | — | | — | |
| Surplus on Amalgamation during the year | — | | 340.5 | |
| Less: Transfer to General Reserve | — | — | 340.5 | — |
| **General Reserve** | | | | |
| As per last Balance Sheet | **5703.6** | | 4443.4 | |
| Add : Transferred from Amalgamating Company | **26.1** | | — | |
| Transferred from Amalgamation Reserve | — | | 340.5 | |
| Transferred from Profit and Loss Account | **1500.0** | | 1000.0 | |
| | **7229.7** | | 5783.9 | |
| Less: Transfer to Capital Redemption Reserve | — | | 1.4 | |
| Utilised for issue of Bonus equity shares | **112.4** | | — | |
| Utilised for Buy-Back of Preference Shares | **4.2** | | — | |
| Utilised for Impairment of Fixed Assets | **2.5** | | — | |
| Utilised for Buy-Back of Equity Shares | — | **7110.6** | 78.9 | 5703.6 |
| **Surplus As Per Profit And Loss Account** | | **2594.5** | | 1905.7 |
| | | **10112.8** | | 7977.3 |

### SCHEDULE 3 : SECURED LOANS

| | | |
|---|---|---|
| 1,50,000 - 14% Optionally Convertible Debentures of Rs. 100/- each | — | 20.8 |
| Short Term Loan from Banks | **139.2** | 483.0 |
| From Others | — | 10.8 |
| (Refer note 21 of Schedule 19) | **139.2** | 514.6 |

# SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 4 : UNSECURED LOANS** | | | | |
| **Long Term** | | | | |
| External Commercial Borrowing in foreign currency from Banks | **1808.3** | | 1888.8 | |
| Zero Coupon Foreign Currency Convertible Bonds (Refer note 22 of Schedule 19) | **15753.5** | | — | |
| 1,367,011 - 0% Debentures (Refer note 24 of Schedule 19) | **136.7** | | — | |
| Deferred Sales Tax Liability | **2.4** | | 54.7 | |
| Other Loans | **0.2** | **17701.1** | 8.8 | 1952.3 |
| **Short Term** | | | | |
| From Banks | | **306.2** | | 655.6 |
| | | **18007.3** | | 2607.9 |
| **SCHEDULE 5 : DEFERRED TAX LIABILITY (NET)** | | | | |
| Deferred Tax Assets | | | | |
| Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act,1961 | | **26.3** | | 38.3 |
| Others | | **0.1** | | 0.1 |
| | | **26.4** | | 38.4 |
| Deferred Tax Liability | | | | |
| Depreciation on Fixed Assets | | **879.4** | | 779.0 |
| | | **853.0** | | 740.6 |

## SCHEDULE 6 : FIXED ASSETS

**Rs in Million**

| Particulars | Gross Block (At Cost) | | | | | Depreciation / Amortisation | | | | | Impairment | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As At 1.4.04 | Additions on Amalgamation | Additions 04-05 | Deletions 04-05 | **As at 31.03.05** | As at 1.4.04 | Additions on Amalgamation | For year 04-05 | Written back/ Deleted 04-05 | **As at 31.03.05** | **of Assets @** | **As at 31.03.05** | As at 31.3.04 |
| **A. OWNED ASSETS** | | | | | | | | | | | | | |
| **I. TANGIBLE ASSETS** | | | | | | | | | | | | | |
| Freehold Land | 22.8 | 1.1 | — | — | **23.9** | — | — | — | — | — | — | **23.9** | 22.8 |
| Leasehold Land | 19.3 | — | 0.7 | — | **20.0** | 2.1 | — | 0.2 | — | **2.3** | **2.5** | **15.2** | 17.2 |
| Buildings | 1494.4 | — | 89.4 | 1.4 | **1582.4** | 158.9 | — | 37.6 | 0.3 | **196.2** | — | **1386.2** | 1335.5 |
| Plant and Machinery | 2937.5 | — | 942.6 | 65.8 | **3814.3** | 1009.1 | — | 243.0 | 24.1 | **1228.0** | — | **2586.3** | 1928.4 |
| Vehicles | 58.7 | — | 11.8 | 2.3 | **68.2** | 19.3 | — | 6.0 | 1.6 | **23.7** | — | **44.5** | 39.4 |
| Furniture and Fixtures | 91.4 | — | 46.9 | 0.5 | **137.8** | 34.8 | — | 7.9 | 0.2 | **42.5** | — | **95.3** | 56.6 |
| **Sub -Total** | 4624.1 | 1.1 | 1091.4 | 70.0 | **5646.6** | 1224.2 | — | 294.7 | 26.2 | **1492.7** | **2.5** | **4151.4** | 3399.9 |
| **II. INTANGIBLE ASSETS** | | | | | | | | | | | | | |
| Trademarks,Designs and Other Intangible Assets | 409.7 | — | — | — | **409.7** | 149.6 | — | 30.4 | — | **180.0** | — | **229.7** | 260.1 |
| **Sub -Total** | 409.7 | — | — | — | **409.7** | 149.6 | — | 30.4 | — | **180.0** | — | **229.7** | 260.1 |
| **SUBTOTAL-A** | **5033.8** | **1.1** | **1091.4** | **70.0** | **6056.3** | **1373.8** | — | **325.1** | **26.2** | **1672.7** | **2.5** | **4381.1** | **3660.0** |
| **B. LEASED ASSETS** | | | | | | | | | | | | | |
| Assets Given On Lease | 67.0 | — | — | 2.8 | **64.2** | 27.3 | — | 3.2 | 0.7 | **29.8** | — | | |
| Lease Terminal Adjustment | — | — | — | — | — | 27.8 | — | — | 3.8 | **24.0** | — | | |
| **SUBTOTAL-B** | **67.0** | — | — | **2.8** | **64.2** | **55.1** | — | **3.2** | **4.5** | **53.8** | — | **10.4** | **11.9** |
| **TOTAL A+B** | **5100.8** | **1.1** | **1091.4** | **72.8** | **6120.5** | **1428.9** | — | **328.3** | **30.7** | **1726.5** | **2.5** | **4391.5** | |
| Previous Year | 3403.4 | 442.2 | 1290.4 | 35.2 | **5100.8** | 1090.0 | 115.1 | 235.5 | 11.7 | 1428.9 | — | | **3671.9** |
| Capital Work-in-Progress (including advances on capital account) | | | | | | | | | | | | **479.4** | 260.7 |
| | | | | | | | | | | | | **4870.9** | 3932.6 |

**NOTES :**

1. Buildings include Rs. 1020 (Previous Year Rs 1020) towards cost of shares in a Co-operative Housing Society.
2. Capital Work-in-Progress including advances on capital account includes Rs. NIL Million (Previous Year Rs.22.4 Million) with respect to Amalgamating Company.
3. @ refer note 25 of schedule 19

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 Rs in Million | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|
| **SCHEDULE 7 : INVESTMENTS** | | | | |
| **(I) LONG TERM INVESTMENTS (At Cost)** | | | | |
| **A ) Government Securities** | | | | |
| National Savings Certificates Rs. 70,000 (Previous Year Rs. 12,000) (Deposited with Government Authorities) | | **0.1** | | — |
| **B) Trade Investments** | | | | |
| **Unquoted** | | | | |
| **In Equity Shares** | | | | |
| Enviro Infrastructure Co. Ltd. 1,00,000 (Previous Year 1,00,000) Shares of Rs.10/- each fully paid up. | | **1.0** | | 1.0 |
| **C) Other Investments** | | | | |
| **a) In Bonds** | | | | |
| **Quoted** | | | | |
| US64 Bonds 3,99,734 (Previous Year 3,99,734) units of Rs 100 each Market Value Rs. 41.8 Million( Previous Year Rs 43.3 Million ) | | **42.2** | | 42.2 |
| **Unquoted** | | | | |
| National Housing Bank Bonds 5,315 (Previous Year Nil) Units of Rs. 10000 each fully paid | | **53.2** | | — |
| Rural Electrification Corporation Ltd Bonds 530 (Previous Year Nil) Units of Rs. 10000 each fully paid | | **5.3** | | — |
| **b) In Subsidiary Companies** | | | | |
| **Quoted** | | | | |
| Caraco Pharmaceutical Laboratories Ltd.USA 83,82,866 (PreviousYear 1,18,34,957) fully paid Common Shares of No Par Value Market Value - Rs.2999.9 Million (Previous Year 5255.8 Million) | | **303.9** | | 1711.6 |
| **Unquoted** | | | | |
| # Caraco Pharmaceutical Laboratories Ltd.USA Nil (PreviousYear 16,79,066) Stock Options of No Par Value | — | | 532.2 | |
| Zao 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 | |
| Sun Pharma Global Inc. BVI 4,50,000 (Previous Year Nil)0% Optionally Fully Convertible Debentures of US$100 each fully paid | **2025.4** | | — | |
| Milmet Pharma Ltd 49,800 (Previous Year 49,800) Equity Shares of Rs. 10 each fully paid | **0.5** | | 0.5 | |
| Sun Farmaceutica Ltda, Brazil 990 (Previous Year Nil) quota of Capital Stock | **5.2** | | — | |
| Sun Pharma De Mexico S. A. DE C.V. 750 Common Shares of no Face Value | **3.3** | | — | |
| Sun Pharmaceutical Industries inc. 5000 fully Common Stock of $ 1 Par Value | **0.2** | | — | |
| Sun Pharmaceutical (Bangladesh) Ltd. 434469 (Previous Year 724) Equity Shares of 100 Takas each fully paid | **36.5** | | 0.1 | |
| Advance against Share Capital | **27.0** | **2115.9** | 63.4 | 614.0 |

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **c) In Capital of Partnership Firm** | | | | |
| Sun Pharma Exports Rs.152 (Previous Year Rs.152 ) * | — | | — | |
| Sun Pharmaceutical Industries ** | **1166.6** | **1166.6** | 1498.4 | 1498.4 |
| **d) In Equity Shares** | | | | |
| Ramin Developers Pvt Ltd 200 (Previous Year 200) Equity Shares of Rs. 100 each fully paid (pending registration) (Received during the year Rs. Nil,(Previous Year Rs.3.3 million) | | **2.1** | | 2.1 |
| **e) Others** | | | | |
| Solapur Organics Ltd 900 (Previous Year Nil) 0% Optionally fully Convertible Debentures of Rs. 100 each fully paid | | **0.1** | | — |
| **f) In Mutual Fund (Units of Face Value of Rs. 10/- Each)** | | | | |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIII Nil (Previous Year 5,00,00,000) Units | | — | | 500.0 |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIV Nil (Previous Year 1,25,00,000) Units | | — | | 125.0 |
| Kotak Mahindra Mutual Fund "Kotak Fixed Maturity Plans (8)"- Growth Plan 1,50,00,000 (Previous Year 1,50,00,000 Units | | **150.0** | | 150.0 |
| IL&FS Mutual Fund "IL&FS Fixed Maturity Plan-Yfmp/0104"-Growth Plan Nil (Previous Year 1,25,00,000) Units | | — | | 125.0 |
| Reliance Capital Mutual Fund "Reliance Fixed Term Scheme-Annual Plan-3"-Growth Option 2,50,00,000 (Previous Year 2,50,00,000) Units | | **250.0** | | 250.0 |
| Standard Chartered Mutual Fund "G31 Grindlays Fixed Maturity Annual Plan "-Growth 3,50,00,000 (Previous Year 3,50,00,000) Units | | **350.0** | | 350.0 |
| ING Vysha Mutual Fund "ING Vysya Fixed Maturity Fund Series-II Growth Option 1,00,00,000 (Previous Year Nil) Units | | **100.0** | | — |
| JM Financial Mutual Fund "J120JM Fixed Maturity Plan-YSW"-Growth Option 2,00,00,000 (Previous Year Nil) Units | | **200.0** | | — |
| JM Financial Mutual Fund "J130JM Equity & Derivative Fund" -Growth Option 2,50,00,000 (Previous Year Nil) Units | | **250.0** | | — |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days Plan"-Growth 2,00,00,000 (Previous Year Nil) | | **200.0** | | — |
| Principal Mutual Fund "Principal Deposit Fund (FMP-6) 371 days plan-Nov-04"-Growth 1,00,00,000 (Previous Year Nil) Units | | **100.0** | | — |
| Principal Mutual Fund "Principal Deposit Fund Growth-Feb-05 1,00,00,000 (Previous Year Nil) Units | | **100.0** | | — |
| SBI Mutual Fund "Magnum Debt Fund Series 15 Months Fund" -Growth Option 1,00,00,000 (Previous Year Nil) Units | | **100.0** | | — |
| **Total ( I )** | | **5490.4** | | 5369.3 |

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)** | | | | |
| **In Mutual Fund (Units of Face Value of Rs. 10/- Each)** | | | | |
| Kotak Mahindra Mutual Fund "Inst Premium "-Growth 22,49,027 (Previous Year 1,73,07,163 ) Units | | **30.0** | | 220.0 |
| JM Financial Mutual Fund "J94JM High Liquidity Fund-Super Institutional Plan" -Growth 47,96,025 (Previous Year Nil) Units | | **50.0** | | — |
| DWS Investment S.A"DWS Institutional USD Money Plus" 9,167 (Previous Year Nil) Units | | **4282.0** | | — |
| **Total ( II )** | | **4362.0** | | 220.0 |
| **Total ( I+II )** | | **9852.4** | | 5589.3 |

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| **AGGREGATE VALUE OF INVESTMENT** | **Book Value** | **Market Value** | Book Value | Market Value |
| Quoted | **346.1** | **3041.7** | 1753.8 | 5299.1 |
| Unquoted | **9506.3** | | 3835.5 | |

# During the year the options have been exercised and 1,679,066 of Common Stock were received and sold to a subsidiary at a consideration of Rs. 684.8 Million

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

| **Partners | Share | **Capital** | Capital |
|---|---|---|---|
| Sun Pharmaceutical Industries Limited. | 95% | **1166.6** | 1498.4 |
| Sun Pharmaceutical Industries Key Employees' Benefit Trust | 5% | **139.5** | 55.8 |

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 8 : INVENTORIES** | | | | |
| Consumables Stores | | **34.4** | | 0.6 |
| Raw Materials | **829.7** | | 638.0 | |
| Packing Materials | **78.1** | | 47.4 | |
| Finished Goods | **434.3** | | 499.9 | |
| Work-in-Progress | **489.7** | **1831.8** | 428.6 | 1613.9 |
| | | **1866.2** | | 1614.5 |
| **SCHEDULE 9 : SUNDRY DEBTORS** | | | | |
| (Unsecured-Considered Good, unless stated otherwise) | | | | |
| (Refer note 14 ( i ) of Schedule 19) | | | | |
| Over Six Months | | | | |
| Considered Good | | **237.9** | | 186.3 |
| Considered Doubtful | **21.4** | | 2.4 | |
| Less: Provison for Doubtful Debts | **21.4** | — | 2.4 | — |
| Other Debts | | **2111.8** | | 1097.4 |
| | | **2349.7** | | 1283.7 |

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | As at 31st March, 2005 Rs in Million | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|
| **SCHEDULE 10 : CASH AND BANK BALANCES** | | | | |
| Cash / Cheques in hand | | **4.6** | | 10.4 |
| Balances with Banks | | | | |
| Schedule Banks | | | | |
| Current Accounts | **28.6** | | 41.5 | |
| Deposit Accounts | **7283.3** | | 700.8 | |
| Unpaid Dividend Accounts | **6.2** | **7318.1** | 4.8 | 747.1 |
| Other Banks (Refer note 16 of Schedule 19) | | | | |
| Current Accounts | **0.7** | | — | |
| Deposit Accounts | **1576.9** | **1577.6** | — | — |
| | | **8900.3** | | 757.5 |
| **SCHEDULE 11 : LOANS AND ADVANCES** | | | | |
| (Unsecured-Considered Good, unless stated otherwise) | | | | |
| Interest accrued on - Investment | | **34.1** | | 0.5 |
| - Bank Balance | | **10.9** | | — |
| Loan to Employees / Others * (Refer note 17 of Schedule 19) | | **3233.7** | | 81.9 |
| Advances Recoverable in Cash or in Kind or for Value to be received | | | | |
| Considered Good | | **211.0** | | 45.8 |
| Considered Doubtful | **4.5** | | 4.5 | |
| Less: Provison for Doubtful Advances | **4.5** | **—** | 4.5 | — |
| Advances to Suppliers | | **345.1** | | 587.6 |
| Balances with Central Excise and Customs | | **161.6** | | 116.2 |
| DEPB and Advance Licence | | **222.9** | | 116.3 |
| Other Deposits | | **45.0** | | 93.7 |
| Advance Payment of Income Tax (Net of Provisions) | | **164.8** | | 108.6 |
| | | **4429.1** | | 1150.6 |
| * Secured Loans Rs. 24.1 Million (Previous Year Rs. 24.4 Million) | | | | |
| **SCHEDULE 12 : CURRENT LIABILITIES AND PROVISIONS** | | | | |
| **Current Liabilities** | | | | |
| Sundry Creditors and Advances from Customers | | | | |
| Due to Small Scale Industrial Undertakings | **—** | | 2.7 | |
| Others | **831.3** | | 782.1 | |
| Security Deposits | **26.8** | | 23.0 | |
| Investor Education and Protection Fund shall be credited by | | | | |
| Unclaimed Dividend | **6.2** | | 4.8 | |
| Other Liabilities | **482.1** | | 305.8 | |
| Interest accrued but not due | **23.7** | **1370.1** | 17.3 | 1135.7 |
| **Provisions** | | | | |
| Proposed Dividend - Equity Shares | **695.7** | | 602.9 | |
| - Preference Shares | **0.8** | | 9.3 | |
| | **696.5** | | 612.2 | |
| Corporate Dividend Tax | **97.7** | | 78.4 | |
| Provision for Earned Leave | **50.3** | **844.5** | 43.1 | 733.7 |
| | | **2214.6** | | 1869.4 |

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | Year ended 31st March, 2005 Rs in Million | Year ended 31st March, 2005 Rs in Million | Year ended 31st March, 2004 Rs in Million | Year ended 31st March, 2004 Rs in Million |
|---|---|---|---|---|
| **SCHEDULE 13 : INCOME FROM OPERATIONS** | | | | |
| Gross Sales | **10443.5** | | 8928.9 | |
| Less: Excise Duty | **487.3** | | 535.3 | |
| Net Sales | | **9956.2** | | 8393.6 |
| Share of Profit from Partnership Firm | | **2078.5** | | 1005.7 |
| Interest-TDS Rs. 20.4 Million (Previous Year Rs. 6.6 Million) (Refer note 7 of Schedule 19) | | **101.8** | | 30.5 |
| Lease Rental and Hire Charges-TDS Rs.0.5 Million (Previous Year Rs. 25,625) | **13.0** | | 14.6 | |
| Add: Lease Equalisation Account | **1.8** | **14.8** | 1.9 | 16.5 |
| | | **12151.3** | | 9446.3 |
| **SCHEDULE 14 : OTHER INCOME** | | | | |
| Interest from Banks & Other Advances / Deposits TDS Rs.Nil (Previous Year Rs. 1.1 Million) | | **2.9** | | 7.3 |
| Profit on Sale of Fixed Assets | | **1.6** | | 11.6 |
| Profit on Sale of Current Investments | | **68.5** | | 64.5 |
| Sundry Balances Written Back (Net) | | **58.6** | | 3.0 |
| Insurance Claims | | **6.0** | | 7.5 |
| Dividend | | **—** | | 0.8 |
| Miscellaneous Income-TDS Rs. 1.7 Million (Previous Year Rs. 2.3 Million) | | **179.5** | | 56.5 |
| | | **317.1** | | 151.2 |
| **SCHEDULE 15 : COST OF MATERIALS / GOODS** | | | | |
| Inventories at the beginning of the year | | **1613.9** | | 1555.0 |
| Purchases during the year | | **5781.8** | | 3862.6 |
| Inventories at the end of the year | | **(1831.8)** | | (1613.9) |
| | | **5563.9** | | 3803.7 |
| **SCHEDULE 16 : INDIRECT TAXES** | | | | |
| Sales Tax | | **403.5** | | 374.3 |
| Turnover Tax | | **1.1** | | 1.2 |
| Purchase Tax | | **7.8** | | 3.2 |
| | | **412.4** | | 378.7 |
| **SCHEDULE 17 : PERSONNEL COST** | | | | |
| Salaries, Wages, Bonus and Benefits | | **693.7** | | 553.5 |
| Contribution to Provident and Other Funds | | **61.3** | | 54.4 |
| Staff Welfare Expenses | | **72.8** | | 77.6 |
| | | **827.8** | | 685.5 |

SUN PHARMACEUTICAL INDUSTRIES LTD.

## SCHEDULES TO THE FINANCIAL STATEMENTS

| | **Year ended 31st March, 2005** | | Year ended 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 18 : OPERATING AND OTHER EXPENSES** | | | | |
| Stores and Spares Consumed | | **78.1** | | 46.0 |
| Manufacturing Charges | | **134.3** | | 116.9 |
| Power and Fuel | | **144.8** | | 138.7 |
| Rent | | **5.2** | | 8.0 |
| Rates and Taxes | | **12.0** | | 8.2 |
| Insurance | | **18.5** | | 12.6 |
| Selling and Distribution | | **157.9** | | 256.8 |
| Commission and Discount | | **158.8** | | 90.0 |
| Repairs | | | | |
| Building | **34.8** | | 13.3 | |
| Plant and Machinery | **115.4** | | 79.2 | |
| Others | **28.5** | **178.7** | 19.8 | 112.3 |
| Printing and Stationery | | **20.1** | | 18.8 |
| Travelling and Conveyance | | **47.8** | | 43.3 |
| Overseas Travel and Export Promotion | | **280.7** | | 254.2 |
| Communication | | **43.4** | | 39.0 |
| Research and Development | | **229.5** | | 191.2 |
| Provision for Dobutful Debts / Advances | | **19.0** | | 5.4 |
| Professional and Consultancy | | **205.0** | | 51.3 |
| Donations | | **1.3** | | 0.5 |
| Loss on Sale of Fixed Assets | | **8.3** | | 1.0 |
| Auditors' Remuneration (including service tax ) * | | | | |
| As Auditor | **5.3** | | 3.2 | |
| Other Services | **0.3** | | 0.5 | |
| Out of Pocket Expenses (Previous Year Rs.42,277) | **0.1** | **5.7** | 0.0 | 3.7 |
| Goodwill on Amalgamation Written off | | **24.5** | | — |
| Miscellaneous | | **327.6** | | 156.1 |
| | | **2101.2** | | 1554.0 |

* Includes Rs. 2.7 Million paid to ersthwhile Statutory Auditor of the Company.

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

## 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 (net of cenvat credit) 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.

**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. Current Assets and Current Liabilites in foreign currnecy are stated at the closing exchange rate. Monetary items denominated in foreign currency at the year end 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.

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

**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 substantiavely 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 acturially 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.

**XIII Provisions,Contingent Liabilities and Contingent Assets**

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made.Contingent liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation can not be made . Contingent Assets are not recognised in the financial statements since this may result in the recognitation of income that may never be realised.

**XIV Impairment of Assets**

The Company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount.The reduction is treated as an impairment loss and is recognised in the Profit and Loss Account. If at the Balance Sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

**2 AMALGAMATIONS**

**(i)** Bazley Finvest Ltd.('Bazely'), Dhaval Finvest Ltd ('Dhaval') and Manish Finvest Ltd.('Manish'),engaged in investment business, the subsidiaries have been merged with the company w.e.f.1st March,2005.The amalgamation has been accounted for under the "Pooling of Interest Method" as prescribed in Accounting Standard (AS-14) issued by the Institute of Chartered Accountants of India. Accordingly, the Assets,Liabilities and Reserves of the erstwhile' Bazley', 'Dhaval' and 'Manish', as at 1st March, 2005 have been taken over at their respective book value subject to adjustments made for the differences in the accounting policies between the companies.

**(ii)** The Company's investment in the Equity share capital of these erstwhile subsidiaries aggregating to Rs 26 Million stands cancelled on amalgamation and the excess of cost of investment over the assets & liabilities of erstwhile subsidiaries being Goodwill of Rs 24.5 Million has been written off to the Profit and Loss Account.

**(iii)** As a result of the above, figures in respect of currect financial year are not comprable with those of the previous financial year.

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

| | | | | | |
|---|---|---|---|---|---|
| | | | **As at 31st March, 2005 Rs in Million** | | As at 31st March, 2004 Rs in Million |
| **3** | **CONTINGENT LIABILITIES NOT PROVIDED FOR** | | | | |
| | Guarantees Given by the bankers on behalf of the Company | | **46.9** | | 409.9 |
| | Letters of Credit | | **225.7** | | 1080.7 |
| | Liabilities Disputed - Appeals filed with respect to : | | | | |
| | Sales Tax | | **20.8** | | 21.2 |
| | Excise Duty | | **29.9** | | 18.1 |
| | Income Tax | | **212.9** | | 90.1 |
| | ESIC Contribution | | **0.2** | | 0.2 |
| | Drug Price Equalisation Account [DPEA] on account of demand towards uninteded benefit, including interest there on enjoyed by the Company. | | **13.0** | | 10.0 |
| | Demand by JDGFT-import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme | | **17.2** | | 20.8 |
| | Claims against the Company not acknowledged as debts | | **0.4** | | 0.4 |
| **4** | **Estimated amount of contracts remaing to be exceuted on capital account [net of advances].** | | **103.3** | | 102.8 |
| **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** | | 0.1 |
| | Commission | | **2.3** | | 1.6 |
| | Total | | **14.0** | | 13.3 |
| | 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 | | **3234.8** | | 2940.1 |
| | Add : Depreciation as per Accounts | **328.3** | | 235.5 | |
| | Loss on Sale of Fixed Assets | **8.3** | | 1.0 | |
| | Managerial Remuneration | **14.0** | | 13.3 | |
| | Directors Sitting Fees | **0.3** | | 0.2 | |
| | Provision for doubtful debt / Advances | **19.0** | **369.9** | 5.4 | 255.3 |
| | Less: Depreciation as per Section 350 of Companies Act, 1956 | **328.3** | | 235.5 | |
| | Profit on Sale of Fixed Assets | **1.6** | | 11.6 | |
| | Profit on Sale of Investments | **68.5** | | 46.7 | |
| | Sundry Balances Written Back | **58.6** | | 3.0 | |
| | | | **457.0** | | 296.8 |
| | Net Profit | | **3147.7** | | 2898.6 |
| | Salaries, Perquisites and Commission @ 1% of the above | | **31.5** | | 29.0 |
| **6** | **RESEARCH AND DEVELOPMENT EXPENDITURE** | | | | |
| | Revenue | | **741.4** | | 478.5 |
| | Capital | | **418.4** | | 598.3 |

SUN PHARMACEUTICAL INDUSTRIES LTD.

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

| | Year ended 31st March, 2005 Rs in Million | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| **7 INTEREST INCOME ON LOANS /DEPOSITS RS. 216.5 MILLION IS NET OF INTEREST EXPENSES AS UNDER:** | | |
| Fixed Loans | **73.8** | 20.5 |
| Debentures | **—** | 7.5 |
| Others | **40.9** | 8.2 |
| | **114.7** | 36.2 |

**8 INFORMATION RELATING TO CONSUMPTION OF MATERIALS**

| | Quantity (2005) | Value (2005) | Quantity (2004) | Value (2004) |
|---|---|---|---|---|
| Raw Materials and Packing Materials | | | | |
| Raw Materials- (in '000 KGs) | **13420.0** | **2127.2** | 8341.0 | 1967.4 |
| Raw Materials-(In Kilo Litres) | **28785.8** | | 14124.8 | |
| Packing/Other Materials | * | **137.2** | * | 155.9 |
| Total | | **2264.4** | | 2123.3 |

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

| Imported and Indigenous | % (2005) | Value (2005) | % (2004) | Value (2004) |
|---|---|---|---|---|
| Raw Materials and Packing Materials | | | | |
| Imported | **32.08** | **726.5** | 32.85 | 697.6 |
| Indigenous | **67.92** | **1537.9** | 67.15 | 1425.7 |
| Total | **100.00** | **2264.4** | 100.00 | 2123.3 |
| Stores and Spares | | | | |
| Imported | **1.04** | **0.9** | 1.09 | 0.5 |
| Indigenous | **98.96** | **84.1** | 98.91 | 45.5 |
| Total | **100.00** | **85.0** | 100.00 | 46.0 |

| | As at 31st March, 2005 | As at 31st March, 2004 |
|---|---|---|
| **9 INFORMATION RELATING TO LICENSED CAPACITY AND PRODUCTION** | | |
| Tablets/Capsules/Parenterals/Ointments (No.s in Million) | | |
| Licensed Capacity | **Not Applicable** | Not Applicable |
| Installed Capacity* | **3070.0** | 3070.0 |
| Actual Production (including loan licence) | **1137.2** | 1407.2 |
| Bulk Drugs/Chemicals | | |
| Licensed Capacity | **Not Applicable** | Not Applicable |
| Installed Capacity* (In Kilo Litres) | **674.4** | 675.1 |
| Actual Production (including loan licence) (In '000 Kgs) | **1773.8** | 2071.8 |

(*as certified by the Management)

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

**10 INFORMATION RELATING TO TURNOVER, PURCHASE OF GOODS AND STOCKS** **Rs in Million**

| | Turnover* | | Purchase of Goods | | Opening Stock | | Closing Stock | |
|---|---|---|---|---|---|---|---|---|
| | Quantity | Value Rs. | Quantity | Value Rs. | Quantity | Value Rs. | Quantity | Value Rs. |
| Formulations (Qty Million) | | | | | | | | |
| **2004-05** | **2816.8** | **7144.9** | **1614.8** | **3242.2** | **241.2** | **220.8** | **178.6** | **261.8** |
| 2003-04 | 2383.9 | 6211.9 | 1010.0 | 1788.5 | 207.9 | 263.0 | 241.2 | 220.8 |
| Bulk Drugs/Chemicals (Qty in ‘000 Kgs) | | | | | | | | |
| **2004-05** | **1758.9** | **3278.7** | **0.4** | **10.3** | **99.7** | **279.1** | **115.0** | **172.5** |
| 2003-04 | 2238.4 | 2682.8 | 193.3 | 36.1 | 73.1 | 142.0 | 99.7 | 279.1 |
| Others | | | | | | | | |
| **2004-05** | | **19.9** | | **18.6** | | **—** | | **—** |
| 2003-04 | | 34.2 | | 24.7 | | — | | — |
| Total | | | | | | | | |
| **2004-05** | | **10443.5** | | **3271.5** | | **499.9** | | **434.3** |
| 2003-04 | | 8928.9 | | 1849.3 | | 405.0 | | 499.9 |

* Includes consignment sales Rs. 2699.0 Million (Previous Year Rs.1432.3 Million).

**11 INCOME/EXPENDITURE IN FOREIGN CURRENCY**

| | **Year ended 31st March, 2005 Rs in Million** | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| **Income** | | |
| Exports (FOB basis) | **2751.0** | 2041.1 |
| Interest | **114.0** | 14.8 |
| Lease Rentals | **1.5** | 1.6 |
| **Expenditure** | | |
| Raw Materials (CIF basis) | **750.5** | 675.5 |
| Packing Materials (CIF basis) | **39.2** | 30.5 |
| Finished Goods (CIF basis) | **—** | 14.8 |
| Capital Goods (CIF basis) | **263.3** | 195.9 |
| Spares and Components (CIF basis) | **27.1** | 5.7 |
| Professional Charges | **320.3** | — |
| Interest | **56.9** | — |
| Overseas Travel | **39.9** | 31.3 |
| Others | **245.6** | 261.2 |

**12** The net exchange gain of Rs. 225.73 Million (Previous Year gain of Rs.180.9 Million) is included in the net profit for the year.

**13** 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.

## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

**14 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, 2005** | | Year ended 31st March, 2004 | |
|---|---|---|---|---|
| | **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 | **3057.1** | **3057.1** | 2593.6 | 2593.6 |
| Less: Dividend on Preference Shares | **0.9** | **0.9** | 9.3 | 9.3 |
| Less: Corporate Dividend Tax on Preference Shares | **0.1** | **0.1** | 1.2 | 1.2 |
| Less: Prior year adjustment - deferred taxation | **—** | **—** | — | 187.6 |
| Profit used as Numerator for calculating Earnings per share | **3056.1** | **3056.1** | 2583.1 | 2395.6 |
| Weighted Average number of Shares used in computing basic earnings per share | **185511356** | **185511356** | 92786182 | 92786182 |
| Add: Potential number of equity shares that could arise on exercise of Options on convertible debentures / Bonus Shares Nil (Previous Year 92755678) / Share Capital Suspense / Zero Coupon convertible Bonds- due 2009 - 5681319 Prorata (Previous year Nil) | **5711032** | **5711032** | 92758363 | 92758363 |
| Weighted average number of shares used in computing diluted earnings per share | **191222388** | **191222388** | 185544545 | 185544545 |
| Nominal Value Per Share (in Rs.) | **5** | **5** | 5 | 5 |
| Basic Earnings Per Share (in Rs.) | **16.5** | **16.5** | 27.8 | 25.8 |
| Diluted Earnings Per Share (in Rs.) | **16.0** | **16.0** | 13.9 | 12.9 |

(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 )

| | | |
|---|---|---|
| India | **7569.4** | 6752.4 |
| Outside India | **2874.1** | 2176.5 |
| Total Sales | **10443.5** | 8928.9 |

## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

**15 Investment Purchased and Sold during the Year**

| Mutual Fund Units (Units of Face Value of Rs. 10/- Each) | As at 31st March, 2005 Units | As at 31st March, 2005 Purchase Value | As at 31st March, 2005 Sales Value | As at 31st March, 2004 Units | As at 31st March, 2004 Purchase Value | As at 31st March, 2004 Sales Value |
|---|---|---|---|---|---|---|
| **In Liquid Scheme** | **In Nos** | **Rs in Million** | **Rs in Million** | In Nos | Rs in Million | Rs in Million |
| Birla Sun Life Mutual Fund | **6395687** | **110.0** | **110.1** | 41990872 | 697.0 | 698.0 |
| Chola Mutual Fund | **40117905** | **528.0** | **528.6** | — | — | — |
| Deutsche Mutual fund | **14970090** | **150.0** | **150.5** | 100556941 | 1045.1 | 1047.4 |
| DSP Merril Lynch Mutual Fund | **3229670** | **50.0** | **50.1** | 40369619 | 607.0 | 607.9 |
| HDFC Mutual Fund | — | — | — | 15981717 | 200.0 | 200.3 |
| IL&FS Mutual Fund | **35774115** | **425.0** | **426.8** | 20079747 | 235.0 | 235.4 |
| ING Savings Trust Mutual Fund | **2965995** | **40.0** | **40.0** | 21050600 | 280.5 | 280.9 |
| ING Trustee Saving Mutual | — | — | — | 5077466 | 60.0 | 60.1 |
| JM Mutual Fund | **4419966** | **48.0** | **48.0** | 40400476 | 413.0 | 415.0 |
| Kotak Mahindra Mutual Fund | **251089081** | **3290.5** | **3296.1** | 125142076 | 1571.7 | 1574.7 |
| Principal Mutual Fund | **327161850** | **3379.4** | **3384.5** | 57679147 | 595.0 | 596.3 |
| Prudential ICICI Mutual Fund | **109598243** | **1770.0** | **1774.5** | 97469206 | 1472.6 | 1475.4 |
| Reliance Mutual Fund | **9957878** | **100.0** | **100.2** | 19143481 | 293.0 | 293.7 |
| Standard Chartered Mutual Fund | — | — | — | 31859451 | 362.1 | 362.4 |
| Tata Mutual Fund | **7720771** | **90.0** | **90.2** | 68333734 | 771.5 | 772.7 |
| UTI Mutual Fund | — | — | — | 5000000 | 50.0 | 50.1 |
| **In FMP Schemes** | | | | | | |
| JM Mutual Fund | **6000000** | **60.0** | **60.7** | — | — | — |
| Principal Mutual Fund | **20000000** | **200.0** | **202.3** | — | — | — |
| 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 |

**16 Balances with Other Banks held in:**

| Name of the Bank/Institution | (Rs. in Million) Balance as on 31-03-05 | (Rs. in Million) Maximum Balance 2004-05 | (Rs. in Million) Balance as on 31-03-04 | (Rs. in Million) Maximum Balance 2003-04 |
|---|---|---|---|---|
| JPMorgan Chase Bank N.A-Sinapore | **0.7** | **12377.8** | — | — |
| JPMorgan Chase Bank N.A-Florida | **1576.9** | **12250.6** | — | — |
| UBS AG Wealth Management-London | — | **4503.8** | — | — |
| Total | **1577.6** | **29132.2** | — | — |

# SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2005

**17 Loans due from Subsidiaries**

| Subsidiary company | Balance as on 31-03-05 (Rs.in Million) | Maximum Balance 2004-05 (Rs.in Million) | Balance as on 31-03-04 (Rs.in Million) | Maximum Balance 2003-04 (Rs.in Million) |
|---|---|---|---|---|
| Caraco Pharmaceutical Laboratories Ltd.USA | — | — | — | 5.2 |
| Sun Pharma Global Inc. BVI | **2925.6** | **2925.6** | — | — |
| Sun Pharmaceutical (Bangladesh) Ltd. | **4.6** | **4.6** | — | — |
| Sun Pharma De Mexico S. A. DE C.V. | **3.5** | **3.5** | | |
| Sun Pharmaceutical Industries inc. | **164.3** | **164.3** | — | — |
| Total | **3098.0** | **3098.0** | — | 5.2 |

**18** 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.

**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. 2699.0 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** Credit facilities from Bank are secured by hypothecation of stock and book debts.During the year, but prior to the sanction of Amalgamation of erstwhile Phlox Pharmaceuticals Limited ('Phlox') with the company, the company has acquired the Secured Loans,Accrued Interest and 4511654 Equity Shares of Rs.10/-each fully paid up and 1365940 Preference Shares of Rs. 100/-each fully paid up from a lender company.Further the Company acquired 15324700 Eqity Shares of Rs. 10/- each fully paid up and 2598300 Equity Shares of Rs. 10/- each,Rs. 1/- paid up of 'Phlox' in April,2005.On amalgamation of 'Phlox' with the company w.e.f. March 1,2004, the above investment in the books of the Company stands cancelled by adjustment against the corresponding Secured Loans and Preference Share Capital in the books of 'Phlox' and consequently, during the year, the difference of Rs. 250.5 Million between the investment and corresponding liability has been transferred to Capital Reserve Account.

**22** During the year, the Company has issued Zero Coupn Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 aggregating to US $ 350 Million. As per the terms of the issue , the holders have an option to convert FCCBs into Equity Share at an intial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1 , from December 26, 2004 to November 16,2009. The conversion price will be subject to certain adjusment . Further , under certain conditions the company has an option for early redemption in whole but not in part. Unless previously converted , redeemed or purchased and cancelled , the company will redeem these bonds at 125.594 per cent of the principal amount on November 26,2009. In view of the unascertaintiy of redemption , premium on redemption of FCCB has not been provided in this accounts.Issue expenses of Rs. 157.6 million relating to FCCB has been debited to Profit and Loss Account.

**23** Pursuant to the approval of the High Court of Gujarat at Ahmedabad to the Schemes of Amalgamation of Bazley Finvest Limited, Dhaval Finvest Limited and Manish Finvest Limited with the Company and of Amalgamation of Phlox Pharmaceuticals Limited with the Company as per the terms of such respective Schemes of Amalgamation and in terms of the resolution passed by the shareholders of the company, the Capital Clause of the Memorandum and Articles of Association of the Company gets amended & authorised share capital stands increased and reclassified.

**24** The terms of 0% unsecured debentures taken over from M J Pharmaceuticals Limited is for a period of 5 years from the date of its issue, i.e. from March 30, 2002 to September 30, 2002. The debenture holders have the option to redeem them early having earliest redemption option date on April 28,2003.

**25** As per the best estimate of the management , no provision is required to be made as per Accounitng Standard (AS) 29 issued by the Institute of Chartered Accountants of India , in respect of any present obligation as a result of a part event that could lead to a probable outflow of resources , which would be required to settle the obligation.

**26** In persuance to Accounitng Standard AS-28 - Impairment of Assets , during the year , the company has assessed impairment of fixed assests and has ascertained the loss of Rs. 2.5 million as on April 1, 2004 which was proportionately allocated to reduce the cost of the assets. The impairment has been adjusted against the opening balance of General Reserve as at April 1,2004.

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

# ANNEXURE 'A' TO NOTES ON ACCOUNT

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 |
| Purchases of goods / DEPB | **13.9** | 3.6 | **3251.9** | 1454.7 | — | — | — | — | — | 1.7 | **3265.9** | 1460.0 |
| Caraco Pharmaceutical Laboratories Ltd | 13.9 | — | — | — | — | — | — | — | — | — | 13.9 | — |
| Sun Pharmaceutical Industries | — | — | 3251.9 | 1454.7 | — | — | — | — | — | — | 3251.9 | 1454.7 |
| Others (Rs.38,300) | — | 3.6 | — | — | — | — | — | — | — | 1.7 | — | 5.3 |
| Sale of goods / DEPB | **768.0** | 622.7 | **752.2** | 391.9 | — | — | — | — | **3.2** | 9.4 | **1523.4** | 1024.0 |
| Caraco Pharmaceutical Laboratories Ltd | 761.8 | 622.5 | — | — | — | — | — | — | — | — | 761.8 | 622.5 |
| Sun Pharmaceutical Industries | — | — | 752.2 | 391.9 | — | — | — | — | — | — | 752.2 | 391.9 |
| Sun Pharmaceutical (Bangladesh) Ltd | 6.2 | — | — | — | — | — | — | — | — | — | 6.2 | — |
| Others | — | 0.2 | — | — | — | — | — | — | 3.2 | 9.4 | 3.2 | 9.6 |
| Receiving of Service | | | | | | | | | | | | |
| Services | **51.7** | 36.0 | — | — | — | — | — | — | — | — | **51.7** | 36.0 |
| Sun Pharma Global Inc - BVI | 51.7 | 36.0 | — | — | — | — | — | — | — | — | 51.7 | 36.0 |
| Reimbursment of Expenses | **17.4** | 7.9 | — | — | — | — | — | — | — | — | **17.4** | 7.9 |
| Sun Pharma Global Inc - BVI | — | 1.5 | — | — | — | — | — | — | — | — | — | 1.5 |
| Caraco Pharmaceutical Laboratories Ltd | 17.4 | 6.3 | — | — | — | — | — | — | — | — | 17.4 | 6.3 |
| Others | — | 0.1 | — | — | — | — | — | — | — | — | — | 0.1 |
| Rendering of Service | **17.4** | — | — | — | — | — | — | — | **0.2** | 0.1 | **17.6** | 0.1 |
| Caraco Pharmaceutical Laboratories Ltd | 16.1 | — | — | — | — | — | — | — | — | — | 16.1 | — |
| Others | 1.2 | — | — | — | — | — | — | — | 0.2 | 0.1 | 1.5 | 0.1 |
| Lease Rent received | **1.5** | 1.6 | — | — | — | — | — | — | — | — | **1.5** | 1.6 |
| Caraco Pharmaceutical Laboratories Ltd | 1.5 | 1.6 | — | — | — | — | — | — | — | — | 1.5 | 1.6 |
| Finance (including loans and equity contributions in cash or in kind ) | | | | | | | | | | | | |
| Capital Contribution / (Withdrawal) | **0.2** | — | **(2411.4)** | 441.3 | — | — | — | — | — | — | **(2411.2)** | 441.3 |
| Sun Pharmaceutical Industries | — | — | (2411.4) | 441.3 | — | — | — | — | — | — | (2411.4) | 441.3 |
| Sun Pharmaceutical Industries - Inc | 0.2 | — | — | — | — | — | — | — | — | — | 0.2 | — |
| Investments Purchase | **2034.0** | — | — | — | — | — | — | — | — | — | **2034.0** | — |
| Sun Farmaceutica Ltda. Brazil | 5.2 | — | — | — | — | — | — | — | — | — | 5.2 | — |
| Sun Pharma De Mexico S. A. DE C. V. | 3.3 | — | — | — | — | — | — | — | — | — | 3.3 | — |
| Sun Pharma Global Inc - BVI (0% OFCD) | 2025.5 | — | — | — | — | — | — | — | — | — | 2025.5 | — |
| Investments Sold | **2092.7** | — | — | — | — | — | — | — | — | — | **2092.7** | — |
| Sun Pharma Global Inc - BVI | 2092.7 | — | — | — | — | — | — | — | — | — | 2092.7 | — |
| Promissory notes refund (Net of loan given and received back, Rs. 141.1 million previous year) | — | 465.0 | — | — | — | — | — | — | — | — | — | 465.0 |
| Caraco Pharmaceutical Laboratories Ltd | — | 465.0 | — | — | — | — | — | — | — | — | — | 465.0 |
| Loans given | **3098.0** | 2167.9 | — | — | — | — | — | — | — | — | **3098.0** | 2167.9 |
| Sun Pharma Global Inc - BVI | 2925.6 | 409.9 | — | — | — | — | — | — | — | — | 2925.6 | 409.9 |
| Sun Pharmaceutical Industries - Inc | 164.3 | 409.9 | — | — | — | — | — | — | — | — | 164.3 | 409.9 |
| Sun Pharma De Mexico S. A. DE C.V. | 3.5 | 938.2 | — | — | — | — | — | — | — | — | 3.5 | 938.2 |
| Sun Pharmaceutical (Bangladesh) Ltd | 4.6 | 409.9 | — | — | — | — | — | — | — | — | 4.6 | 409.9 |

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

# ANNEXURE 'A' TO NOTES ON ACCOUNT

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 |
| Guarantees and Collaterals | | | | | | | | | | | | |
| Bank Guarantee as on 31/03/05 | **68.1** | 409.9 | — | — | — | — | — | — | — | — | **68.1** | 409.9 |
| Letter of Credit | — | 528.3 | — | — | — | — | — | — | — | — | — | 528.3 |
| Interest Income | **19.9** | 14.8 | **1.1** | 1.1 | — | — | — | — | — | — | **21.0** | 15.9 |
| Caraco Pharmaceutical Laboratories Ltd | 0.5 | 14.8 | — | — | — | — | — | — | — | — | 0.5 | 14.8 |
| Sun Pharma Global Inc - BVI | 18.3 | — | — | — | — | — | — | — | — | — | 18.3 | — |
| Others | 1.1 | — | 1.1 | 1.1 | — | — | — | — | — | — | 2.2 | 1.1 |
| Rent Income | — | — | **1.2** | 1.2 | — | — | — | — | **0.1** | 0.1 | **1.3** | 1.3 |
| Sun Pharmaceutical Indutries | — | — | 1.2 | 1.2 | — | — | — | — | — | — | 1.2 | 1.2 |
| Others | — | — | — | — | — | — | — | — | 0.1 | 0.1 | 0.1 | 0.1 |
| Director's Remuneration | — | — | — | — | **11.7** | 11.7 | — | — | — | — | **11.7** | 11.7 |
| Remuneration (Partner's) Received | — | — | **332.0** | **157.6** | — | — | — | — | — | — | **332.0** | 157.6 |
| Sun Pharmaceutical Indutries | — | — | 332.0 | 157.6 | — | — | — | — | — | — | 332.0 | 157.6 |
| Rent Paid | — | — | — | — | — | — | **0.3** | 0.3 | — | — | **0.3** | 0.3 |
| Share of profit from Partnership Firm | — | — | **1746.5** | 848.2 | — | — | — | — | — | — | **1746.5** | 848.2 |
| Sun Pharmaceutical Indutries | — | — | 1746.5 | 848.2 | — | — | — | — | — | — | 1746.5 | 848.2 |
| Outstanding receivables, net of Payables as on 31/03/2005 | **381.3** | 207.0 | — | — | — | — | — | — | — | 0.1 | **381.3** | 207.1 |
| Caraco Pharmaceutical Laboratories Ltd. | 381.3 | 221.5 | — | — | — | — | — | — | — | — | 381.3 | 221.5 |
| Others | — | (14.5) | — | — | — | — | — | — | — | 0.1 | — | (14.4) |

**Note :**

Names of related parties and description of relationship

| | | |
|---|---|---|
| 1. Subsidaries | Sun Pharma Global Inc. BVI. | |
| | Milmet Pharma Ltd. | |
| | Sun Pharmaceutical (Bangladesh) Ltd. | |
| | Sun Pharma De Mexico S. A. DE C.V. | |
| | Sun Farmaceutica Ltda - Brazil | |
| | Sun Pharmaceutical Industries Inc , USA | |
| | 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 | Wife of Chairman |
| | Mrs Kumud Shanghvi | Mother of Chairman |
| | Mrs Meera Desai | Wife of Wholetime Director |
| | Mrs Nirmala Desai | 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. | |

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

### I Registration Details

| Registration No. | Balance Sheet Date | State Code |
|---|---|---|
| 04/19050 | 31st March, 2005 | 04 |

### II Capital Raised during the year (Rs in Million)

| | |
|---|---|
| Public Issue | Right Issue |
| NIL | NIL |
| Bonus Issue | Private Placement |
| 463.8 | NIL |

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

| | |
|---|---|
| Total Liabilities | Total Assets |
| 21214.1 | 32268.6 |
| **Sources of Funds** | |
| Paid-up Capital | Reserves and Surplus |
| 941.6 | 10112.8 |
| Secured Loans | Unsecured Loans |
| 139.2 | 18007.3 |
| **Application of Funds** | |
| Net Fixed Assets | Investments |
| 4870.9 | 9852.4 |
| Net Current Assets | Miscellaneous Expenditure |
| 15330.7 | NIL |
| | Accumulated Losses |
| | NIL |

### IV Performance of the Company (Rs in Million)

| | |
|---|---|
| Total Income | Total Expenditure |
| 12468.4 | 9233.6 |
| Profit Before Tax | Profit After Tax |
| 3234.8 | 3057.1 |
| Earning per share Rs.* | Dividend Rate |
| 16.5 | 75% |

* Basic 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 |
| 00293792 | PROGESTERONE |
| 30049065 | METFORMIN HYDROCHLORIDE |

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 (1) TO DIRECTORS' REPORT

## CONSERVATION OF ENERGY

| | Year ended 31st March, 2005 | Year ended 31st March, 2004 |
|---|---|---|
| **A. Power and Fuel Consumption** | | |
| **1. Electricity** | | |
| **(a) Purchased** | | |
| Unit (in '000 KWH) | **17059** | 18787 |
| Total Amount (Rs. in Millions) | **67.9** | 78.2 |
| Rate (Rs./Unit) | **4.0** | 4.2 |
| **(b) Own Generation through Diesel Generator** | | |
| Units (in '000 KWH) | **497** | 378 |
| Units per Litre of Diesel Oil | **3.0** | 4.9 |
| Cost (Rs./Unit) | **9.0** | **5.7** |
| **(c) Own Generation through Gas** | | |
| Units (in '000 KWH) | **8615** | 5704 |
| Units per m3 of Gas | **3.5** | 3.6 |
| Cost (Rs./Unit) | **2.5** | 2.5 |
| **2. Furnace Oil** | | |
| Quantity (in '000 Litres) | **1913** | 1697 |
| Total Amount (Rs. in Millions) | **26.5** | 21.7 |
| Average Rate (Rs./Unit) | **13.9** | 12.8 |
| **3. Gas (for Steam)** | | |
| Gas Units (in 000' m3) | **2408** | 2600 |
| Total Amount (Rs. in Millions) | **21.0** | 23.1 |
| Average Rate (Rs./Unit) | **8.7** | 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

The Company is conducting Research & Development in the areas of process chemistry and formulation development. Projects with varying time horizon are undertaken.

Typically, reverse engineering based projects are of shorter durations with early returns. In such projects, the product and technology is known and our endeavour is to seek improvements with respect to the process and yield. Products developed under this approach serve to further enhance our leadership position in specialty formulations and bulk actives across geographies and markets, including the regulated ones.

Novel Drug Delivery System (NDDS) projects focus on delivering known drugs to the appropriate part of the body through existing and innovative delivery mechanisms. Such products offer significant benefits to patients. The company also undertakes significant basic research to bring a New Chemical Entity (NCE). These initiatives have a higher element of uncertainty and need large development and testing resources spanning several years before being brought to global markets, generally working with a partner. Large investments are required for such projects, which have higher uncertainty of technical acceptability and commercial success.

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

The Company has introduced several new bulk and formulation products in the market due to its R&D efforts. These products are thoroughly tested to be safe and effective, and are manufactured in world-class facilities.

Over 40 new formulation products were launched in India in 2004 – 05, 22 of these were technically complex or used differentiated delivery systems. 26 bulk actives were scaled up, of which 18 processes were developed for international bulk active filings. 8 new products were launched in the domestic market based on bulk active sourced in house.

As a result of our R&D efforts, today we have received 35 patents and have 399 more patents filed and awaiting approval.

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

With the two state of art Research & Development facility with over 250,000 Sq. Ft. of floor area located at Mumbai and Baroda with scientific strength of over 420 scientists and the required infrastructure. Our R&D endeavor and future course of action will be to continue to work on various technologies in NDDS and work on specific therapy areas for NCE. For products that are differentiated for the medium term, we would continue to work technologically complex products such as liposome delivery systems, microspheres based delivery systems and controlled release technologies that we will try and register across markets including the developed markets.

| **4. Expenditure on R&D** | **Year ended 31st March, 2005 Rs in Million** | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| a) Capital | **418.4** | 598.3 |
| b) Revenue | **741.4** | 478.5 |
| c) Total | **1159.8** | 1076.8 |
| d) Total R&D expenditure as % of Total Turnover | **11.6%** | 12.8% |

## B. Technology Absorption, Adaptation and Innovation

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

The company continues to pursue R&D as a focused and committed objective. The outlay on R&D revenue as well as capex, at 10-11% is amongst the highest in the Indian pharma industry, and this 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 modern 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, several of which are made based on own bulk active, and offer complete baskets of products under the various therapeutic classes.

b) Make high cost imported products available at competitive prices by indigenously developing the manufacturing processes and formulation technologies. The Company has benefited from reduction in cost due to import substitution and increased revenue through higher exports.

c) Offer products which are convenient for administration to patients and bring about improved efficacy, reduction of toxic, improved stability, reduction in dosing frequency, improved delivery of insoluble drugs etc.

d) We are among the few selected companies that have set up manufacturing facilities for the production of peptides, anticancer, hormones and steroidal drugs.

**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, 2005 Rs in Million** | Year ended 31st March, 2004 Rs in Million |
|---|---|---|
| 1. Earning from Exports | **2815.3** | 2057.5 |
| 2. Expenditure (CIF basis) | **1742.8** | 1214.9 |
| 3. Investment and Loan given | **5132.2** | 2080.8 |
| 4. Loan given received back | **—** | 606.1 |

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

| | Name of Subsidiary | Zao Sun Pharma Industries Ltd. | Sun Pharma Global Inc. | Milmet Pharma Ltd. | Sun Pharmaceutical (Bangladesh) Ltd. | Caraco Pharmaceutical Laboratories Ltd. | Sun Farmaceutica Ltda Brazil | Sun Pharma De Mexico, S. A. DE C.V. | Sun Pharmaceutical Industries Inc. |
|---|---|---|---|---|---|---|---|---|---|
| 1 | The financial year of the Subsidiary Company ended on | 31/12/2004 | 31/03/2005 | 31/03/2005 | 31/03/2005 | 31/03/2005 | 31/12/2005 | 31/12/2004 | 31/03/2005 |
| 2 | Shares in the Subsidiary held by the Holding Company as at the above date<br>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 | 434469 Ordinary Shares of Takas 100 each fully paid-up | 8382666 fully paid Common Shares of No Par Value | 336538 Quota of Capital Stock | 750 Common Shares of No Face Value | 5000 fully paid-up Common Stock of $ 1 par Value |
| | B) Extent of Holding | 100% | 100% | 99.60% | 72.41% | 31.80% | 99.57% | 75% | 100% |
| 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, 2005 | | | | | | | | |
| | (i) For the Subsidiary's financial year ended as aforesaid | Rubles 131 | US$ 26748553 | Rs. (77572) | Taka (14612769) | USD (1437704) | NIL | Mexican Pesos 1167332 | USD 81796 |
| | (ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary | Rubles (93426) | US$ 16282045 | Rs. 1786198 | NIL | USD (3032151) | NIL | NIL | NIL |
| | B) Dealt with in Holding Company's accounts for the year ended 31st March, 2005 | | | | | | | | |
| | (i) For the Subsidiary's financial year ended as aforesaid | NIL | NIL | NIL | 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 | 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, 2005 | NIL | Acquisition of 450000 0% optionally fully convertible debentures of US $ 100 each fully paid | NIL | Allotment of 433745 Ordinary Shares of Taka 100 each | Transfer of 5131357 fully paid common shares to a wholly owned Subsidiary | NIL | NIL | NIL |
| | B) Material changes occurred between end of the financial year of the Subsidiary and 31st March, 2005 | NIL | NIL | NIL | 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

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<br>(Chairman and Managing Director) |
| Non-Promoter Executive Directors | Mr. Sudhir V. Valia<br>(Whole Time Director)<br>Mr. Sailesh T. Desai<br>(Whole Time Director) |
| Non Executive Independent Directors | Mr. S. Mohanchand Dadha<br>Mr. Hasmukh S. Shah<br>Mr. Keki M. Mistry<br>Mr. Ashwin S. Dani |

Number of Board Meetings held and the dates on which held: 12 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: 8th April, 2004, 21st April, 2004, 6th May, 2004, 8th June, 2004, 6th July, 2004, 31st July, 2004, 26th August, 2004, 21st October, 2004, 26th November, 2004, 30th December, 2004, 21st January, 2005 and 8th February, 2005.

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, 2005 | | | No. of other directorships and committee memberships/ chairmanships as of 31st March, 2005 | | |
|---|---|---|---|---|---|---|
| | Board Meetings | Last AGM held on 30th December, 2004 | Last EGM held on 8th February, 2005 | Other Directorships (including directorships in Private, Foreign and Section 25 Companies) | Committee Memberships | Committee Chairmanships |
| Mr. Dilip S. Shanghvi | 10 | Yes | Yes | 10 | — | 1 |
| Mr. Sudhir V. Valia | 10 | Yes | Yes | 24 | — | — |
| Mr. Sailesh T. Desai | 11 | Yes | Yes | 13 | — | — |
| Mr. S. Mohanchand Dadha | 11 | Yes | Yes | 3 | — | — |
| Mr. Hasmukh S. Shah | 6 | No | Yes | 9 | 1 | 3 |
| Mr. Keki M. Mistry | 9 | Yes | Yes | 15 | 11 | 2 |
| Mr. Ashwin S. Dani | 8 | No | Yes | 8 | 2 | 2 |

**Brief information on Directors proposed for appointment /reappointment:**

The brief resume, experience and other details of the Directors, viz. Mr. Sailesh T. Desai and Mr. Dilip S. Shanghvi who retire by rotation at the ensuing Annual General Meeting, and are proposed to be reappointed is given as under:

(a) Mr. Sailesh T. Desai (51), Whole time Director is a Science graduate from Kolkata University and is a successful entrepreneur with 27 years of wide industrial experience including 17 years in the pharmaceutical industry itself. He is a Director on the Board of following Companies: Caraco Pharmaceutical Laboratories Ltd., Milmet Pharma Ltd., Sun Fastfin Services Pvt. Ltd., Sun Pharmaceutical (Bangladesh) Ltd., Sun Resins & Polymers Pvt. Ltd., Sun Speciality Chemicals Pvt. Ltd., SPIL De Mexico SA DE CV, Shantilal Shanghvi Foundation, Phlox Pharmaceuticals Ltd., Bazley Finvest Ltd., Dhaval Finvest Ltd., Manish Finvest Ltd. and M.J. Pharmaceuticals Ltd.

(b) Mr. Dilip S. Shanghvi (49), the Chairman and Managing Director of the Company is a graduate from Calcutta University and has launched Sun Pharma in 1982 and carries wide extensive industrial experience in the Pharmaceutical industry and at present he is the Chairman and Managing Director of the Company. Under the leadership of Mr. Dilip S. Shanghvi, Sun Pharmaceutical Industries Ltd. has recorded an alround growth in the business. He is a Director on the Board of following companies: Caraco Pharmaceutical Laboratories Ltd., Detroit, USA, Sun Speciality Chemicals Pvt. Ltd., Sun Resins & Polymers Pvt. Ltd., Sun Fastfin Services Pvt. Ltd., Sun Petrochemicals Private Limited, SPARC Bio-Research Private Limited, Sun Pharma Global Inc., British Virgin Island, Sun Pharma De Mexico SA DE CV, SPIL De Mexico SA DE CV and Shantilal Shanghvi Foundation.

**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. The constitution of Audit Committee also meets with the requirements under Section 292A of the Companies Act, 1956. Mr.Kamlesh H. Shah the Company Secretary of the Company is 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.

Six Audit Committee Meetings were held during the year ended 31st March, 2005. The dates on which Meetings were held are as follows: 21st April, 2004, 6th May, 2004, 6th July, 2004, 21st October, 2004, 26th November, 2004 and 21st January, 2005. 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 | 6 |
| Mr. S. Mohanchand Dadha | 6 |
| Mr.Hasmukh S. Shah | 3 |

**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 2004-2005 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 | — | — | 5,75,000 | 1,35,000 | 7,10,000 |
| Mr.Hasmukh S. Shah | — | — | 5,75,000 | 75,000 | 6,50,000 |
| Mr. Keki M. Mistry | — | — | 5,75,000 | 75,000 | 6,50,000 |
| Mr. Ashwin S. Dani | — | — | 5,75,000 | 40,000 | 6,15,000 |

# 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.

Eleven Shareholders'/Investors' Grievance Committee Meetings were held during the year ended 31st March, 2005. The dates on which Meetings were held are as follows: 8th April, 2004, 21st April, 2004, 8th June, 2004, 6th July, 2004, 31st July, 2004, 26th August, 2004, 21st October, 2004, 26th November, 2004, 30th December, 2004, 21st January, 2005 and 8th February, 2005. 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 | 6 |
| Mr. Sudhir V. Valia | 9 |
| Mr. Dilip S. Shanghvi | 10 |
| Mr. S. Mohanchand Dadha | 10 |

The total numbers of complaints were received and resolved to the satisfaction of shareholders during the year under review, were 287.

### 6. General Body Meetings

Location and time of the General Meetings held during the last 3 years are as follows:

| Year | Meeting | Location | Date | Time |
|---|---|---|---|---|
| 2001-02 | AGM | Hotel Holiday Inn, Convention Centre, Akota Gardens, Vadodara - 390 020. | 28/08/2002 | 12.00 Noon |
| 2002-03 | AGM | Marigold, Hotel Taj Residency, Akota Gardens, Vadodara - 390 020. | 30/09/2003 | 10.30 A.M |
| 2004-05 | EGM | All India Plastic Manufacturers Association Auditorium, AIPMA House, 2nd Floor, A-52, Road No. 1, Opp. Hotel Tunga, MIDC, Andheri (E), Mumbai – 400 093. | 06/05/2004 | 10.30 A.M |
| 2004-05 | EGM | Vishal Hall, Hotel Highway Inn, Andheri-Kurla Road, Near Andheri Railway Station, Opp. Andheri Gymkhana, Andheri (E), Mumbai – 400 069. | 31/07/2004 | 10.30 A.M |
| 2003-04 | AGM | Marigold, Hotel Taj Residency, Akota Gardens, Vadodara - 390 020. | 30/12/2004 | 10.30 A.M |
| 2004-05 | EGM | Conference Hall, 8th Floor, Hotel The Mirador, Next to Samarpan Complex, Opp. Solitaire Corporate Park, New Link Road, Chakala, Andheri (E), Mumbai – 400 099. | 08/02/2005 | 11.00 A.M |

During the year the Company did not pass any resolution by Postal Ballot and does not have any business that requires Postal Ballot.

### 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 'Financials' 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** | : | $30^{th}$ September, 2005 at 11.15 A.M. or immediately after the conclusion of the Adjourned Twelfth Annual General Meeting, whichever is later. |
| - **Venue** | : | Hotel Taj Residency, Akota Gardens, Akota, Vadodara – 390 020, Gujarat. |

| | | | |
|---|---|---|---|
| **9.2** | **Financial Calendar (tentative)** | : | Results for quarter ending $30^{th}$ September 2005 – Last week of October 2005.<br>Results for quarter ending $31^{st}$ December 2005 – Last week of January 2006.<br>Audited Results for year ended $31^{st}$ March 2006 – $1^{st}$ week of May 2006. |
| **9.3** | **Details of Book Closure For Equity & Preference Shareholders** | : | From $21^{st}$ September, 2005 to $30^{th}$ September, 2005. (both days inclusive). |
| **9.4** | **Dividend Payment Date** | : | On or after $3^{rd}$ October, 2005. |
| **9.5** | **(i) Listing of Equity Shares on Stock Exchanges** | : | At The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Ltd. (NSE). The Company has received the de-listing approval from the Vadodara Stock Exchange with effect from $30^{th}$ July 2004. In case of Calcutta Stock Exchange the Company has complied with all the requirements 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 The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Ltd. (NSE). Preference Shares have been de-listed from the Vadodara Stock Exchange Ltd., with effect from $30^{th}$ July 2004. |
| | **(iii) Listing of Foreign Currency Convertible Bonds** | : | At Singapore Exchange Securities Trading Limited, Singapore. |
| | **(iv) Payment of Listing Fee** | : | Listing Fees for the year ended 2004-05 have been paid to The Stock Exchange, Mumbai and The National Stock Exchange of India Ltd, where the Company's Equity and Preference 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 2004 | 820.00+ | 640.00+ | 837.45+ | 634.00+ |
| May 2004 | 774.00+ | 356.50 | 775.00+ | 358.10 |
| June 2004 | 420.00 | 347.50 | 419.50 | 346.20 |
| July 2004 | 375.00 | 333.50 | 374.00 | 332.00 |
| August 2004 | 423.80 | 348.15 | 423.50 | 348.50 |
| September 2004 | 446.10 | 374.50 | 447.00 | 374.00 |
| October 2004 | 460.00 | 416.15 | 454.75 | 411.15 |
| November 2004 | 543.95 | 441.05 | 543.85 | 442.00 |
| December 2004 | 568.50 | 483.00 | 575.00 | 483.40 |
| January 2005 | 559.90 | 434.00 | 567.00 | 432.50 |
| February 2005 | 509.00 | 462.10 | 510.00 | 461.10 |
| March 2005 | 495.00 | 462.00 | 494.00 | 463.20 |

+ Cum Bonus Prices, as the Company issued bonus shares in the ratio of 1:1 to the equity shareholders holding shares as on record date of 29th May, 2004.

**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 2004 | 1.25 | 1.00 | — | — |
| May 2004 | 1.44 | 1.00 | — | — |
| June 2004 | 1.39 | 0.81 | — | — |
| July 2004 | 1.20 | 0.81 | — | — |
| August 2004 | 1.20 | 0.90 | — | — |
| September 2004 | 1.00 | 0.92 | — | — |
| October 2004 | 1.00 | 1.00 | — | — |
| November 2004 | 1.23 | 1.00 | — | — |
| December 2004 | 1.00 | 0.83 | — | — |
| January 2005 | 1.02 | 1.00 | — | — |
| February 2005 | 1.15 | 1.00 | — | — |
| March 2005 | 2.48 | 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, 2005.**

| PERIOD | % Change in | | |
|---|---|---|---|
| | SUN PHARMA SHARE PRICE | BSE SENSEX | SUNPHARMA RELATIVE TO SENSEX |
| Year-on-Year | 45.07% | 16.14% | 28.93% |
| 2 Years | 248.54% | 112.97% | 135.57% |
| 3 Years | 181.50% | 87.15% | 94.35% |
| 5 Years | 194.63% | 29.82% | 164.81% |

**Share price performance relative to Nifty based on share price on 31st March, 2005.**

| PERIOD | % Change in | | |
|---|---|---|---|
| | SUN PHARMA SHARE PRICE | NIFTY | SUN PHARMA RELATIVE TO NIFTY |
| Year-on-Year | 43.21% | 14.89% | 28.32% |
| 2 Years | 243.77% | 108.10% | 135.67% |
| 3 Years | 179.45% | 80.22% | 99.23% |
| 5 Years | 194.72% | 33.18% | 161.54% |

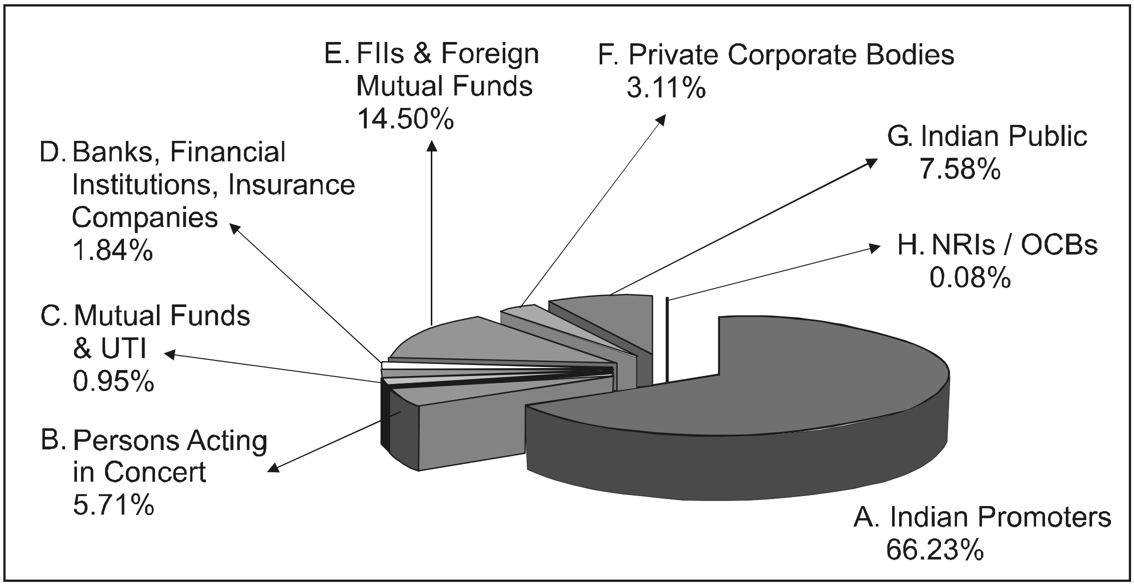
**9.9 Registrars & Transfer Agent**

| | |
|---|---|
| (Share transfer and communication regarding share certificates, dividends and change of address) | Mr. N. Mahadevan Iyer,<br>Intime Spectrum Registry Ltd.,<br>C-13, Pannalal Silk Mills Compound,<br>L.B.S. Marg, Bhandup (West), Mumbai – 400 078.<br>E-Mail: sunpharma@intimespectrum.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.

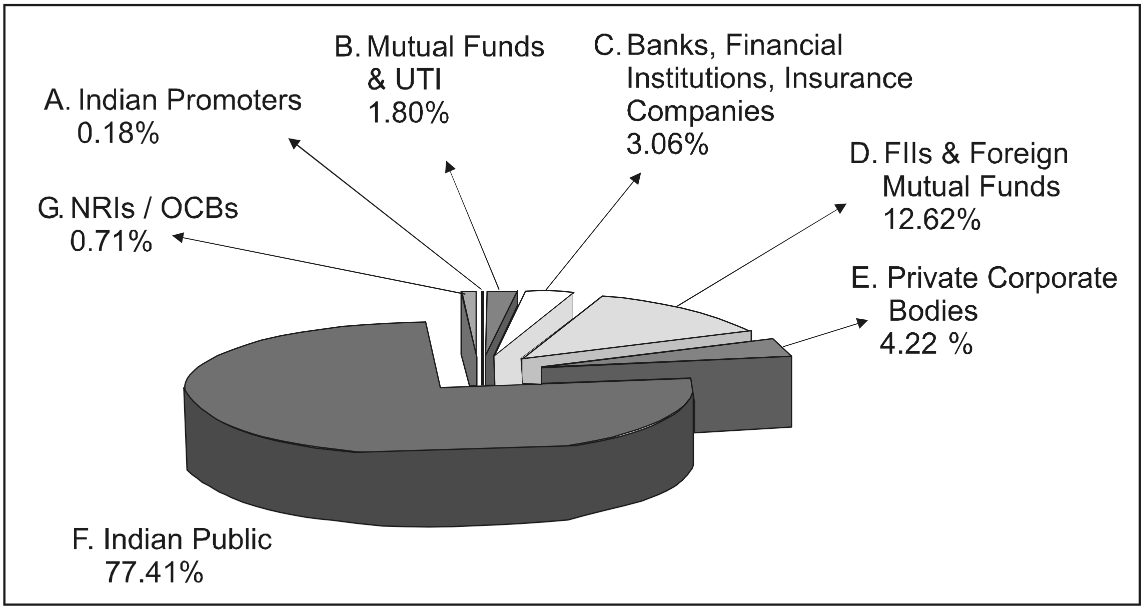
**9.11 (a) Distribution of Shareholding as on 31st March, 2005 of Equity Shares as per Clause 35 of the Listing Agreement.**




| | | | |
|---|---|---|---|
| A. | Indian Promoters | [66.23%] | 12, 28, 62, 028 |
| B. | Persons Acting in Concert | [5.71%] | 1, 05, 94, 888 |
| C. | Mutual Funds and UTI | [0.95%] | 17,68,730 |
| D. | Banks, Financial Institutions and Insurance Companies | [1.84%] | 34, 09, 723 |
| E. | FIIs and Foreign Mutual Funds | [14.50%] | 2, 68, 91, 758 |
| F. | Private Corporate Bodies | [3.11%] | 57, 78, 682 |
| G. | Indian Public | [7.58%] | 1, 40, 55, 649 |
| H. | NRIs / OCBs | [0.08%] | 1, 49, 898 |

**Total No. of Equity Shares = 18, 55, 11, 356**

**9.11 (b) Distribution of Shareholding as on 31st March, 2005 of Preference Shares.**




| | | | |
|---|---|---|---|
| A . | Indian Promoters | [0.18%] | 24, 688 |
| B. | Mutual Funds & UTI | [1.80%] | 2,52, 620 |
| C. | Banks, Financial Institutions, Insurance Companies | [3.06%] | 4, 30, 640 |
| D. | FIIs and Foreign Mutual Funds | [12.62%] | 17, 70, 000 |
| E. | Private Corporate Bodies | [4.22%] | 5, 91, 392 |
| F. | Indian Public | [77.41%] | 1, 08, 61, 263 |
| G. | NRIs/ OCBs | [0.71%] | 99, 827 |

**Total No. of Preference Shares = 1,40,30,430**

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 through tender offer in accordance with the provisions of the Companies Act, 1956 as amended and the Securities Exchange Board of India (Buy- back of Securities) Regulations, 1998. During February to March, 2005 the Company had also redeemed 2,24,698 Preference Shares of Re 1 each at par pursuant to option given to the Preference Shareholders.

**9.12 Dematerialisation of Shares**

About 98.09% of the outstanding Equity shares and 74.67% of the outstanding Preference Shares have been de-materialised up to 31st March, 2005. 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 2004-2005 is given below:

| | BSE | NSE | BSE + NSE |
|---|---|---|---|
| In no. of share (in Thousands) | 55.38 | 120.16 | 178.30 |
| In value terms (Rs. Millions) | 26.06 | 56.04 | 83.36 |

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

The Company had during Nov./Dec.2004 issued 350,000 (Three Hundred and Fifty Thousands) Foreign Currency Convertible Bonds (FCCB) of US$1,000 each aggregating to US $ 350,000,000 (Three Hundred and Fifty Millions), which are convertible at the option of the bondholder at a conversion price of Rs.729.30 per share of Rs. 5 each at the fixed rate of exchange on conversion of Rs.45.01=US$1. The bonds carry a zero coupon rate and if not converted, are to be redeemed after 5 years on November 26, 2009 or in case of certain defined earlier redemptions at an accelerated premium of 4.61% p.a. with half yearly rests. The Company subject to satisfaction of certain conditions, has an option to redeem the bonds at any time on or after November 26, 2007 and prior to November 16, 2009. If all the FCCBs were converted approximately 21,600,850 (Twenty One Million Six Hundred Thousand and Eight Hundred Fifty) Equity Shares of Rs. 5 each would be required to be issued. As on 31st March, 2005 the Company has not received any request for conversion of FCCBs into Equity Shares of the Company.

**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 – 389350
10. Plot No. 817/A, Karkhadi – 391 450, Taluka: Padra, Distt. Vadodara

**9.15 Investor Correspondence**

(a) For transfer/dematerialisation of Shares, payment of dividend on Shares, and any other query relating to the shares of the Company

**For Shares held in Physical form**

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: sunpharma@intimespectrum.com
Tel: 022-55555454, Fax : 022-55555353

**For Shares held in Demat Form**

To the Depository Participant.

(b) Any query on Annual Report
Acme Plaza, Andheri Kurla Road,
Opp. Sangam Cinema, Andheri (East),
Mumbai – 400 059.

Mr.Kamlesh H. Shah/Mr. Ashok I. Bhuta/Ms. Mira Desai,
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, 2005 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

Mumbai, August 18, 2005

Membership No. 038568

## 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, 2005, 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 of 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. 9134.9 Million as at March 31, 2005, total revenues of Rs. 4134.5 Million and net cash inflows amounting to Rs. 1015.7 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 a subsidiary, which we did not audit, whose financial statements reflect the Groups share of assets (net) of Rs. 28.8 Million as at March 31, 2005 total revenues of Rs. 49.6 Million and net cash outflows amounting to Rs. 0.1 Million. The said unaudited financial statements are prepared on the basis of audited financials statements for the year ended December 31, 2004 and the unaudited financial statements for the quarters ended Mumbai 31, 2004 and March 31, 2005, 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 Sun Pharmaceutical Industries Limited Group as at March 31, 2005;

   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

Mumbai, August 18, 2005

Membership No. 038568

SUN PHARMACEUTICAL INDUSTRIES LTD.

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## BALANCE SHEET AS AT 31ST MARCH, 2005

| | Schedules | As at 31st March, 2005 Rs in Million | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | |
| **Shareholders' Funds** | | | | | |
| Share Capital | 1 | 941.6 | | 618.3 | |
| Share Capital Suspense | 1A | 0.1 | | 0.1 | |
| Reserves and Surplus | 2 | 10365.7 | 11307.4 | 7540.4 | 8158.8 |
| **Minority Interests** | | | | | |
| Share Capital | | 73.7 | | 38.7 | |
| Reserves and Surplus | | 87.4 | 161.1 | 44.6 | 83.3 |
| **Loan Funds** | | | | | |
| Secured Loans | 3 | 216.7 | | 981.7 | |
| Unsecured Loans | 4 | 18013.6 | 18230.3 | 3148.7 | 4130.4 |
| **Deferred Tax Liability (Net)** | 5 | | 896.0 | | 740.6 |
| **Total** | | | 30594.8 | | 13113.1 |
| **APPLICATION OF FUNDS** | | | | | |
| **Fixed Assets** | | | | | |
| Gross Block | 6 | 7806.3 | | 6231.6 | |
| Less: Depreciation / Amortisation / Impairment and Lease Terminal Adjustment | | 2087.1 | | 1713.3 | |
| Net Block | | 5719.2 | | 4518.3 | |
| Capital Work-in-Progress (including advances on capital account) | | 493.4 | 6212.6 | 409.9 | 4928.2 |
| **Goodwill on Consolidation** | | | 1537.6 | | 1612.1 |
| **Investments** | 7 | | 6484.8 | | 1765.3 |
| **Current Assets, Loans and Advances** | | | | | |
| Inventories | 8 | 3172.9 | | 2542.2 | |
| Sundry Debtors | 9 | 2510.6 | | 2250.0 | |
| Cash and Bank Balances | 10 | 11808.9 | | 945.5 | |
| Loans and Advances | 11 | 1453.9 | | 1186.1 | |
| | | 18946.3 | | 6923.8 | |
| **Less: Current Liabilities and Provisions** | 12 | | | | |
| Current Liabilities | | 1741.2 | | 1382.6 | |
| Provisions | | 845.3 | | 733.7 | |
| | | 2586.5 | | 2116.3 | |
| | | | 16359.8 | | 4807.5 |
| **Total** | | | 30594.8 | | 13113.1 |
| **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, 2005

| | Schedules | Year ended 31st March, 2005 Rs in Million | Rs in Million | Year ended 31st March, 2004 Rs in Million | Rs in Million |
|---|---|---|---|---|---|
| **INCOME** | | | | | |
| Income from Operations | **13** | **11982.6** | | 9846.4 | |
| Other Income | **14** | **318.0** | **12300.6** | 148.5 | 9994.9 |
| **EXPENDITURE** | | | | | |
| Cost of Materials / Goods | **15** | **3233.5** | | 2386.0 | |
| Indirect Taxes | **16** | **419.9** | | 387.6 | |
| Personnel Cost | **17** | **1166.9** | | 967.9 | |
| Operating and Other Expenses | **18** | **2865.3** | | 2155.4 | |
| Depreciation / Amortisation | | **406.0** | **8091.6** | 285.7 | 6182.6 |
| **PROFIT BEFORE TAXATION** | | | **4209.0** | | 3812.3 |
| Provision for Taxation - Current Tax | | | **69.3** | | 105.3 |
| - Deferred Tax | | | **137.4** | | 261.2 |
| **PROFIT AFTER TAX BEFORE PRIOR YEAR ADJUSTMENTS** | | | **4002.3** | | 3445.8 |
| Prior Year Adjustments - Deferred Tax | | | **18.1** | | 187.5 |
| - Current Tax | | | **(20.0)** | | – |
| Profit of CARACO for Jan'03 to Mar'03 - Parent's Share | | | **–** | | (49.6) |
| **PROFIT FOR THE YEAR AFTER PRIOR YEAR ADJUSTMENTS** | | | **4004.2** | | 3307.9 |
| Minority Interest | | | **42.2** | | 151.2 |
| **PROFIT FOR THE YEAR AFTER MINORITY INTEREST AND PRIOR YEAR ADJUSTMENTS** | | | **3962.0** | | 3156.7 |
| **BALANCE OF PROFIT BROUGHT FORWARD** | | | **2870.7** | | 1756.8 |
| Adjustment of Carried Forward Profit of Amalgamating Company | | | **1.9** | | (407.4) |
| **AMOUNT AVAILABLE FOR APPROPRIATIONS** | | | **6834.6** | | 4506.1 |
| **APPROPRIATIONS** | | | | | |
| Proposed Dividend | | | | | |
| Preference Shares | | **0.8** | | 9.3 | |
| Equity Shares-Final | | **695.7** | | 602.9 | |
| Proposed Dividend and Dividend distribution tax written back (refer note 19 of schedule 19) | | **(65.9)** | | (58.1) | |
| Corporate Dividend Tax | | **99.1** | **729.7** | 78.8 | 632.9 |
| Transfer to General Reserve | | **1,500.0** | | 1000.0 | |
| Transfer to Capital Redemption Reserve on Redemption of Preference Capital | | **140.5** | **1640.5** | 2.5 | 1002.5 |
| **BALANCE OF PROFIT CARRIED TO BALANCE SHEET** | | | **4464.4** | | 2870.7 |
| **EARNING PER SHARE ( refer note 16 (ii) of Schedule 19)** | | | | | |
| **On Profit before Prior Year Adjustments** | | | | | |
| **Basic (Rs.)** | | | **21.3** | | 35.4 |
| **Diluted (Rs.)** | | | **20.7** | | 17.7 |
| **On Profit after Prior Year Adjustments** | | | | | |
| **Basic (Rs.)** | | | **21.4** | | 33.9 |
| **Diluted (Rs.)** | | | **20.8** | | 17.0 |
| **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 LTD.

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

| | | Year ended 31st March, 2005 Rs in Million | Year ended 31st March, 2004 Rs in Million |
|---|---|---|---|
| A. | **Cash Flow From Operating Activities:** | | |
| | Net Profit Before Tax | **4,209.0** | 3,812.3 |
| | Adjustments for: | | |
| | Depreciation | **406.0** | 285.7 |
| | Interest Expense | **129.4** | 73.2 |
| | Interest Income | **(247.3)** | (58.2) |
| | Income From Investment - Dividend | — | (0.8) |
| | (Profit)/Loss On Fixed Assets Sold | **6.7** | (10.6) |
| | (Profit)/Loss on sale of Investments | **(68.5)** | (64.5) |
| | Miscellaneous Expenditure written off | — | 1.5 |
| | Goodwill on Amalgamation written off | **24.5** | — |
| | Provision for Bad and Doubtful Debts | **19.0** | 62.0 |
| | Provision for Doubtful Advances | — | 5.4 |
| | Liability No Longer Required Written Back | **(47.4)** | (1.4) |
| | Provision For Gratuity And Leave Encashment | **8.0** | 12.5 |
| | Unrealised Foreign Exchange (Gain) / Loss | **15.3** | (32.3) |
| | Other Provisions | — | 67.2 |
| | Dividend Writeback | **65.9** | 58.1 |
| | Lease Terminal Adjustment | **(1.9)** | (1.9) |
| | Minority Interest | — | 4.9 |
| | **Operating Profit Before Working Capital Changes** | **4,518.7** | 4,213.0 |
| | (Increase)/Decrease in Sundry Debtors | **(243.7)** | (64.5) |
| | (Increase)/Decrease in Other Receivables | **(116.3)** | (695.6) |
| | (Increase)/Decrease in Inventories | **(630.7)** | (706.4) |
| | Increase/(Decrease) in Trade and Other Payables | **333.2** | 275.4 |
| | **Cash Generated From Operations** | **3,861.1** | 3,022.0 |
| | Taxes (Paid) / Received (Net of TDS and Refund) | **(107.0)** | (143.7) |
| | Prior Period (Expenses)/Income (Net) | — | (0.1) |
| | **Net Cash From Operating Activities** | **3,754.1** | 2,878.2 |
| B. | **Cash Flow From Investing Activities:** | | |
| | Contribution by Minority | **43.5** | 169.3 |
| | Purchase of Fixed Assets - Additions During the Year | **(1,615.9)** | (2,884.2) |
| | Capital Work in Progress | **(83.5)** | 418.7 |
| | Proceeds From Sale of Fixed Assets | **33.1** | 38.2 |
| | Proceeds From Sale of Investments | **11,249.4** | 10,921.3 |
| | Purchase of Investments | **(15,907.1)** | (13,115.4) |
| | Loans/Inter Corporate Deposits Given | **(6,298.1)** | (3,042.6) |
| | Loans/Inter Corporate Deposits Refund Received | **6,090.6** | 3,114.9 |
| | Interest Received (Revenue) | **136.3** | 57.8 |
| | Dividend Received | — | 0.8 |
| | **Net Cash Used In Investing Activities** | **(6,351.7)** | (4,321.2) |
| C. | **Cash Flow From Financing Activities:** | | |
| | ECB Loan taken | **(80.5)** | 1,888.8 |
| | Zero Coupon Foreign Currency Convertible Bonds | **15,753.5** | — |
| | Zero Coupon Debenture | **262.5** | — |
| | Redemption of Zero Coupon Debenture | **(125.8)** | — |
| | Repayment of Deferred Sales Tax Loan | **(52.3)** | — |
| | Equity Share Buyback | — | (1.4) |
| | Equity Share Buyback (amount in excess of face value) | — | (78.9) |
| | Redemption of Preference Share Capital | **(140.5)** | (2.5) |
| | Long Term Loan Repaid | **(5.9)** | — |
| | Short Term Loan Taken | — | 537.6 |
| | Short Term Loan Repaid | **0.4** | (667.6) |
| | Interest Paid | **(83.8)** | (69.4) |
| | Borrowing from bank | **(1,262.7)** | 655.6 |
| | Dividend Paid | **(552.4)** | (435.0) |
| | Dividend Tax Paid | **(72.3)** | (53.9) |
| | **Net Cash Generated In Financing Activities** | **13,640.2** | 1,773.3 |
| | **Net Increase/(Decrease) In Cash and Cash Equivalents** | **11,042.6** | 330.3 |
| | **Cash and Cash Equivalents (Opening)** | **945.5** | 815.5 |
| | Cash and Cash Equivalents acquired on acquisition | **0.2** | 0.1 |
| | Consolidation Adjustment | **(179.4)** | (200.4) |
| | **Cash and Cash Equivalents (Closing)** | **11,808.9** | 945.5 |
| | | **11,808.9** | 945.5 |

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

| | Year ended 31st March, 2005 Rs. in Million | Year ended 31st March, 2004 Rs. in Million |
|---|---|---|
| **Cash and Cash Equivalents Comprise:** | | |
| Cash and Cheques in hand | **6.3** | 10.6 |
| Balances with Scheduled Banks on- | | |
| Current Accounts | **344.9** | 228.9 |
| Deposit Accounts | **11,451.5** | 701.2 |
| Unpaid Dividend Accounts | **6.2** | 4.8 |
| | **11,808.9** | 945.5 |

**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 statement excludes assets (Other than cash and cash equivalents) / liabilities acquired on amalgamation of erstwhile Bazley Finvest Limited, Dhaval Finvest Limited and Manish Finvest Limited.
4. Cash and cash equivalents includes Rs. 6.2 Million (Previous Year Rs. 4.8 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 Borad**

**DILIP S. SHANGHVI**
Chairman & Managing Director

**SUDHIR V. VALIA**
Wholetime Director

**SAILESH T. DESAI**
Wholetime Director

SUN PHARMACEUTICAL INDUSTRIES LTD.

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

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 1 : SHARE CAPITAL** | | | | |
| **Authorised** | | | | |
| 307,900,000 (Previous Year 252,000,000) Equity Shares of Rs. 5 each. | | **1539.5** | | 1260.0 |
| 25,000,000 (Previous Year 300,000,000) Preference Shares of Re. 1 each. | | **25.0** | | 300.0 |
| 2,015,000 (Previous Year Nil) Preference Shares of Rs. 100 each. (Refer Note 22 of Schedule 19) | | **201.5** | | — |
| | | **1766.0** | | 1560.0 |
| **Issued, Subscribed and Paid Up** | | | | |
| 185,511,356 (Previous Year 92,755,678) Equity Shares of Rs. 5 each | | **927.6** | | 463.8 |
| 14,030,430 (Previous Year 154,517,050) 6% Cumulative Redeemable Preference Shares of Re.1 each | | **14.0** | | 154.5 |
| | | **941.6** | | 618.3 |

**Notes:**
**Of the above :**

1) 127,192,844 [Includes 92,755,678 Shares of Rs. 5 each (issued during the year) and 34,437,166 Shares of Rs. 10 each] Equity shares were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve

2) 413,633; 208,000; 477,581; 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) 187,177,232 - 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, 224,698 (Previous Year 2,529,798) shares were redeemed at par and 140,261,922 (Previous Year Nil) Shares have been bought back 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 46,794,308 to 93,588,616.

5) During the year, Company has bought Nil (Previous Year 292,800) equity shares of Rs. 5 each, under the buy-back scheme, through open market route.

| | | | | |
|---|---|---|---|---|
| **SCHEDULE 1A : SHARE CAPITAL SUSPENSE** | | | | |
| 29,713 (Previous Year 29,713) 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** | | 0.1 |
| **SCHEDULE 2 : RESERVES AND SURPLUS** | | | | |
| **Capital Reserve** | | | | |
| As per last Balance Sheet | **16.7** | | 6.7 | |
| Transferred from Amalgamating Company. | **250.5** | **267.2** | 10.0 | 16.7 |
| **Capital Redemption Reserve** | | | | |
| As per last Balance Sheet | **351.3** | | 344.7 | |
| Add : Transferred from Profit and Loss Account | **140.5** | | 2.5 | |
| Transferred from General Reserve | — | | 1.4 | |
| Transferred from Share Capital Buyback Reserve | — | | 2.7 | |
| | **491.8** | | 351.3 | |
| Less: Utilised for Issue of Bonus Equity Shares | **351.3** | **140.5** | — | 351.3 |

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

| | As at 31st March, 2004 Rs in Million | Rs in Million | As at 31st March, 2003 Rs in Million | Rs in Million |
|---|---|---|---|---|
| **Share Capital Buyback Reserve** | | | | |
| As per last Balance Sheet | — | | 2.7 | |
| Less: Transfer to Capital Redemption Reserve | — | — | 2.7 | — |
| **Amalgamation Reserve** | | | | |
| As per last Balance Sheet | — | | — | |
| Surplus on Amalgamation during the year | — | | 340.5 | |
| Less: Transfer to General Reserve | — | — | 340.5 | — |
| **General Reserve** | | | | |
| As per last Balance Sheet | **4186.2** | | 2935.2 | |
| Add : Transferred from Amalgamation Reserve | — | | 340.5 | |
| Add : Transferred from Amalgamating Company | **26.1** | | — | |
| Add : Transferred from Profit and Loss Account | **1,500.00** | | 1000.0 | |
| | **5712.3** | | 4275.7 | |
| Less: Transfer to Capital Redemption Reserve | — | | 1.4 | |
| Less: Utilised for allotment of Bonus Equity Shares | **112.4** | | — | |
| Less: Utilised for Buy-Back of Equity Shares | **4.2** | | 78.9 | |
| Less: Utilised for Impairment of Fixed Assets | **2.5** | | — | |
| Less: Excess of value of Investment over the value of Net Assets of a Foreign Subsidiary - Majority Interest | — | | 327.8 | |
| Add: Caraco Minority Fresh Capital - Earlier written off in our reserve now reversed | **8.5** | | 161.1 | |
| Add: Share of Profits of Minority Jan'03 to Mar'03 Foreign Subsidiary (CARACO) | — | | 50.9 | |
| Add/(Less): Share of Current Profits of Minority in Foreign Subsidiary | **(44.2)** | **5557.5** | 106.6 | 4186.2 |
| **Currency Fluctuation Reserve on Consolidation** | | | | |
| As per last Balance Sheet | **115.5** | | 95.2 | |
| Additions during the Year | **(179.4)** | **(63.9)** | 20.3 | 115.5 |
| **Surplus as per Profit and Loss Account** | | **4464.4** | | 2870.7 |
| | | **10365.7** | | 7540.4 |

### SCHEDULE 3 : SECURED LOANS

| | | As at 31st March, 2004 | | As at 31st March, 2003 |
|---|---|---|---|---|
| 150,000 - 14% Optionally Convertible Debentures of Rs. 100 each. | | — | | 20.8 |
| Short Term Loan from Banks | | **216.7** | | 687.8 |
| From Others | | — | | 273.1 |
| (Refer Notes 11 and 21 of Schedule 19) | | | | |
| | | **216.7** | | 981.7 |

### SCHEDULE 4 : UNSECURED LOANS

| | | As at 31st March, 2004 | | As at 31st March, 2003 |
|---|---|---|---|---|
| **Long Term** | | | | |
| External Commercial Borrowing in foreign currency from Banks | **1808.3** | | 1888.8 | |
| Zero Coupon Foreign Currency Convertible Bonds (Refer note 21 of Schedule 19) | **15753.5** | | — | |
| 1,367,011 - 0% Debentures (Refer Note 23 of Schedule 19) | **136.7** | | — | |
| Deferred Sales Tax Liability | **2.4** | | 54.7 | |
| Other Loans | **2.9** | **17703.8** | 8.8 | 1952.3 |
| **Short Term** | | | | |
| From Banks | **306.2** | | 1193.2 | |
| Others | **3.6** | **309.8** | 3.2 | 1196.4 |
| | | **18013.6** | | 3148.7 |

### SCHEDULE 5: DEFERRED TAX LIABILITY (NET)

| | | As at 31st March, 2004 | | As at 31st March, 2003 |
|---|---|---|---|---|
| Deferred Tax Assets | | | | |
| Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961. | | **26.3** | | 38.3 |
| Others | | **0.9** | | 0.1 |
| | | **27.2** | | 38.4 |
| Deferred Tax Liability | | | | |
| Depreciation on Fixed Assets | | **923.2** | | 779.0 |
| | | **896.0** | | 740.6 |

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 | | | | | | Impairment of Assets @ | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As At 01.04.04 | Consolidation Adjustment | Additions on Amalgamation | Additions 04-05 | Deletions 04-05 | **As at 31.03.05** | As at 01.04.04 | Consolidation Adjustment | Additions on Amalgamation | For the year 04-05 | Deletion / Adjustment 04-05 | **As at 31.03.05** | | **As at 31.03.05** | As at 31.03.04 |
| **A) OWNED ASSETS** | | | | | | | | | | | | | | | |
| **I. TANGIBLE ASSETS** | | | | | | | | | | | | | | | |
| Freehold Land | 31.4 | — | 1.1 | — | — | **32.5** | — | — | — | — | — | — | — | **32.5** | 31.4 |
| Leasehold Land | 26.8 | — | — | 0.8 | — | **27.6** | 2.2 | — | — | 0.3 | — | **2.5** | **2.5** | **22.6** | 24.6 |
| Buildings | 1905.9 | 0.4 | — | 233.2 | 1.3 | **2138.1** | 246.7 | 0.4 | — | 48.7 | 0.8 | **295.0** | — | **1843.1** | 1659.0 |
| Plant and Machinery | 3610.1 | 2.4 | — | 1179.0 | 66.5 | **4725.0** | 1196.5 | (1.8) | — | 304.0 | 26.2 | **1472.5** | — | **3252.6** | 2413.7 |
| Vehicles | 59.0 | — | — | 18.0 | 2.2 | **74.8** | 19.3 | — | — | 6.2 | 1.6 | **23.9** | — | **50.8** | 39.7 |
| Furniture and Fixtures | 121.8 | — | — | 61.5 | 0.5 | **182.8** | 44.0 | — | — | 10.6 | 0.4 | **54.2** | — | **128.5** | 77.9 |
| **Sub-Total** | 5755.0 | 2.8 | 1.1 | 1492.4 | 70.5 | **7180.8** | 1508.7 | (1.3) | — | 369.8 | 29.0 | **1848.1** | **2.5** | **5330.2** | 4246.3 |
| **II. INTANGIBLE ASSETS** | | | | | | | | | | | | | | | |
| Trademarks,Designs and other Intangible Assets | 409.8 | — | — | 151.5 | — | **561.3** | 149.6 | — | — | 33.0 | — | **182.6** | — | **378.7** | 260.1 |
| **Sub-Total** | 409.8 | — | — | 151.5 | — | **561.3** | 149.6 | — | — | 33.0 | — | **182.6** | — | **378.7** | 260.1 |
| **SUBTOTAL-A** | **6164.8** | **2.8** | **1.1** | **1643.9** | **70.5** | **7742.1** | **1658.3** | **(1.3)** | — | **402.8** | **29.0** | **2030.7** | **2.5** | **5708.9** | 4506.4 |
| **B) LEASED ASSETS** | | | | | | | | | | | | | | | |
| Assets Given On Lease | 67.0 | — | — | — | **2.8** | **64.2** | 27.3 | — | — | 3.2 | 0.7 | **29.8** | — | **34.4** | |
| Lease Terminal Adjustment | — | — | — | — | — | — | 27.8 | — | — | — | 3.8 | **24.0** | — | **(24.0)** | |
| **SUBTOTAL-B** | **67.0** | — | — | — | **2.8** | **64.2** | **55.1** | — | — | **3.2** | **4.5** | **53.8** | — | **10.4** | 11.9 |
| **TOTAL A+B** | **6231.8** | **2.8** | **1.1** | **1643.9** | **73.3** | **7806.3** | **1713.4** | **(1.3)** | — | **406.0** | **33.5** | **2084.5** | **2.5** | **5719.2** | |
| Previous Year | 4032.8 | (42.0) | 442.2 | 1845.1 | 46.5 | 6231.6 | 1351.0 | (17.7) | 115.1 | 285.7 | 20.8 | **1713.3** | — | | 4518.3 |
| Capital Work-in-Progress (including advances on capital account) | | | | | | | | | | | | | | **493.4** | 409.9 |
| | | | | | | | | | | | | | | **6212.6** | 4928.2 |

**NOTES :**

1. Buildings include Rs.1,020 (Previous Year Rs 1,020) towards cost of shares in a Co-operative Housing Society and Rs. Nil (Previous Year Rs. 24.9 Million) towards capitalisation of borrowing cost.
2. Capital work-in-progress ( including advances on Capital Account ) includes Rs. 7.9 Million (Previous Year Rs 24.4 Million ) on account of preoperative expenses and Rs. NIL (Previous Year Rs.22.4 Million) with respect to Amalgamating Company.
3. @ refer note 25 of Schedule 19

| | **As at 31st March, 2005** | | As at 31st March, 2004 | |
|---|---|---|---|---|
| **SCHEDULE 7 : INVESTMENTS** | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **(I) LONG TERM INVESTMENTS (At Cost)** | | | | |
| **A) Government Securities** | | | | |
| National Savings Certificates Rs. 70,000 (Previous Year Rs. 12,000) (Deposited with Government Authorities) | | **0.1** | | — |
| **B) Trade Investments** | | | | |
| **Unquoted** | | | | |
| **In Equity Shares** | | | | |
| Enviro Infrastructure Co. Ltd. 100,000 (Previous Year 100,000) Shares of Rs. 10/- each fully paid up. | | **1.0** | | 1.0 |
| **C) Other Investments** | | | | |
| **a) In Bonds** | | | | |
| **Quoted** | | | | |
| US64 Bonds | | | | |
| 399,734 (Preivious Year 399,734) units of Rs 100 each | | **42.2** | | 42.2 |
| Market Value Rs. 41.8 Million (Previous Year Rs 43.3 Million ) | | | | |
| **Unquoted** | | | | |
| National Housing Bank Bonds | | **53.2** | | — |
| 5,315 ( Previous Year Nil ) Units of Rs.10,000 each fully paid | | | | |
| Rural Electrification Corporation Ltd. Bonds | | **5.3** | | — |
| 530 ( Previous Year Nil ) Units of Rs. 10,000 each fully paid | | | | |

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

| | As at 31st March, 2005 Rs in Million | As at 31st March, 2005 Rs in Million | As at 31st March, 2004 Rs in Million | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|
| **b) In Equity Shares** | | | | |
| Ramin Developers Pvt Ltd.-200 (Previous Year 200) Shares of Rs. 100 each fully paid (pending registration) Received during the year Nil (Previous Year Rs. 3.3 Million) | | **2.1** | | 2.1 |
| **c) Others** | | | | |
| Solapur Organics Ltd. 900 ( Previous Year Nil ) 0% Optionally fully Convertible Debentures of Rs. 100 each fully paid | | **0.1** | | — |
| **d) In Mutual Fund (Units of Face Value of Rs. 10/- Each)** | | | | |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIII Nil (Previous Year 50,000,000) Units | | — | | 500.0 |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"-Growth-SIV Nil (Previous Year 12,500,000) Units | | — | | 125.0 |
| Kotak Mahindra Mutual Fund "Kotak Fixed Maturity Plans (8)"- Growth Plan 15,000,000 (Previous Year 15,000,000) Units | | **150.0** | | 150.0 |
| IL&FS Mutual Fund "IL&FS Fixed Maturity Plan-Yfmp/0104"-Growth Plan Nil (Previous Year 12,500,000) Units | | — | | 125.0 |
| Reliance Capital Mutual Fund "Reliance Fixed Term Scheme-Annual Plan-3"-Growth Option 25,000,000 (Previous Year 25,000,000) Units | | **250.0** | | 250.0 |
| Standard Chartered Mutual Fund "G31 Grindlays Fixed Maturity Annual Plan "-Growth 35,000,000 (Previous Year 35,000,000) Units | | **350.0** | | 350.0 |
| ING Vysya Mutual Fund "ING Vysya Fixed Maturity Fund Series - II" Growth Option 10,000,000 (Previous Year Nil ) Units | | **100.0** | | — |
| JM Financial Mutual Fund " J120 JM Fixed Maturity Plan - YSW" Growth Option 20,000,000 (Previous Year Nil ) Units | | **200.0** | | — |
| JM Financial Mutual Fund " J130 JM Equity & Derivative Fund" Growth Option 25,000,000 (Previous Year Nil ) Units | | **250.0** | | — |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"- Growth 20,000,000 (Previous Year Nil ) Units | | **200.0** | | — |
| Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan - Nov 04"- Growth 10,000,000 (Previous Year Nil ) Units | | **100.0** | | — |
| Principal Mutual Fund "Principal Deposit Growth - Feb 05" 10,000,000 (Previous Year Nil ) Units | | **100.0** | | — |
| SBI Mutual Fund "Magnum Debt Fund Series 15 Month Fund" - Growth Option 10,000,000 (Previous Year Nil ) Units | | **100.0** | | — |
| **Total (I)** | | **1904.0** | | 1545.3 |
| **(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)** | | | | |
| **In Mutual Fund ( Units of Face Value of Rs. 10/- Each)** | | | | |
| Kotak Mahindra Mutual Fund "Inst Premium " - Growth 2,249,027 (Previous year 17,307,163) Units. | | **30.0** | | 220.0 |
| JM Financial Mutual Fund " J94 JM High Liquidity Fund - Super Institutional Plan" Growth 4,796,025 (Previous Year Nil ) Units | | **50.0** | | — |
| DWS Investment S.A. Germany 478.96 (Previous year Nil) Units. Market Value $5,008,157 (Previous Year $ Nil) | | **218.8** | | — |
| DWS Investment S.A. "DWS Institutional USD Money Plus" 9,167 (Previous year Nil) Units | | **4282.0** | | — |
| **Total (II)** | | **4580.8** | | 220.0 |
| **Total (I) + (II)** | | **6484.8** | | 1765.3 |

| **AGGREGATE VALUE OF INVESTMENT** | **Book Value** | **Market Value** | Book Value | Market Value |
|---|---|---|---|---|
| Quoted | **261.0** | **261.0** | 42.2 | 43.3 |
| Unuoted | **6223.8** | | 1723.1 | |

SUN PHARMACEUTICAL INDUSTRIES LTD.

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

| | As at 31st March, 2005 | | As at 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| **SCHEDULE 8 : INVENTORIES** | | | | |
| Consumables Stores | | **35.1** | | 1.1 |
| Raw Materials | **1411.9** | | 1034.5 | |
| Packing Materials | **128.7** | | 83.1 | |
| Finished Goods | **932.5** | | 924.7 | |
| Work-in-Progress | **664.7** | **3137.8** | 498.8 | 2541.1 |
| | | **3172.9** | | 2542.2 |
| **SCHEDULE 9 : SUNDRY DEBTORS** | | | | |
| (Unsecured-Considered Good, unless stated otherwise) | | | | |
| Over Six Months | | | | |
| Considered Good | | **237.9** | | 207.2 |
| Considered Doubtful | **21.4** | | 68.0 | |
| Less: Provison for Doubtful Debts | **21.4** | **—** | 68.0 | — |
| Other Debts | | **2272.7** | | 2042.8 |
| | | **2510.6** | | 2250.0 |
| **SCHEDULE 10 : CASH AND BANK BALANCES** | | | | |
| Cash / Cheques in hand | | **6.3** | | 10.6 |
| Balances with Banks | | | | |
| Schedule Banks | | | | |
| Current Accounts | **31.2** | | 228.9 | |
| Deposit Accounts | **7283.3** | | 701.2 | |
| Unpaid Dividend Accounts | **6.2** | **7320.7** | 4.8 | 934.9 |
| Other Banks | | | | |
| Current Accounts | **313.7** | | — | |
| Deposit Accounts | **4168.2** | **4481.9** | — | — |
| | | **11808.9** | | 945.5 |
| **SCHEDULE 11 : LOANS AND ADVANCES** | | | | |
| (Unsecured - Considered Good, unless stated otherwise) | | | | |
| Interest accrued on - Investment | | **51.3** | | 0.5 |
| - Bank Balance | | **10.9** | | — |
| Loan to Employees / Others * | | **116.3** | | 84.3 |
| Advances Recoverable in Cash or in Kind or for Value to be received | | | | |
| Considered Good | | **263.2** | | 73.6 |
| Considered Doubtful | **4.5** | | 4.5 | |
| Less : Provision for Doubtful Advances | **4.5** | **—** | 4.5 | — |
| Advances to Suppliers | | **349.0** | | 595.2 |
| Balances with Central Excise and Customs | | **214.9** | | 125.0 |
| DEPB and Advance Licence | | **222.9** | | 116.3 |
| Other Deposits | | **56.6** | | 102.5 |
| Advance Payment of Income Tax (Net of Provision) | | **168.8** | | 88.7 |
| | | **1453.9** | | 1186.1 |
| * Secured Loans Rs. 24.1 Million (Previous Year Rs. 24.4 Million) | | | | |
| **SCHEDULE 12 : CURRENT LIABILITIES AND PROVISIONS** | | | | |
| **Current Liabilities** | | | | |
| Sundry Creditors and Advances from Customers | | | | |
| Due to Small Scale Industrial Undertakings | **—** | | 2.7 | |
| Others | **1063.2** | | 921.8 | |
| Security Deposits | **26.8** | | 23.0 | |
| Investor Education and Protection Fund shall be credited by | | | | |
| Unclaimed Dividend | **6.2** | | 4.8 | |
| Temporary Book Overdraft | **0.5** | | 0.2 | |
| Other Liabilities | **620.8** | | 412.8 | |
| Interest accrued but not due | **23.7** | **1741.2** | 17.3 | 1382.6 |
| **Provisions** | | | | |
| Proposed Dividend - Equity Shares | **695.7** | | 602.9 | |
| - Preference Shares | **0.8** | | 9.3 | |
| | **696.5** | | 612.2 | |
| Corporate Dividend Tax | **97.7** | | 78.4 | |
| Provision for Earned Leave | **51.1** | **845.3** | 43.1 | 733.7 |
| | | **2586.5** | | 2116.3 |

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

| | Year ended 31st March, 2005 | | Year ended 31st March, 2004 | |
|---|---|---|---|---|
| | Rs in Million | Rs in Million | Rs in Million | Rs in Million |
| **SCHEDULE 13 : INCOME FROM OPERATIONS** | | | | |
| Gross Sales | 12743.7 | | 10669.5 | |
| Less: Excise Duty | 890.9 | | 839.5 | |
| Net Sales | | 11852.8 | | 9829.9 |
| Interest Income (Refer Note 9 of Schedule 19) | | 115.0 | | — |
| Lease Rental and Hire Charges-TDS Rs.0.5 Million (Previous Year Rs. 25,625) | 57.9 | | 14.6 | |
| Add: Lease Equalisation Account | (43.1) | 14.8 | 1.9 | 16.5 |
| | | 11982.6 | | 9846.4 |
| **SCHEDULE 14 : OTHER INCOME** | | | | |
| Interest from Banks & Other Advances / Deposits (Refer Note 9 of Schedule 19) | | 2.9 | | — |
| Profit on Sale of Fixed Assets | | 1.6 | | 11.6 |
| Profit on Sale of Current Investments | | 68.5 | | 64.5 |
| Sundry Balances Written Back (Net) | | 47.4 | | 3.0 |
| Insurance Claims | | 6.0 | | 7.5 |
| Dividend | | — | | 0.8 |
| Miscellaneous Income-TDS Rs. 1.7 Million (Previous Year Rs. 2.3 Million) | | 191.6 | | 61.1 |
| | | 318.0 | | 148.5 |
| **SCHEDULE 15 : COST OF MATERIALS / GOODS** | | | | |
| Inventories at the beginning of the year | | 2540.5 | | 1827.4 |
| Purchases during the year | | 3830.8 | | 3099.2 |
| Inventories at the end of the year | | (3137.8) | | (2540.5) |
| | | 3233.5 | | 2386.0 |
| **SCHEDULE 16 : INDIRECT TAXES** | | | | |
| Sales Tax | | 411.0 | | 383.2 |
| Turnover Tax | | 1.1 | | 1.2 |
| Purchase Tax | | 7.8 | | 3.2 |
| | | 419.9 | | 387.6 |
| **SCHEDULE 17 : PERSONNEL COST** | | | | |
| Salaries, Wages, Bonus and Benefits | | 992.3 | | 809.0 |
| Contribution to Provident and Other Funds | | 89.4 | | 74.2 |
| Staff Welfare Expenses | | 85.2 | | 84.7 |
| | | 1166.9 | | 967.9 |
| **SCHEDULE 18 : OPERATING AND OTHER EXPENSES** | | | | |
| Stores and Spares Consumed | | 167.0 | | 100.6 |
| Manufacturing Charges | | 401.8 | | 255.2 |
| Power and Fuel | | 205.4 | | 167.3 |
| Rent | | 19.7 | | 20.5 |
| Rates and Taxes | | 26.2 | | 26.9 |
| Insurance | | 84.4 | | 82.5 |
| Selling and Distribution | | 238.2 | | 297.9 |
| Commission and Discount | | 113.3 | | 54.7 |
| Repairs | | | | |
| Building | 35.4 | | 14.5 | |
| Plant and Machinery | 166.7 | | 108.8 | |
| Others | 61.1 | 263.2 | 26.8 | 150.1 |
| Printing and Stationery | | 27.7 | | 20.0 |
| Travelling and Conveyance | | 61.7 | | 51.5 |
| Overseas Travel and Export Promotion | | 280.7 | | 254.2 |
| Communication | | 51.5 | | 44.0 |
| Research and Development | | 244.3 | | 208.3 |
| Provision for doubtful Debts / Advances | | 19.0 | | 5.4 |
| Professional and Consultancy | | 243.6 | | 96.8 |
| Donations | | 1.3 | | 0.5 |
| Loss on Sale of Fixed Assets | | 8.3 | | 1.0 |
| Interest Expense (Refer Note 9 of Schedule 19) | | — | | 15.1 |
| Auditors' Remuneration (including service tax ) | | | | |
| As Auditor | 5.7 | | 3.4 | |
| Other Services | 0.3 | | 0.5 | |
| Out of Pocket Expenses (Previous Year Rs.42,277) | 0.1 | 6.1 | — | 4.0 |
| Goodwill on Amalgamation w/off | | 24.5 | | — |
| Miscellaneous | | 377.4 | | 298.9 |
| | | 2865.3 | | 2155.4 |

# SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2005

**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% | 31/03/2005 | Pravin Doshi & Co. |
| **Foreign Subsidiaries** | | | | |
| Sun Pharma Global Inc. | British Virgin Islands | 100.00% | 31/03/2005 | KSI Shah & Associates. |
| ZAO Sun Pharma Industries Limited | Russia | 100.00% | 31/12/2004 | Best Audit |
| Sun Pharmaceutical (Bangladesh) Limited | Bangladesh | 72.50% | 31/03/2005 | Rahman Rahman Huq |
| Caraco Pharmaceutical Laboratories Ltd (CARACO) | United States of America | 63.99% | 31/03/2005 | Rehmann Robson |
| Sun Farmaceutica Ltda Brazil | Brazil | 99.57% | 31/03/2005 | Peppe Associados Consultores & auditores independentes |
| Sun Pharma De Mexico S.A. DE CV | Mexico | 75.00% | 31/03/2005 | Barrutia Franco Y Asociados S. A. |
| Sun Pharmaceutical Industries INC. | United States of America | 100.00% | 31/03/2005 | Martin, Arrington & Hasse, P.C. |
| **Name of Partnership Firm** | | | | |
| Sun Pharmaceutical Industries | India | 95.00% | 31/03/2005 | Deloitte Haskins & Sells |
| Sun Pharma Exports | India | 80.00% | 31/03/2005 | 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) Sun Pharma De Mexico follows calendar year as their accounting year. Accordingly, the audited financial statements of the Company for the year ended December 31, 2004 are available. For the purpose of this consolidation, the accounts for the financial year April 1, 2004 to March 31, 2005 are considered and are compiled based on the audited financial statements for the year ended December 31, 2004 and the adjustment thereto in respect of the unaudited financial statements for the quarters ended March 31, 2004 and March 31, 2005 which are certified by its Management .

(v) The holding in CARACO has increased to 63.99% between April 1, 2004 to March 31, 2005 and accordingly the minority interest was considered at 36.01% for the purpose of this account. Sun Pharma De Mexico, Sun Farmaceutica Ltda Brazil & Sun Phrmaceutical Industries INC. have started their operations during the year with Companies interest of 75%, 99.57% & 100% respectively.

(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 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 / materialised.

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

Fixed Assets including Intangible assets are stated at historical cost (Net of cenvat credit) 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).

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

(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. Current Assets and Current Liabilities in foreign currency are stated at closing exchange rate. Monetary items denominated in foreign currency at the year end 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 priviledged 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.

(xiii) **Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation can not be made . Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

(xiv) **Impairment of Assets**

The Company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the Profit and Loss Account. If at the Balance Sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

(xv) **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 recordered as compensatory expenses/research and development costs respectively.

**4. AMALGAMATIONS**

(i) Bazley Finvest Ltd. ('Bazley'), Dhaval Finvest Ltd ('Dhaval') and Manish Finvest Ltd. ('Manish'), the subsidiaries, engaged in the investment business, have been merged with the company w.e.f. March 1, 2005. The amalgamation has been accounted for under the "Pooling of Interest Method" as prescribed in Accounting Standard (AS-14) issued by the Institute of Chartered Accountants of India. Accordingly, the Assets, Liabilities and Reserves of the erstwhile' Bazley', 'Dhaval' and 'Manish', as at March 1, 2005 have been taken over at their respective book value subject to adjustments made for the differences in the accounting policies between the companies.

(ii) The company's investment in the Equity share capital of these erstwhile subsidiaries aggregating to Rs. 26 Million stands cancelled on amalgamation and the excess of cost of investment over the Assets & Liabilities of erstwhile subsidiaries being Goodwill of Rs. 24.5 Million has been written off to the Profit and Loss Account.

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

SUN PHARMACEUTICAL INDUSTRIES LTD.

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2005

| | | | As at 31st March, 2005 Rs in Million | | As at 31st March, 2004 Rs in Million |
|---|---|---|---|---|---|
| 5. | **CONTINGENT LIABILITIES NOT PROVIDED FOR** | | | | |
| | Guarantees given by the Bankers on behalf of the Company. | | **46.9** | | — |
| | Letters of Credit | | **225.7** | | 552.5 |
| | Liabilities Disputed - Appeals filed with respect to : | | | | |
| | Sales Tax | | **20.8** | | 21.2 |
| | Excise Duty | | **29.9** | | 18.1 |
| | Income Tax | | **212.9** | | 90.1 |
| | ESIC Contribution | | **0.2** | | 0.2 |
| | Drug Price Equalisation Account [DPEA] on account of demand towards unintended benefit, including interest there on, enjoyed by the Company | | **13.0** | | 10.0 |
| | Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme | | **17.2** | | 20.8 |
| | Claims against the Company not acknowledged as debts | | **0.4** | | 0.4 |
| 6. | **Estimated amount of contracts remaining to be executed on Capital Account (Net)** | | **112.6** | | 143.6 |

| | | | Year ended 31st March, 2005 Rs in Million | | Year ended 31st March, 2004 Rs in Million |
|---|---|---|---|---|---|
| 7. | **REMUNERATION TO DIRECTORS** | | | | |
| | Managerial Remuneration U/s 198 of The Companies Act, 1956 | | | | |
| | Salaries and Allowances | | **9.7** | | 15.1 |
| | Contribution to Provident and Superannuation Funds | | **1.9** | | 1.9 |
| | Perquisites and Benefits | | **0.1** | | 6.0 |
| | Commission | | **2.3** | | 1.6 |
| | Total | | **14.0** | | 24.6 |
| 8. | **RESEARCH AND DEVELOPMENT EXPENDITURE** | | | | |
| | Revenue | | **1021.4** | | 669.5 |
| | Capital | | **418.4** | | 598.3 |
| 9. | **INTEREST EXPENSE AS UNDER** | | | | |
| | Fixed Loans | **82.8** | | 57.4 | |
| | Debentures | — | | 7.5 | |
| | Others | **46.6** | | 8.3 | |
| | | | **129.4** | | 73.2 |
| | **LESS : INTERST INCOME AS UNDER** | | | | |
| | TDS Rs. 20.4 Million (Previous Year Rs. 7.7 Million) | | | | |
| | Banks & Other Advance / Deposits | **2.9** | | 7.6 | |
| | Interest on Loans / Deposits | **244.4** | | 50.5 | |
| | | | **247.3** | | 58.1 |
| | **NET INTEREST (INCOME) / EXPENSE** | | **(117.9)** | | 15.1 |

**10.** The net exchange gain of Rs. 225.7 Million (Previous Year loss of Rs.180.9 Million) is included in the net profit for the year. Foreign exchange loss of Rs.15.8 Million (Previous Year loss of Rs.10.6 Million) on account of income and expenditure consolidation and foreign exchange loss of Rs.163.6 Million (Previous Year gain of Rs.30.9 Million) on account of consolidation of assets and liabilities of subsidiaries have been transferred to Currency Fluctuation Reserve Account.

**11. SECURED LOANS**

(i) 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 mortgage at Bangladesh Plant.

(ii) 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. The same have been repaid during the year.

(iii) 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. The same have been repaid during the year.

(iv) Term Loan taken in Sun Pharmaceutical Industries from Citi Bank are secured by mortgage of Jammu Unit. The same have been repaid during the year.

**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 INC, Sun Pharma De Mexico S. A. DE C. V. and Sun Farmaceutica Ltda as these subsidiaries have started their business in the current year only.

## SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2005

**14.** As regards consolidation of Accounts of CARACO

(i) During the year, Company has acquired additional 2.19% Common Stock in CARACO.

(ii) The current year's minority losses of Rs.43 Million ( i.e. for the year April 1, 2004 to March 31, 2005), have been reduced from General Reserve and fresh capital received from Minority Shareholders of CARACO aggregating to Rs. 8.5 Million is credited to General Reserve as in the previous year losses of Minority were absorbed by holding company.

(iii) The Goodwill arising out of consolidation on account of acquisition of additional stake is not amortised.

(iv) 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.

(v) 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.** The current years minority losses of Sun Pharma De Mexico amounting to Rs.2.2 Million (i.e. for the year April 1, 2004 to March 31, 2005), have been adjusted against their capital to the extent of Re. 1 Million and the balance Rs. 1.2 Million has been reduced from General Reserve.

**16.** **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, 2005** | | Year ended 31st March, 2004 | |
|---|---|---|---|---|
| | **Rs in Million** | **Rs in Million** | Rs in Million | Rs in Million |
| | **Before Prior Year Adjustments** | **After Prior Year Adjustments** | Before Prior Year Adjustments | After Prior Year Adjustments |
| Profit After Tax | **4002.3** | **4002.3** | 3445.8 | 3445.8 |
| Less : Dividend on Preference Shares | **1.0** | **1.0** | 9.3 | 9.3 |
| Less : Corporate Dividend Tax on Preference Shares | — | — | 1.2 | 1.2 |
| Less : Minority Interest | **42.2** | **42.2** | 151.2 | 151.2 |
| Less: Prior year adjustment - deferred taxation | — | **18.1** | — | 187.5 |
| Less: Prior year adjustment - current taxation | — | **(20.0)** | — | — |
| Less: Prior year adjustment - Caraco for Jan'03 to Mar'03 Parent's Share | — | — | — | (49.6) |
| Profit used as Numerator for calculating Earnings per share | **3959.1** | **3961.0** | 3284.1 | 3146.2 |
| Weighted Average number of Shares used in computing basic earnings per share | **185511356** | **185511356** | 92786182 | 92786182 |
| Add: Potential number of equity shares that could arise on exercise of Options on Convertible Debentures / Bonus Shares Nil (Previous Year 92755678) / Share Capital Suspense / Zero Coupon Convertible Bonds - due 2009 - 5681319 Prorata (Previous year Nil) | **5711032** | **5711032** | 92758363 | 92758363 |
| Weighted average number of shares used in computing diluted earnings per share | **191222388** | **191222388** | 185544545 | 185544545 |
| Nominal value per share (In Rs.) | **5** | **5** | 5 | 5 |
| Basic Earnings Per Share (in Rs.) | **21.3** | **21.4** | 35.4 | 33.9 |
| Diluted Earnings Per Share (in Rs.) | **20.7** | **20.8** | 17.7 | 17.0 |

(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)

| | 2005 | 2004 |
|---|---|---|
| Sales | | |
| India | **7716.3** | 6806.0 |
| Outside India | **5027.4** | 3863.5 |
| Total | **12743.7** | 10669.5 |

# SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
## SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2005

**17. Investment Purhcased and Sold during the Year**

| | As at 31st March, 2005 | | | As at 31st March, 2004 | | |
|---|---|---|---|---|---|---|
| **In Liquid Scheme** | **Units In Nos** | **Purchase Value Rs in Million** | **Sales Value Rs in Million** | Units In Nos | Purchase Value Rs in Million | Sales Value Rs in Million |
| Birla Sun Life Mutual Fund | **6395687** | **110.0** | **110.1** | 41990872 | 697.0 | 698.0 |
| Chola Mutual Fund | **40117905** | **528.0** | **528.6** | — | — | — |
| Deutsche Mutual fund | **14970090** | **150.0** | **150.5** | 100556941 | 1,045.1 | 1,047.4 |
| DSP Merril Lynch Mutual Fund | **3229670** | **50.0** | **50.1** | 40369619 | 607.0 | 607.9 |
| HDFC Mutual Fund | — | — | — | 15981717 | 200.0 | 200.3 |
| IL&FS Mutual Fund | **35774115** | **425.0** | **426.8** | 20079747 | 235.0 | 235.4 |
| ING Savings Trust Mutual Fund | **2965995** | **40.0** | **40.0** | 21050600 | 280.5 | 280.9 |
| ING Trustee Saving Mutual | — | — | — | 5077466 | 60.0 | 60.1 |
| JM Mutual Fund | **4419966** | **48.0** | **48.0** | 40400476 | 413.0 | 415.0 |
| Kotak Mahindra Mutual Fund | **251089081** | **3,290.5** | **3,296.1** | 125142076 | 1,571.7 | 1,574.7 |
| Principal Mutual Fund | **327161850** | **3,379.4** | **3,384.5** | 57679147 | 595.0 | 596.3 |
| Prudential ICICI Mutual Fund | **109598243** | **1,770.0** | **1,774.5** | 97469206 | 1,472.6 | 1,475.4 |
| Reliance Mutual Fund | **9957878** | **100.0** | **100.2** | 19143481 | 293.0 | 293.7 |
| Standard Chartered Mutual Fund | — | — | — | 31859451 | 362.1 | 362.4 |
| Tata Mutual Fund | **7720771** | **90.0** | **90.2** | 68333734 | 771.5 | 772.7 |
| UTI Mutual fund | — | — | — | 5000000 | 50.0 | 50.1 |
| **In FMP Schemes** | | | | | | |
| JM Mutual Fund | **6000000** | **60.0** | **60.7** | — | — | — |
| Principal Mutual Fund | **20000000** | **200.0** | **202.3** | — | — | — |
| 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 |

**18.** 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 obsolescence, market demand for products, competition and their expected future benefits to the company.

**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 and Loss Account.

**20.** During the year, but prior to the sanction of Amalgamation of erstwhile Phlox Pharmaceuticals Limited ('Phlox') with the company, the company has acquired the Secured Loans, Accrued Interest and 4,511,654 Equity Shares of Rs.10/- each fully paid up and 1,365,940 Preference Shares of Rs.100/- each fully paid up from a lender company. Further the Company acquired 15,324,700 Equity Shares of Rs. 10/- each fully paid up and 2,598,300 Equity Shares of Rs. 10/- each, Re. 1/- paid up of 'Phlox' in April, 2005. On amalgamation of 'Phlox' with the company w.e.f. March 1, 2004, the above investment in the books of the Company stands cancelled by adjustment against the corresponding Secured Loans and Preference Share Capital in the books of 'Phlox' and consequently, during the year, the difference of Rs. 250.5 Million between the investment and corresponding Liability has been transferred to Capital Reserve Account.

**21.** During the year, the Company has issued Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 each aggregating to US $ 350 Million. As per the terms of the issue, the holders have an option to convert FCCBs into Equity Share at an intial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1, from December 26, 2004 to November 16, 2009. The conversion price will be subject to certainadjusment . Further, under certain conditions the company has an option for early redemption in whole but not in part. Unless previously converted, redeemed or purchased and cancelled, the company will redeem these bonds at 125.594 per cent of the principal amount on November 26, 2009. In view of the uncertainity of redemption, premium on redemption of FCCBs has not been provided in this accounts. Issue expenses of Rs. 157.6 Million relating to FCCBs has been debited to Profit and Loss Account.

**22.** Pursuant to the approval of the High Court of Gujarat at Ahmedabad to the Schemes of Amalgamation of Bazley Finvest Limited, Dhaval Finvest Limited and Manish Finvest Limited with the Company and of Amalgamation of Phlox Pharmaceuticals Limited with the Company as per the terms of such respective Schemes of Amalgamation and in terms of the resolution passed by the shareholders of the company, the Capital Clause of the Memorandum and Articles of Association of the Company gets amended & authorised share capital stands increased and reclassified.

**23.** The terms of 0% unsecured debentures taken over from M J Pharmaceuticals Limited is for a period of 5 years from the date of its issue, i.e from March 30, 2002 to September 30, 2002. The Debenture holders have the option to redeem them early having earliest redemption option date on April 28, 2003.

**24.** As per the best estimate of the management, no provision is required to be made as per Accounitng Standard (AS) 29 issued by the Institute of Chartered Accountants of India, in respect of any present obligation as a result of a past event that could lead to a probable outflow of resources, which would be required to settle the obligation.

**25.** In persuance to Accounitng Standard AS-28 - Impairment of Assets, during the year, the company has assessed impairment of fixed assets and has ascertained the loss of Rs. 2.5 Million as on April 1, 2004 which was proportionately allocated to reduce the cost of the assets. The impairment has been adjusted against the opening balance of General Reserve as at April 1, 2004.

**26.** 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.

---

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)

## ANNEXURE 'A' TO NOTES ON ACCOUNT

**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 | |
|---|---|---|---|---|---|---|---|---|
| | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 | **31/03/05** | 31/03/04 |
| Purchases of goods / DEPB | — | — | — | — | — | 1.7 | — | 1.7 |
| Others (Rs. 38,300/-) | — | — | — | — | — | 1.7 | — | 1.7 |
| Sale of goods / DEPB | — | — | — | — | **3.2** | 9.4 | **3.2** | 9.4 |
| Others | — | — | — | — | **3.2** | 9.4 | **3.2** | 9.4 |
| Rendering of Service | — | — | — | — | **0.2** | 0.1 | **0.2** | 0.1 |
| Other | — | — | — | — | **0.2** | 0.1 | **0.2** | 0.1 |
| Rent Income | — | — | — | — | **0.1** | 0.1 | **0.1** | 0.1 |
| Other | — | — | — | — | **0.1** | 0.1 | **0.1** | 0.1 |
| Director's Remuneration | **11.7** | 11.7 | — | — | — | — | **11.7** | 11.7 |
| Rent Paid | — | — | **0.3** | 0.3 | — | — | **0.3** | 0.3 |
| Outstanding receivables, net of Payables as on 31/03/05 | — | — | — | — | — | 0.1 | — | 0.1 |
| Others | — | — | — | — | — | 0.1 | — | 0.1 |

**Note :**
Names of related parties and description of relationship

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

# ZAO SUN PHARMA INDUSTRIES LIMITED RUSSIA

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

Informative Report enclosed to the annual account report concerning the business activity of Company ZAO «Sun Pharma Industries Limited» during 2004

In 2004 ZAO «Sun Pharma Industries Limited» did not perform the business activity.

The annual fiscal report for 2004 of ZAO «Sun Pharma Industries Limited» has been composed and has been submitted in the period of liquidation (the Resolution 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 2004:

- the sum of non-sale expenses was equal to 327 roubles.
- the sum of financial aid was equal to 500 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 327 roubles.

Subsequently, by the end of 2004 the Balance Gain was equal to the sum 173 roubles reflected in the Company accounting.

Tax on Profit ( at the rate of 24%) is 42 roubles.

Net Profit is 131 roubles.

At the end of current the fiscal period 2004 the Company had come to the Debtor 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 to the sum of 85705 roubles, which is attributed as the liabilities in respect of the state budget.

A Loss introduced in the 3rd Section of the Balance Sheet (93295 roubles) means a financial result: a Loss of the previous years (93426 roubles) and the sum of a Profit for the fiscal period (131 roubles).

Liquidator | P. A. Sinarevsky

April 21, 2005

---

## AUDITING COMPANY "BEST AUDIT"

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

No. 52-az dt. 20 May 2005

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

**Auditing Conclusion on the book keeping balance**
**ZAO <<Sun Pharma Industries Limited>>**
**For the Year 2004**

**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)
The civil liability of implementation of professional activity is insured in OAO <<Reso-Garantiya>> , insurance policy No.906/06319 dt.18th September 2004.

**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. Company is registered with the Ministry of Taxes and Fees of RF No.21, Moscow and identification number of tax payer is 7721003699.
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, 2004 till December 31, 2004.

The bookkeeping balance consists of:
The Balance Sheet (Form 1);
The Profit and Loss Accounts(Form 2);
The appendices to the balance sheet and both reports on profits and average general costs.
Explanatory notes

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. The audit was conducted on the elective basis and included analysis on the basis of testing of the evidences verifying value and deployment in the financial (accounting) reporting of the information about finance and economic activities, estimation of methods and principles of book keeping, rules of opening-up of the financial (accounting) reporting, definition of mail evaluation values obtained by a management (manual) face, and also estimation of a common view about the financial (accounting) reporting.

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.
On the moment of compiling of the accounts for 2004 the company is in the stage of Liquidation.

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 19 May 2005.

**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, 2004 and the results of business activity for the period January 01 till December 31, 2004.

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

# ZAO SUN PHARMA INDUSTRIES LTD. RUSSIA

## BALANCE SHEET AS AT 31ST DECEMBER, 2004

| | Amount (RRu) As at 31/12/2004 | Amount (RRu) As at 31/12/2003 |
|---|---|---|
| **ASSETS** | | |
| I FIXED ASSETS | | |
| Office Equimpments | — | — |
| II CURRENT ASSETS | | |
| Inventories | — | — |
| Finished Goods | — | — |
| Receivables (less than 12 months) | | |
| Debtors for goods & services | 12.024 | 12.024 |
| Other Debtors | 143 | 143 |
| Cash & Bank Balances | | |
| Bank Balances | 243 | 70 |
| Other Current Assets | — | — |
| III PROFIT & LOSS ACCOUNT | | |
| Profit & Loss Account | 93.295 | 93.426 |
| | 105.705 | 105.663 |
| **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 | — | — |
| Advances from Customers | — | — |
| Other Liabilities | 85.705 | 85.663 |
| | 105.705 | 105.663 |

P. A. Sinarevsky
Liquidator

Date - 21/04/2005
ZAO «Sun Pharma Industries Limited»

## PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2004

| | Amount (RRu) As at 31/12/2004 | Amount (RRu) As at 31/12/2003 |
|---|---|---|
| Net Sales | — | — |
| Interest | — | — |
| Other Income | 500 | 892 |
| | 500 | 892 |
| Cost of Sales of Goods & Services | — | — |
| Commercial Expenses | — | — |
| Interest | — | — |
| Other Operating Expenses | 369 | 3.659 |
| Road Tax & Property Tax | — | — |
| | 369 | 3.659 |
| Profit for the period | 131 | — |
| Loss for the period | — | 2.767 |
| Add: Preliminary Expenses | — | — |
| Balance brought forward | 93.426 | 90.659 |
| Balance carried over to Balance Sheet | 93.295 | 93.426 |

P. A. Sinarevsky
Liquidator

Date - 21/04/2005
ZAO «Sun Pharma Industries Limited»

# SUN PHARMA GLOBAL INC. *British Virgin Island*

## Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 March, 2005.

**Operations**

The operations of the Company carried out during the year were satisfactory.

**Results and dividends**

The net profit for the year is US $ 26,748,553. No dividend was paid during the year and the directors have not proposed any dividend for the financial year under review.

**Capital**

The authorised, issued and paid up capital of the Company is 500, 000 shares of US $ 1 each.

**Directors**

The Directors who served during the year were as follows:

Mr. Dilip S. Shanghvi
Mr. Sudhir V. Valia
Mr. Sunil K. Gandhi
Mr. Surendra M. Joshi - Appointed during the year
Mr. Rajendra P. Ashar - Appointed during the year

**Auditors**

M/s. KSI Shah & Associates, Chartered Accountants, Dubai have been appointed in place of the retiring auditors as the auditors of the Company at the previous annual general meeting. A resolution to re-appoint Messrs. KSI Shah & Associates as auditors and fix their remuneration will be put to the shareholders at the ensuing annual general meeting.

On behalf of the board

For **Sun Pharma Global INC**

**Sunil K. Gandhi** — **Director**
**Rajendra P. Ashar** — **Director**

**2nd August, 2005, Dubai**

## Auditors' Report to the Shareholder of SUN PHARMA GLOBAL INC. *British Virgin Island*

We have audited the accompanying financial statements of **SUN PHARMA GLOBAL INC,** *British Virgin Islands* for the year ended 31 March, 2005 set out on pages 2 to 7.

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.

Our audit included such test of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, the financial statements fairly present the state of affairs of **SUN PHARMA GLOBAL INC,** *British Virgin Islands* as of 31 March, 2005 and the results of its operations for the year then ended in conformity with accounting principles applied.

Messrs. KSI Shah & Associates
Chartered Accountants

Dubai

## BALANCE SHEET AS AT 31ST MARCH, 2005

(Amount in USD)

| | SCHEDULES | As at 31st March, 2005 | As at 31st March, 2004 |
|---|---|---|---|
| **SOURCES OF FUNDS** | | | |
| **Shareholders' Funds** | | | |
| Share Capital | 1 | **500,000** | 500,000 |
| **Reserves and Surplus** | | | |
| Profit and Loss Account | | **43,030,598** | 16,282,045 |
| **Loan Funds** | | | |
| Unsecured Loans | 2 | **110,419,182** | — |
| | | **153,949,780** | 16,782,045 |
| **APPLICATION OF FUNDS** | | | |
| **Investments** | 3 | **94,248,637** | 16,293,974 |
| **Current Assets, Loans and Advances** | | | |
| Current Assets | 4 | **60,859,673** | 691,470 |
| Loans and Advances | 5 | **88,000** | 196,976 |
| **Less :Current Liabilities and Provisions** | 6 | **1,246,530** | 400,375 |
| | | **59,701,143** | 488,071 |
| | | **153,949,780** | 16,782,045 |
| **NOTES TO ACCOUNTS** | 10 | | |

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

Messrs. KSI Shah & Associates
Chartered Accountants

For and on behalf of the Board

**SUNIL K. GANDHI** — **Director**
**RAJENDRA P. ASHAR** — **Director**

Dubai, 2nd August, 2005

Dubai, 2nd August, 2005

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

(Amount in USD)

| | SCHEDULES | For the year ended 31st March, 2005 | For the period ended 31st March, 2004 |
|---|---|---|---|
| **INCOME** | | | |
| Income from Operations | 7 | **27,987,053** | 11,715,373 |
| Interest Income ( Net ) | | **667,227** | 3,989 |
| | | **28,654,280** | 11,719,362 |
| **EXPENDITURE** | | | |
| Material Cost | 8 | **860,000** | 240,000 |
| Operating Expenses | 9 | **1,045,727** | 803,350 |
| | | **1,905,727** | 1,043,350 |
| **PROFIT FOR THE YEAR** | | **26,748,553** | 10,676,012 |
| **BALANCE BROUGHT FORWARD** | | **16,282,045** | 5,606,033 |
| **AVAILABLE FOR APPROPRIATION** | | **43,030,598** | 16,282,045 |
| **BALANCE CARRIED TO BALANCE SHEET** | | **43,030,598** | 16,282,045 |
| **NOTES TO ACCOUNTS** | 10 | | |

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

Messrs. KSI Shah & Associates
Chartered Accountants

For and on behalf of the Board

**SUNIL K. GANDHI** — **Director**
**RAJENDRA P. ASHAR** — **Director**

Dubai, 2nd August, 2005

Dubai, 2nd August, 2005

# SUN PHARMA GLOBAL INC. *British Virgin Island*

## SCHEDULES TO THE ACCOUNTS

(Amount in USD)

| | As at 31st March, 2005 | As at 31st March, 2004 |
|---|---|---|
| **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 (Entire Share Capital is held by Holding Company Sun Pharmaceutical Industries Ltd. , India.) | **500,000** | 500,000 |
| | **500,000** | 500,000 |
| **SCHEDULE : 2 UNSECURED LOANS** | | |
| 450,000 0% Optional Fully Convertible Debentures of USD 100 each. | **45,000,000** | — |
| From Holding Company | **65,419,182** | — |
| | **110,419,182** | — |
| **SCHEDULE : 3 INVESTMENTS** | | |
| **A) Trade Investments (Quoted)** | | |
| Caraco Pharmaceutical Laboratories Ltd. U.S.A. 8,486,014 (Previous Year 3,354,657) Fully paid and Non Assessable Common Shares of No par value (Market Value $ 69,415,595 (Previous Year $ 34,083,315) | **51,547,127** | 5,364,914 |
| Investment in Mutual Fund (DWS Investment S. A., Germany 478.96 Unit (Previous Year Nil ) (Market Value 5,008,157 (Previous Year Nil ) ) | **5,000,000** | — |
| **B) Trade Investments ( Unquoted )** | | |
| Sun Pharmaceutical ( Bangladesh ) Ltd. | | |
| i] 531- ( Previous Year - 1 ) Equity Shares of 100 Takas each fully paid | **896** | 2 |
| ii] Equity Contribution $ 203.58 ( Previous Year - $ 98.16 ) pending allotment | **204** | 98 |
| iii] Caraco Pharmaceutical Laboratories Ltd., U.S.A. 5,984,000 ( Previous Year 1,632,000 ) Fully paid and Series B Convertible Preferred stock no par value | **37,700,410** | 10,928,960 |
| | **94,248,637** | 16,293,974 |
| **SCHEDULE : 4 CURRENT ASSETS** | | |
| Inventories of finished goods (As certified by the Management ) | **746,800** | 176,800 |
| Debtors - Considered good | **71,544** | 422,199 |
| Balance with Banks - Current Accounts | **517,866** | 82,471 |
| - Fixed Deposit | **59,120,255** | — |
| Security Deposit | **10,000** | 10,000 |
| Other Income Accrued | **393,208** | — |
| | **60,859,673** | 691,470 |
| **SCHEDULE : 5 LOANS AND ADVANCES** | | |
| Advances | **88,000** | 196,976 |
| | **88,000** | 196,976 |
| **SCHEDULE : 6 CURRENT LIABILITIES AND PROVISIONS** | | |
| Creditors | **415,250** | 400,375 |
| Other Liabilities | **831,280** | — |
| | **1,246,530** | 400,375 |

( Amount in USD )

| | For the year ended 31st March, 2005 | For the year ended 31st March, 2004 |
|---|---|---|
| **SCHEDULE : 7 INCOME FROM OPERATIONS** | | |
| Sales | **26,771,450** | 10,928,960 |
| Service Charges | — | — |
| Commission Received | **1,146,886** | 786,371 |
| Exchange Rate Gain | **68,717** | 42 |
| | **27,987,053** | 11,715,373 |
| **SCHEDULE : 8 MATERIAL COST** | | |
| Opening Stock | **176,800** | 16,800 |
| Purchases | **1,430,000** | 400,000 |
| Less : Closing Stock | **746,800** | 176,800 |
| | **860,000** | 240,000 |
| **SCHEDULE : 9 OPERATING EXPENSES** | | |
| Conveyance | **72,055** | 66,323 |
| Office Expenses | **16,247** | 14,529 |
| Business Promotion Expenses | **109,067** | 95,576 |
| Printing and Stationery | **14,207** | 6,723 |
| Professional Charges | **94,700** | 87,693 |
| Rent | **48,000** | 42,000 |
| Repairs and Maintenance | **14,863** | 13,714 |
| Selling and Distribution Expenses | **236,937** | 193,297 |
| Entertainment Expenses | **47,867** | 42,694 |
| Car Hire | **7,431** | 7,387 |
| Communication Expenses | **47,357** | 32,438 |
| Miscellaneous Expenses | **35,834** | 58,964 |
| Salary | **154,436** | 141,887 |
| Audit Fees | — | 125 |
| Sundry Balances Written Off ( Net ) | **146,726** | — |
| | **1,045,727** | 803,350 |

**SCHEDULE : 10 NOTES TO ACCOUNTS**

1. **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 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 / materialised.

iii) **Revenue Recognition**

Revenue is recognised on accrual basis when risk and rewards of ownership of the products are passed on to the customers.

iv) **Investments**

Investments are stated at cost less provision, if any, for permanent diminution in their value.

v) **Inventories**

Inventories are stated at lower of cost and net realisable value, on a FIFO basis

vi) **Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. Shares received in lieu of sale of technology during the year , are valued at their issue price as determined by the issuing Company, and are shown in Investments.

# MILMET PHARMA LIMITED

## DIRECTORS' REPORT

To

The Members of

MILMET PHARMA LIMITED.

Your Directors have pleasure in presenting you the 9th Annual Report of your Company together with the Audited Accounts for the year ended on 31st March, 2005.

**FINANCIAL RESULTS** **In Rs.**

| | **Year ended 31st March, 2005** | Year ended 31st March, 2004 |
|---|---|---|
| Income from operation | **Nil** | Nil |
| Profit / (Loss) Before Tax | **(55,819)** | 46,749 |
| Profit / (Loss) After Tax (after adjustment for earlier year) | **(77,884)** | 1,34,534 |
| Balance Profit B/f from Previous Year | **18,02,059** | 16,67,524 |
| Surplus Profit carried to Balance Sheet | **17,24,175** | 18,02,059 |

**DIVIDEND**

In view of loss 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. 4273/- as compared to Rs. 73529/- of previous year.

**DIRECTORS:**

Shri Sailesh T. Desai 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 loss 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 CONSERVATIONS OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUTGOES 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** **KASHYAP UPADHYAY**
**DIRECTOR** **DIRECTOR**

PLACE: BARODA
DATE : 16th August, 2005

## AUDITORS' REPORT
## TO THE MEMBERS OF MILMET PHARMA LIMITED

1. We have audited the attached Balance Sheet of Milmet Pharma Limited as at 31st March, 2005 and the Profit and Loss Account of the Company for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. We report that:

3. 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.

4. 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,2005 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, 2005;

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

      (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

For **PRAVIN DOSHI & CO.**
Chartered Accountants

**VISHAL P DOSHI**
Partner

(Membership No. 101533)

Baroda, 16th day of August, 2005.

## ANNEXURE TO THE AUDITORS' REPORT

**(Referred to in paragraph (4) thereof)**

i) The Company does not have fixed assets and therefore, the provisions of clause (i) of the Order are not applicable to the Company.

ii) The Company does not have any inventory and therefore, the provisions of clause (ii) of the Order are not applicable to the Company.

iii) The Company has not granted / taken any loans, secured or unsecured, to / from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and therefore, the provisions of clause (iii) of the Order are not applicable to the Company.

iv) 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 the nature of its business. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

v) In our opinion and according to the information and explanations given to us, there are no contracts and arrangements referred to Section 301 of the Companies Act, 1956 that need to be entered in the register maintained under that section and therefore the provisions of clause (v) of the Order are not applicable to the Company.

vi) In our opinion and according to information and explanations given to us, the Company has not accepted any deposits from the public and consequently the provisions of Section 58A and Section 58AA of the Companies Act, 1956 or any other relevant provisions of the Companies Act, 1956 and the rules framed there under are not applicable.

vii) The Company is not a listed company and/or does not have paid up capital and reserves exceeding Rs. 50 lakhs as at the commencement of the financial year concerned or does not have an average annual turnover exceeding five crores rupees for a period of three consecutive financial years immediately preceeding the financial year concerned and therefore, the provisions of clause (vii) of the Order are not applicable to the Company.

viii) According to the information and explanations given to us, maintenance of cost records for the Company have not been prescribed by the Central Government of India under Section 209(1)(d) of the Companies Act, 1956 and therefore, the provisions of clause (viii) of the Order are not applicable to the Company.

ix) a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, service tax, custom duty, excise duty, cess and other material statutory dues applicable to it. According to the information and explanations given to us, no undisputed amounts payable in respect of statutory dues were in arrears as at 31st March, 2005 for a period of more than six months from the dates they become payable.

b) According to the information and explanations given to us, there are no dues of income tax, customs duty, wealth tax, service tax, excise duty, sales tax and cess which have not been deposited on account of any dispute.

x) There are no accumulated losses of the Company as on 31st March, 2005. The Company has incurred cash losses during the financial year covered by our audit. However, there was no cash loss during the immediately preceding financial year.

xi) In our opinion and according to the information and explanations given to us, the Company has not accepted any loan from any of the financial institution or bank or debenture holders and therefore the provisions of clause (xi) of the Order are not applicable to the Company.

xii) According to the information and explanations given to us, no Loans and Advances has been granted by the Company based on security by way of pledge of shares, debentures and other securities and therefore, the provisions of clause (xii) of the Order are not applicable to the Company.

xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society and therefore, the provisions of clause (xiii) of the Order are not applicable to the Company.

xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments and therefore the provisions of clause (xiv) of the Order are not applicable to the Company.

xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institution and therefore, the provisions of clause (xv) of the Order are not applicable to the Company.

xvi) According to the information and explanations given to us, the Company has not obtained any term loans and therefore, the provisions of clause (xvi) of the Order are not applicable to the Company.

xvii) According to the information and explanations given to us and on overall examination of the balance sheet of the Company, we report that during the period of audit no funds raised on short-term basis have been used for long term investment.

xviii) The company has not made any preferential allotment of shares to the parties and companies covered in the register maintained under section 301 of the Companies Act, 1956 and therefore, the provisions of clause (xviii) of the Order are not applicable to the Company.

xix) According to the information and explanations given to us, during the period of audit the Company has not issued any secured debentures and therefore, the provisions of clause (xix) of the Order are not applicable to the Company.

xx) The Company has not raised any money by public issue during the year and therefore, the provisions of clause (xx) of the Order are not applicable to the Company.

xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **PRAVIN DOSHI & CO.**
Chartered Accountants

**VISHAL P DOSHI**
Partner

(Membership No. 101533)

# MILMET PHARMA LIMITED

## BALANCE SHEET AS AT 31ST MARCH, 2005

| | Schedules | As at 31st March, 2005 | | (Amount in Rupees) As at 31st March, 2004 | |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | |
| **Shareholders' Funds** | | | | | |
| Share Capital | A | **500,000** | | 500,000 | |
| Reserves and Surplus | B | **1,724,175** | **2,224,175** | 1,802,059 | 2,302,059 |
| | | | **2,224,175** | | 2,302,059 |
| **APPLICATION OF FUNDS** | | | | | |
| **Current Assets, Loans and Advances** | | | | | |
| Sundry Debtors | C | **2,153,403** | | 2,428,403 | |
| Cash and Bank Balances | D | **99,758** | | 63,435 | |
| Loans and Advances | E | **27,239** | | 146,316 | |
| | | **2,280,400** | | 2,638,154 | |
| **Less : Current Liabilities and Provisions** | F | **57,170** | **2,223,230** | 337,985 | 2,300,169 |
| **Miscellaneous Expenditure** | | | | | |
| (To the extent not written off or adjusted) | | | | | |
| Preliminary Expenses | | | **945** | | 1,890 |
| | | | **2,224,175** | | 2,302,059 |
| **NOTES TO ACCOUNTS** | I | | | | |

AS PER OUR REPORT OF EVEN DATE ATTACHED

For **PRAVIN DOSHI & CO.**
Chartered Accountants

**VISHAL P. DOSHI**
Partner

(Membership No.: 101533)

BARODA : 16th AUGUST, 2005

FOR AND ON BEHALF OF THE BOARD

**SAILESH T. DESAI**
DIRECTOR

**KASHYAP UPADHYAY**
DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

| | Schedules | Year ended 31st March, 2005 | | (Amount in Rupees) Year ended 31st March, 2004 | |
|---|---|---|---|---|---|
| **INCOME** | | | | | |
| Interest - Tax Deducted at Source Nil (P.Y. - Nil) | | **4,273** | | 70,629 | |
| Miscellaneous Income | | — | **4,273** | 2,900 | 73,529 |
| **EXPENDITURE** | | | | | |
| Personnel Expenses | G | **25,834** | | — | |
| Operational Expenses | H | **34,258** | **60,092** | 26,780 | 26,780 |
| **PROFIT / (LOSS) BEFORE TAX** | | | **(55,819)** | | 46,749 |
| **LESS: PROVISION FOR TAXATION** | | | — | | 3,650 |
| **ADD/(LESS): TAX ADJUSTMENT FOR EARLIER YEAR** | | | **(22,065)** | | 91,435 |
| **PROFIT / (LOSS) AFTER TAX** | | | **(77,884)** | | 134,534 |
| **BALANCE BROUGHT FORWARD** | | | **1,802,059** | | 1,667,524 |
| **BALANCE CARRIED TO BALANCE SHEET** | | | **1,724,175** | | 1,802,059 |
| **EARNINGS PER SHARE (BASIC AND DILUTED)** | | | **(1.56)** | | 2.69 |
| **NOTES TO ACCOUNTS** | I | | | | |

AS PER OUR REPORT OF EVEN DATE ATTACHED

For **PRAVIN DOSHI & CO.**
Chartered Accountants

**VISHAL P. DOSHI**
Partner

(Membership No.: 101533)

BARODA : 16th AUGUST, 2005

FOR AND ON BEHALF OF THE BOARD

**SAILESH T. DESAI**
DIRECTOR

**KASHYAP UPADHYAY**
DIRECTOR

## MILMET PHARMA LIMITED

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

| | | For the Year ended 31st March,2005 Rupees | For the Year ended 31st March,2004 Rupees |
|---|---|---|---|
| **A.** | **CASH FLOW FROM OPERATING ACTIVITIES :** | | |
| | Net Profit / (Loss) before extraordinary items | **(55,819)** | 46,749 |
| | **Adjustments for :** | | |
| | Interest received | **(4,273)** | (70,629) |
| | Miscelleneous Expenditure | **945** | 945 |
| | **Subtotal of Adjustments** | **(3,328)** | (69,684) |
| | **Operating Profit before working capital changes** | **(59,147)** | (22,935) |
| | **Adjustments for :** | | |
| | Trade and other receivables | **394,077** | 4,511,364 |
| | Trade payables | **(280,815)** | (4,832,557) |
| | **Subtotal of Adjustments** | **113,262** | (321,193) |
| | **Cash generated from operations** | **54,115** | (344,128) |
| | Interest paid | — | — |
| | **Cash Flow before extraordinary items** | **54,115** | (344,128) |
| | Provision for Taxation | — | (3,650) |
| | Tax adjusment of earlier years | **(22,065)** | 91,435 |
| | **Net Cash from operating activities** | **32,050** | (256,343) |
| **B.** | **CASH FLOW FROM INVESTING ACTIVITIES :** | | |
| | Interest received | **4,273** | 70,629 |
| | **Net Cash from investing activities** | **4,273** | 70,629 |
| **C.** | **CASH FLOW FROM FINANCING ACTIVITIES** | — | — |
| | **Net Cash from financing activities** | — | — |
| | Net increase in cash and cash equivalents | **36,323** | (185,713) |
| | Cash and Cash equivalents as at the beginning | **63,435** | 249,148 |
| | **Cash and Cash equivalents as at the close** | **99,758** | 63,435 |

**Notes :**

1 The above Cash Flow Statement has been prepared under the Indirect Method set out in AS3, issued by the Institute of Chartered Accountants of India.

As per our Report of even date attached.

For **PRAVIN DOSHI & Co.**
Chartered Accountants

**VISHAL P. DOSHI**
Partner

(MEMBERSHIP NO: 101533)

BARODA : 16th AUGUST, 2005

ON BEHALF OF THE BOARD

**SAILESH T. DESAI**
DIRECTOR

**KASHYAP UPADHYAY**
DIRECTOR

(Amount in Rupees)

| | As at 31st March, 2005 | As at 31st March, 2004 |
|---|---|---|
| **SCHEDULE A : SHARE CAPITAL** | | |
| **Authorised** | | |
| 50,000 Equity Shares of Rs.10 each | **500,000** | 500,000 |
| **Issued and Subscribed** | | |
| 50,000 (Previous Year 50,000) Equity Shares of Rs. 10 each fully paid up (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 |
| | **500,000** | 500,000 |
| **SCHEDULE B : RESERVES AND SURPLUS** | | |
| Profit and Loss Account As per Annexed Account | **1,724,175** | 1,802,059 |
| | **1,724,175** | 1,802,059 |
| **SCHEDULE C : SUNDRY DEBTORS** | | |
| (Unsecured and considered good) | | |
| Over six months | **2,153,403** | 1,036,381 |
| Others | — | 1,392,022 |
| (Debt due from holding company - Sun Pharmaceutical Industries Limited) | | |
| | **2,153,403** | 2,428,403 |
| **SCHEDULE D : CASH AND BANK BALANCES** | | |
| Cash in hand | **41,183** | 46,413 |
| Balances with Scheduled Banks on current account | **58,574** | 17,022 |
| | **99,758** | 63,435 |
| **SCHEDULE E : LOANS AND ADVANCES** | | |
| (Unsecured and considered good) | | |
| Advances recoverable in cash or in kind or for value to be received | **27,295** | 66,473 |
| Advance Payment of Income Tax (Net of provision) | **(56)** | 79,843 |
| | **27,239** | 146,316 |
| **SCHEDULE F : CURRENT LIABILITIES & PROVISION** | | |
| Sundry Creditors | **1,185** | 1,185 |
| Other Liabilities | **55,985** | 336,800 |
| | **57,170** | 337,985 |

| | Year ended 31st March, 2005 | Year ended 31st March, 2004 |
|---|---|---|
| **SCHEDULE G : PERSONNEL EXPENSES** | | |
| Salaries,Wages,Bonus and Benefits | **25,834** | — |
| | **25,834** | — |
| **SCHEDULE H : OPERATIONAL EXPENSES** | | |
| Rates and Taxes | **1,627** | 1,360 |
| Selling and Distribution Expenses | **17,713** | 2,768 |
| Miscellaneous Expenses | **1,694** | 9,692 |
| Auditors Remuneration | | |
| - Audit Fees | **13,224** | 12,960 |
| | **34,258** | 26,780 |

**SCHEDULE ' I ' : 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. **PRELIMINARY EXPENSES**

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

2. In view of losses incurred by the company in the current period, no provision for current taxation has been made.

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

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

In the absence of business activity, there is no reportable segment.

**Accounting Standard (AS-18) on Related Party Disclosures :**

The company is a wholly owned subsidiary of M/s. Sun Pharmaceutical Industries Ltd. Summary of transactions and balances with related party M/s. Sun Pharmaceutical Industries Ltd., are as stated below:

| | |
|---|---|
| Sundry Debtors - Opening Balance | 2,428,403 |
| Amount received during the year | 275,000 |
| Total due at year end | 2,153,403 |

**Accounting Standard (AS-20) on Earnings Per Share :**

| | | Year ended 31st March, 2005 Amount Rs. | | Year ended 31st March, 2004 Amount Rs. |
|---|---|---|---|---|
| **(a) Net Profit/ (Loss)** | | | | |
| Net Profit / (Loss) for the year | | **(77,884)** | | 134,534 |
| Profit used as Numerator | | **(77,884)** | | 134,534 |
| **(b)** Weighted Average No. 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.** | **(1.56)** | Rs. | 2.69 |

**Accounting Standard (AS-22) on Accounting for Taxes on Income :**

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

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, 2005 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 |
| 2224 | 2224 |
| **Sources of Funds** | |
| Paid-up Capital | Reserves and Surplus |
| 500 | 1724 |
| Secured Loans | Unsecured Loans |
| 0 | 0 |
| **Application of Funds** | |
| Net Fixed Assets | Investments |
| 0 | 0 |
| Net Current Assets | Miscellaneous Expenditure |
| 2223 | 1 |
| Accumulated Losses | |
| 0 | |

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

| | |
|---|---|
| Turnover | Total Expenditure |
| 4 | 60 |
| Profit Before Tax | Profit After Tax |
| (56) | (78) |
| Earning Per Share in Rs. | Dividend Rate % |
| (1.56) | 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

## DIRECTOR'S REPORT

To,

The Members of Sun Pharmaceutical (Bangladesh) Limited

Your Directors take pleasure in pressing the Fourth Annual Report and Audited Accounts for the Year ended on 31st March'2005.

**Financial Results**

(Taka)

| | Year Ended 31st March, 2005 |
|---|---|
| Total Income | 12,516,221 |
| Profit/(Loss) Before Tax | (20,180,594) |
| Provision for Tax | — |
| Profit/(Loss) After Tax | (20,180,594) |

**Operation Review**

Company has successfully commenced its commercial production during the year and introduced 16 products in the Domestic Market. The new products have been well received by the medical profession in the country.

During the year the Company made a further investment of Tk 30,462,896 raising the total investment to Tk 200,477,279.

**Allotment of Equity Shares**

The Company on 30th Decemeber'2004 allotted 599,000 equity shares of Tk 100/- each to the existing shareholders increasing paid up capital to Tk 60,000,000.

**Capacity Utilisation**

Installed Capacity - 132,500 Thousand Tablets

Utilised Capacity - 9,500 Thousand Tablets

**Auditors**

Your Company's Auditors, M/s Rehman Rehman Huq, Chartered Accountants, Dhaka, retire at the conclusion of the forthcoming Annual General Meeting. And being eligible offer themselves for appointment as auditors of the Company for the year 2005-06 and re-fixation of their remuneration.

**Acknowledgements**

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

For and on behalf of Board of Directors

Dhaka, 16 May 2005

Chairman 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 2005 and the related profit and loss account, statement of changes in equity and cash flow statement for the year then ended. The preparation of these financial statements is 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 statement s 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 2005 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 s:

a) we have obtained all the information and explanations which to the best of our knowledge arid 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 appears from our examination of those books; and

c) the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account.

Without qualifying our opinion, we draw attention to note 5.1 to the financial statements whereby the useful lives of property, plant and equipment have been technically assessed by the management

**Rehman Rahman Huq**
Dhaka, 16 May 2005

# Sun Pharmaceutical (Bangladesh) Limited

## Balance sheet as at 31 March 2005

| | Schedule | 2005 Taka | 2004 Taka |
|---|---|---|---|
| **Sources of fund** | | | |
| Shareholders' equity : | | | |
| Share capital | 1 | **60,000,000** | 100,000 |
| Share money deposits | 2 | **59,543,271** | 111,415,547 |
| Accumulated loss | | **(20,180,594)** | — |
| | | **99,362,677** | 111,515,547 |
| Loan funds: | | | |
| Bank overdraft | 3 | **98,760,195** | 50,667,403 |
| Unsecured loan | 4 | **4,135,000** | 4,135,000 |
| | | **102,895,195** | 54,802,403 |
| | | **202,257,872** | 166,317,950 |
| **Applications of fund** | | | |
| Property, plant and equipment: | 5 | | |
| Cost | | **200,477,279** | — |
| Less: Depreciation | | **3,300,603** | — |
| | | **197,176,676** | — |
| Property plant and equipment - Capital work-in-progress | | — | 138,328,718 |
| Preliminary and pre-operating expenses | 6 | **58,950** | 31,751,165 |
| Current assets: | | | |
| Inventories | 7 | **15,997,309** | — |
| Trade receivables | 8 | **228,558** | — |
| Advance income tax | 9 | **513,666** | — |
| Advances, deposits and prepayments | 10 | **3,465,325** | 1,711,420 |
| Cash and cash equivalents | 11 | **641,171** | 6,945 |
| | | **20,846,029** | 1,718,365 |
| Current liabilities: | | | |
| Liabilities for goods | 12 | **8,699,586** | 3,009,071 |
| Liabilities for services | 13 | **663,530** | 2,009,858 |
| Other liabilities | 14 | **6,460,667** | 461,369 |
| | | **15,823,783** | 5,480,298 |
| Net current assets | | **5,022,246** | (3,761,933) |
| Net assets | | **202,257,872** | 166,317,950 |

*The accompanying schedules 1 to 18 form an integral part of these financial statements.*

Chairman | Director | Manager - Commercial

As per our annexed report of same date.

Dhaka, 16 May 2005

Auditors

## Profit and loss account for the year ended 31 March 2005

| | Schedule | Taka |
|---|---|---|
| Turnover | 15 | **12,516,221** |
| Cost of sales | 16 | **(9,383,578)** |
| **Gross profit** | | **3,132,643** |
| General and administration expenses | 17 | **(9,974,890)** |
| Selling and distribution expenses | 18 | **(7,954,199)** |
| **Operating profit** | | **(14,796,446)** |
| Finance costs | | **(4,499,879)** |
| Foreign exchange loss | | **(888,489)** |
| **Net loss from ordinary activities** | | **(20,184,814)** |
| Other income | | **4,220** |
| **Net loss before tax** | | **(20,180,594)** |
| Provision for tax | | — |
| **Net loss after tax** | | **(20,180,594)** |
| Notes to financial statements | 19 | |

*The accompanying schedules 1 to 18 form an integral part of these financial statements.*

Chairman | Director | Manager - Commercial

As per our annexed report of same date.

Dhaka, 16 May 2005

Auditors

## Statement of changes in equity for the year ended 31 March 2005

| | Share Capital Taka | Share money Deposit Taka | Net profit/(loss) Taka | Total Taka |
|---|---|---|---|---|
| Balance as at 31 March 2003 | 100,000 | 108,845,547 | — | 108,945,547 |
| Increase of share money deposit | — | 2,570,000 | — | 2,570,000 |
| Balance as at 31 March 2004 | 100,000 | 111,415,547 | — | 111,515,547 |
| Issue of share from share money deposit | 59,900,000 | (59,900,000) | — | — |
| Increase of share money deposit | — | 8,027,724 | — | 8,027,724 |
| Net loss for the year | — | — | (20,180,594) | (20,180,594) |
| Balance as at 31 March 2005 | 60,000,000 | 59,543,271 | (20,180,594) | 99,362,677 |

# Sun Pharmaceutical (Bangladesh) Limited

## Cash flow statement for the year ended as at 31 March 2005

| | | 2005 Taka | 2004 Taka |
|---|---|---|---|
| **A)** | **Cash flows from operating activities** | | |
| | Cash receipts from customers | **10,533,758** | — |
| | Cash paid to suppliers and employees | **(30,547,827)** | (12,607,790) |
| | Finance costs | **(4,499,879)** | — |
| | Income tax paid on import stage | **(513,666)** | — |
| | Other income | **4,220** | — |
| | *Net cash flows from operating activities* | **(25,023,394)** | (12,607,790) |
| **B)** | **Cash flows from investing activities** | | |
| | Purchase of property, plant and equipment | **(62,148,561)** | (936,556) |
| | (Increase)/decrease in pre-operating expenses | **31,685,665** | — |
| | *Net cash out flows from investing activities* | **(30,462,896)** | (936,556) |
| **C)** | **Cash flows from financing activities** | | |
| | Issue of share Capital | **59,900,000** | — |
| | Increase/(decrease) in share money deposit | **(51,872,276)** | 2,570,000 |
| | Increase/(decrease) in bank overdraft | **48,092,792** | 10,952,403 |
| | *Net cash used in financing activities* | **56,120,516** | 13,522,403 |
| **D)** | **Net increase in cash and cash equivalents (A+B+C)** | **634,226** | (21,943) |
| **E)** | **Opening cash and cash equivalents** | **6,945** | 28,888 |
| **F)** | **Closing cash and cash equivalents (Schedule 11)** | **641,171** | 6,945 |

## Notes to financial statements

### Schedules 1 to 18 forming part of financial statments as at 31 March 2005

| | | 2005 Taka | 2004 Taka |
|---|---|---|---|
| **1.** | **Share capital** | | |
| | **Authorised:** | | |
| | 600,000 Ordinary shares of Tk 100 each | **60,000,000** | 60,000,000 |
| | **Issued, subscribed and paid-up:** | | |
| | 600,000 (2004: 1,000) Ordinary shares of Tk 100 each fully paid | **60,000,000** | 100,000 |

Shareholding position of the company is as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Nominal value (Tk)** | **% of present holding** | Nominal value (Tk) | % of present holding |
| Sun Pharmaceutical Industries Limited | **43,446,900** | **72.41** | 72,400 | 72.40 |
| City Overseas Limited | **16,500,000** | **27.50** | 27,500 | 27.50 |
| Sun Pharma Global Inc. | **53,100** | **0.09** | 100 | 0.10 |
| | **60,000,000** | **100.00** | 100,000 | 100.00 |

**2. Share money deposits**

| | 2005 Taka | 2004 Taka |
|---|---|---|
| Sun Pharmaceutical Industries Limited | **38,213,466** | 75,620,966 |
| City Overseas Limited | **21,316,753** | 35,789,253 |
| Sun Pharma Global Inc. | **13,052** | 5,328 |
| | **59,543,271** | 111,415,547 |

## Sun Pharmaceutical (Bangladesh) Limited

### Notes to financial statements

### Schedules 1 to 18 forming part of financial statments as at 31 March 2005

| | 2005 Taka | 2004 Taka |
|---|---|---|
| **3. Bank overdraft** | | |
| From Citibank, N.A. | **98,760,195** | 50,667,403 |
| | **98,760,195** | 50,667,403 |

Total overdraft facility limit sanctioned with Citibank, N.A. is of Tk 100 million at interest rate of 8.5% per annum with quarterly rest. The company has availed facility of Tk 98.76 million which is secured by hypothecation of plant and machinery as equitable mortgage.

| | 2005 Taka | 2004 Taka |
|---|---|---|
| **4. Unsecured loan** | | |
| From director | **4,135,000** | 4,135,000 |

**5. Property, plant and equipment**

| | Cost | | | Depreciation | | | Written down value as at 31 Mar 2005 |
|---|---|---|---|---|---|---|---|
| Name of assets | Balance as at 1 Apr 2004 | Addition during the year | **Balance as at 31 Mar 2005** | Balance as at 1 Apr 2004 | Charged during the year | **Balance as at 31 Mar 2005** | |
| | Taka | Taka | **Taka** | Taka | Taka | **Taka** | **Taka** |
| Leasehold land | 33,000 | — | **33,000** | — | 3,644 | **3,644** | **29,356** |
| Factory building | 56,729,626 | 18,345,990 | **75,075,616** | — | 506,489 | **506,489** | **74,569,127** |
| Plant and machinery | 68,916,195 | 26,758,627 | **95,674,822** | — | 1,856,751 | **1,856,751** | **93,818,071** |
| Computer equipment | 937,825 | 6,130,819 | **7,068,644** | — | 383,121 | **383,121** | **6,685,523** |
| Motor vehicles | 1,000,200 | 4,412,592 | **5,412,792** | — | 188,197 | **188,197** | **5,224,595** |
| Equipment and electric furniture and fitting | 8,641,032 | 4,296,690 | **12,937,722** | — | 253,699 | **253,699** | **12,684,023** |
| Furniture and fixtures | 2,070,840 | 2,203,843 | **4,274,683** | — | 108,702 | **108,702** | **4,165,981** |
| | 138,328,718 | 62,148,561 | **200,477,279** | — | 3,300,603 | **3,300,603** | **197,176,676** |

**5.1** The useful lives of property, plant and equipment have been technically assessed by the management to determine the rate of depreciation.

**5.2** Addition includes pre-production/start up expenses upto the date of commencement of production viz 3 October 2004, allocated on the basis of value of individual assets, as these costs were necessary to bring the assets to their working condition.

| | Notes | 2005 Taka | 2004 Taka |
|---|---|---|---|
| **6. Preliminary and pre-operating expenses** | | | |
| Preliminary expenses | | **58,950** | 65,500 |
| Pre-operating expenses | | — | 31,685,665 |
| | | **58,950** | 31,751,165 |
| **7. Inventories** | | | |
| Stock: | | | |
| Finished products - Factory | 16 | **4,110,633** | — |
| Finished products - Depots | 16 | **2,986,575** | — |
| Raw materials and excipients | 16.2 | **6,424,465** | — |
| Packing material | 16.3 | **943,485** | — |
| Work in progress | 16.1 | **1,405,790** | — |
| | | **15,870,948** | — |
| Store: | | | |
| Spare parts | | **126,361** | — |
| | | **15,997,309** | — |
| **8. Trade receivables** | | | |
| Debts due below six months | | **228,558** | — |
| | | **228,558** | — |
| **9. Advance income tax** | | | |
| Opening balance | | — | — |
| Add: Tax deducted at source on import stage during the year | | **513,666** | — |
| Closing balance | | **513,666** | — |

| | 2005 Taka | 2004 Taka |
|---|---|---|
| **10. Advances, deposits and prepayments** | | |
| Advances: | | |
| Advance to employees | **127,000** | — |
| Rent deposits and advance | **498,838** | — |
| Registration fee for Trademark | **131,400** | — |
| VAT Current Account | **452,233** | — |
| VAT recoverable (Depot stock) | **760,794** | — |
| VAT (Insurance) | **33,834** | — |
| Other advances | **498,234** | 1,184,025 |
| | **2,502,333** | 1,184,025 |
| Deposits: | | |
| Imprest money with depot | **81,000** | — |
| Security deposit | **306,500** | 291,500 |
| Imprest money with field staff | **144,000** | — |
| | **531,500** | 291,500 |
| Prepayments: | | |
| Sundry prepaid expenses | **431,492** | 235,895 |
| | **3,465,325** | 1,711,420 |
| **11. Cash and cash equivalents** | | |
| Cash in hand | **235,161** | — |
| Cash at bank: | | |
| Standard Chartered Bank | **393,184** | — |
| Janata Bank | **8,971** | — |
| First Security Bank Limited | **2,780** | 2,980 |
| State Bank of India | **1,]075** | 3,965 |
| | **641,171** | 6,945 |

## Sun Pharmaceutical (Bangladesh) Limited

### Notes to financial statements

### Schedules 1 to 18 forming part of financial statements as at 31 March 2005

| | 2005 Taka | 2004 Taka |
|---|---|---|
| **12. Liabilities for goods** | | |
| Sun Pharmaceutical Industries Limited | **2,782,643** | 2,825,696 |
| Unimed Technologies Ltd. | **5,699,380** | — |
| Alook Refrigerator Co. Ltd. | **162,025** | 162,025 |
| Honeycom Services Ltd. | **21,350** | 21,350 |
| Saleheen Printer | **34,188** | — |
| | **8,699,586** | 3,009,071 |
| **13. Liabilities for services** | | |
| Ave Engineering & Consultants | **719,500** | 719,500 |
| Azad Traders | **(806,223)** | 11,332 |
| Khalid Trade International | **34,745** | — |
| Nitol Associates | **9,510** | — |
| Zaman Trade International | **40,425** | — |
| Group-4 Securities Bangladesh (P) Ltd. | **54,273** | — |
| Sonali Agency | **(19,035)** | 866,416 |
| Taher Brothers Ltd. | **412,610** | 412,610 |
| Tech Valley Computers Ltd. | **217,725** | — |
| | **663,530** | 2,009,858 |
| **14. Other liabilities** | | |
| Security deposits | **248,550** | — |
| Payable to SPIL for travelling and others | **4,908,819** | — |
| Outstanding expenses | **735,977** | 433,886 |
| Provident fund | **328,044** | — |
| Tax deducted at sources - Suppliers | **6,300** | 27,483 |
| Tax deducted at sources - Employees | **232,977** | — |
| | **6,460,667** | 461,369 |
| **15. Turnover** | | |
| Sales | **14,581,398** | |
| Less: VAT | **2,065,177** | |
| | **12,516,221** | |
| **16. Cost of sales** | | |
| Cost of production (Note 16.1) | **16,480,786** | |
| Less: Closing stock of finished goods (Note 7) | **7,097,208** | |
| | **9,383,578** | |
| **16.1 Cost of production** | | |
| Raw materials consumed (Note 16.2) | **7,431,325** | |
| Packing materials consumed (Note 16.3) | **1,209,128** | |
| Conversion cost (Note 16.4) | **9,246,123** | |
| | **17,886,576** | |
| Less: Closing stock of work in progress (Note 7) | **1,405,790** | |
| | **16,480,786** | |

**16.2 Raw materials consumption and closing stock**

| | Quantity Kg | Value Taka |
|---|---|---|
| Purchase | **12,850** | **13,855,790** |
| Less: Closing stock (Note 7) | **8,143** | **6,424,465** |
| Consumption | **4,707** | **7,431,325** |

**16.3 Packing materials consumption and closing stock**

| | Quantity Kg | Value Taka |
|---|---|---|
| Purchase | — | **2,152,613** |
| Less: Closing stock (Note 7) | — | **943,485** |
| Consumption | — | **1,209,128** |

| | Taka |
|---|---|
| **16.4 Conversion cost** | |
| Factory salary, wages and bonus | **2,610,706** |
| Factory depreciation | **2,971,096** |
| Power and fuel | **1,362,697** |
| Consumable stores | **537,350** |
| Repairs and maintenance | **219,959** |
| QC chemicals | **516,897** |
| Insurance | **506,000** |
| Factory expenses | **413,152** |
| Casual labour | **108,266** |
| | **9,246,123** |
| **17. General and administration expenses** | |
| Salary, bonus and other personnel costs | **4,380,242** |
| Travelling and motor car expenses | **1,361,385** |
| Advertisement | **36,550** |
| Audit fee | **50,000** |
| Bank charges and L/C charges | **349,432** |
| Books and subscription | **15,153** |
| Depreciation | **325,863** |
| Inclusion and drug testing fee | **119,477** |
| Insurance premium | **150,044** |
| Licence fees and share registration expenses | **144,110** |
| Office expenses | **639,221** |
| Entertainment expenses | **201,614** |
| Office rent | **540,000** |
| Residential accommodation rent | **214,000** |
| Postage and courier | **27,482** |
| Printing and stationery | **577,999** |
| Preliminary expenses written off | **6,550** |
| Security expenses | **41,931** |
| Telephone expenses | **544,234** |
| Electricity, water and gas | **145,962** |
| Leasehold land amortisation | **3,644** |
| Secretarial assistance | **45,000** |
| Soft furnishing expenses | **54,997** |
| | **9,974,890** |
| **18. Selling and distribution expenses** | |
| Field staff salary | **2,917,600** |
| Sales promotion expenses | **3,149,456** |
| Sales depot expenses | **1,029,329** |
| Field staff expenses | **857,814** |
| | **7,954,199** |

## Schedules 1 to 18 forming part of financial statements as at 31 March 2005

**19. Notes to the financial statements**

**19.1 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. During the year the company has applied for increase in authorised share capital from Tk 60 million to Tk 500 million.
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.
The company has started its commercial operation from 4 October 2004 and accordingly the profit and loss account has been prepared for the first time without any previous year's figure, representing operations for six months.

**19.2 Nature of business**

The company owns and operates a pharmaceutical factory and produces various pharmaceutical products, which are sold in the local market.

**19.3 Significant accounting policies**

**a) Basis of accounting**

The financial statements have been prepared under historical cost convention method. These financial statements have been prepared in accordance with applicable accounting standard as adopted by the Institute of Chartered Accountants of Bangladesh and where relevant with presentational requirements of the law.

**b) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less depreciation.
Depreciation on addition to property, plant and equipment is charged on the basis of usage for the actual number of days.
Leasehold land has been amortised over the term of lease period. Depreciation is calculated and charged on all other property, plant and equipment on the straight line method at the following rates, considering the estimated useful lives of the assets as assessed by the management:

| | |
|---|---|
| Factory building and warehouse | 1.63% |
| Plant and machinery | 4.75% |
| Equipment | 4.75% |
| Motor vehicles | 10.00% |
| Computer equipment | 16.21% |
| Electric fixture and fittings | 4.75% |
| Furniture and fittings | 6.33% |

**c) Inventories**

Stocks
Stocks are valued at the lower of cost and net realisable value.
Costs of raw materials and packing materials are valued at by using FIFO costing method.
Costs of finished stocks and work in process are arrived at by using FIFO costing method including allocation of manufacturing overheads related to bringing the inventories to their present condition.

Stores
Spare parts, tools, pipe fittings and miscellaneous items are valued at cost.

**d) Trade receivables**

Trade receivables are stated net of provisions, if any.

**e) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances.

**f) Payable and accruals**

Liabilities are recognised for amounts to be paid in future for goods and services received whether or not billed to the company.

**g) Provisions**

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**h) Revenue recognition**

Sales are recognized at the time of delivery of goods from the company's depots, when risk and reward of ownership of goods are transferred to the buyer.

**i) Foreign exchange**

Transactions denominated in foreign currencies are translated into Bangladesh taka at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Bangladesh taka at the exchange rates ruling at the balance sheet date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Bangladesh taka at the exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

## Schedules 1 to 18 forming part of financial statements as at 31 March 2005

**ii) Provision for tax**

No provision for income tax is made since company enjoys tax holiday for the period of five years commencing from 1 October 2004.

**k) Tax holiday reserve**

No tax holiday reserve is made in absence of any taxable income.

**19.4 Contingent liability**

The company may be contingently liable as at 31 March 2005 for the following:

| Nature of facility | Name of bank | Amount outstanding Taka |
|---|---|---|
| Letter of credit | Citibank, N. A. | 3,913,903 |

**19.5 Capacity utilisation**

| | |
|---|---|
| Installed capacity | 132,500,000 tablets/capsules |
| Utilised capacity | 9,500,000 tablets/capsules |
| Percentage of utilisation | 7.17% |

**19.6 Directors' remuneration and benefit**

| | Taka |
|---|---|
| Remuneration | 1,050,000 |
| Other benefits | 112,000 |

**19.7 Value of import calculated on CIF basis**

During the year the company imported the following items in foreign currency:

| Particulars | Value USD | Equivalent Taka |
|---|---|---|
| Raw materials | 205,689 | 12,540,000 |
| Packing materials | 20,217 | 1,220,000 |
| Lab chemicals | 3,291 | 210,000 |
| Spare parts | 8,150 | 510,000 |
| | | 14,480,000 |

**19.8 Employee benefit**

The company has initiated the process of maintaining a contributory provident fund for its permanent employees.

**19.9 Reporting currency and level of precision**

The figures in the financial statements represent Bangladesh taka, which have been rounded off to the nearest taka.

**19.10 Number of employees**

The number of employees who received annual salaries and allowances of Tk 36,000 and above was 102 (2004: 5).

**19.11 Related party transactions**

| Name | Relationship | Nature of transaction | Amount (Tk) |
|---|---|---|---|
| Sun Pharmaceutical Industries Ltd. | Parent company | Purchase | 4,985,710 |
| | | Expenses | 2,169,144 |
| | | Payable for purchase | 2,782,643 |
| | | Payable for expenses | 4,908,819 |

**19.12 General**

Previous year's figures have been regrouped / rearranged, wherever necessary, to make them comparable with current year's presentation.

## SUN Farmacêutica Ltda.

### INDEPENDENT AUDITORS' OPINION

**To**
**The Management and Partners of**
**SUN FARMACÊUTICA LTDA.**
**São Paulo – SP - Brazil**

1. We have examined the balance sheet of **SUN Farmacêutica Ltda.,** as of March 31, 2005, and respective statements of income, changes in the stockholders' equity and in financial position, corresponding to the period then ended, prepared in accordance with the Brazilian Corporate Law and under the responsibility of the company's management. Our responsibility is to express an opinion on such financial statements based on our audit. The balance sheet ended as of March 31, 2004, presented for comparison purposes, and also the previous ones, were not audited by us or by other independent auditors.

2. Our work was conducted in accordance with audit standards and comprised: **a)** planning the work, taking into consideration the materiality of the balances, volume of transactions, as well as accounting and internal control system of the Company; **b)** examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and **c)** assessing the accounting principles used and the more significant accounting estimates made by the management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1, present fairly in all material aspects, the equity and financial position of **SUN Farmacêutica Ltda.** as of March 31, 2005, changes in stockholders' equity and changes in financial position for the fiscal period then ended, in accordance with the accounting principles accepted in Brazil.

4. The financial statements of **SUN Farmacêutica Ltda.,** as of March 31, 2005 were submitted to adjustments for re-classification of their accounts to allocate all the company's expenditures into Permanent/Deferred Assets, since **SUN Farmacêutica Ltda.** is still in its pre-operating phase. In the period from April 1, 2004 to March 31, 2005, the amount of expenses allocated was R$ 295,150.45 and this amount is net of exchange rate variance on loans and financing arrangements. In the allocation of the expenses, it was also deduced the amount of R$324,943.02 corresponding to the amounts received as Expense Refund, comprising a net credit deferred amount of R$ 29,792.57. All accumulated expenses, corresponding to previous periods, until March 31, 2004, totaling R$ 507,593.94, were also re-classified in the period ended as of March 31, 2004 to the group Permanente/Deferred Assets and the amortization of this deferred amount is scheduled for a minimum period of 5 years and a maximum of 10 years, as from the moment **SUN Farmacêutica Ltda.,** starts its commercial operating activities.

São Paulo / Brazil, June 24, 2005.

CRC-SP no. 2SP021055/O-1

**Paulo Cesar R. Peppe**
**Accountant CRC-SP no. 1SP095009/O-5**

---

### Balance Sheets
### For The Periods Ended as of March 31 2005 and 2004
(In Brazilian Reais)

| | 31.03.05 | 31.03.04 |
|---|---|---|
| **ASSETS** | | Re-classified |
| **CURRENT ASSETS:** | | |
| **Cash and cash equivalents** | | |
| Cash | **136,33** | 7.044,79 |
| Bank Checking Accounts | **77.972,82** | 89.090,60 |
| | **78.109,15** | 96.135,39 |
| **Realizable Credits** | | |
| Other credits - Advances | **30.860,00** | — |
| | **30.860,00** | — |
| **Total Current Assets** | **108.969,15** | 96.135,39 |
| **PERMANENT ASSETS:** | | |
| **Property, Plant and Equipment** | **5.514,22** | 3.384,92 |
| **Deferred Items** | **477.801,37** | 507.593,94 |
| **Total Permanent Assets** | **483.315,59** | 510.978,86 |
| **Total ASSETS** | **592.284,74** | 607.114,25 |

| | 31.03.05 | 31.03.04 |
|---|---|---|
| **LIABILITIES** | | Re-classified |
| **CURRENT LIABILITIES:** | | |
| **Obligations payable** | | |
| Fiscal Obligations | **224,10** | 1.138,79 |
| Labor Obligations | **2.970,35** | 2.006,40 |
| Other Obligations | **6.105,90** | 2.598,08 |
| Accrual for Labor Obligations | **10.358,79** | 10.430,83 |
| **Total Current Liabilities** | **19.659,14** | 16.174,10 |
| **LONG-TERM LIABILITIES** | | — |
| International Loans | **234.625,60** | 254.401,40 |
| **Total Long-Term Liabilities** | **234.625,60** | 254.401,40 |
| **QUOTA HOLDERS' EQUITY** | | |
| Capital stock | **338.000,00** | 300.000,00 |
| Capital Reserves | — | 36.538,75 |
| **Total Quota Holders' Equity** | **338.000,00** | 336.538,75 |
| **Total LIABILITIES** | **592.284,74** | 607.114,25 |

The explanatory notes are an integral part of the financial statements.

## SUN Farmacêutica Ltda.

### Statement of Changes in Quota Holders' Equity
### For The Periods Ended as of March 31 2005 and 2004
(In Brazilian Reais)

| | Realized Capital Stock | Capital Reserves | Accumulated Results | Total |
|---|---|---|---|---|
| **Opening Balance** | **206.620,00** | — | **(168.213,81)** | **38.406,19** |
| ADJUSTMENTS FROM PREVIOUS PERIODS | | | | |
| - Previous Results Transferred to Deferred Assets | — | — | 168.213,81 | **168.213,81** |
| Amounts Received from Capital Payment | — | **129.918,75** | — | **129.918,75** |
| Capital Increase with Use of Reserves | 93.380,00 | (93.380,00) | — | — |
| **Balance** | **300.000,00** | **36.538,75** | — | **336.538,75** |
| Capital Increase with Use of Reserves | **36.538,00** | (36.538,00) | — | — |
| Payment of Domestic Capital | 1.462,00 | — | — | **1.462,00** |
| Amount Reversed to Deferred Assets | — | (0,75) | — | **(0,75)** |
| **Balances as of March 31, 2005** | **338.000,00** | — | — | **338.000,00** |

The explanatory notes are an integral part of the financial statements.

### Statement of Changes in Financial Position
### For The Periods Ended as of March 31, 2005 and 2004
(In Brazilian Reais)

| | 31.03.05 | 31.03.04 |
|---|---|---|
| SOURCE OF FUNDS | | |
| **From operations** | | |
| Adjustments from the Previous Period: | | |
| Previous Results Transferred to Deferred Assets | — | 168.213,81 |
| Depreciation of Fixed Assets (Added to Deferred Assets) | **440,70** | 430,08 |
| | **440,70** | 168.643,89 |
| **From quota holders** | | |
| Received for Capital | **1.462,00** | — |
| Received as Loans | **239.272,00** | 387.839,75 |
| Received as Refund of Expenses | **324.943,02** | — |
| **Funds from quota holders** | **565.677,02** | 387.839,75 |
| **Total source of funds** | **566.117,72** | 556.483,64 |
| USE OF FUNDS | | |
| **In permanent assets:** | | |
| Property, Plant and Equipment | **2.570,00** | — |
| Deferred Assets (Net) | **295.150,45** | 507.593,94 |
| **Funds used in permanent assets** | **297.720,45** | 507.593,94 |
| **With quota holders** | | |
| Payment of Loans | **239.272,00** | — |
| Adjustments to Quota Holders' Equity | **0,75** | — |
| Exchange Rate Variance on Loans (Net) | **19.775,80** | 3.519,60 |
| **Funds used with third parties and quota holders** | **259.048,55** | 3.519,60 |
| **Total use of funds** | **556.769,00** | 511.113,54 |
| **Increase (reduction) in net working capital** | **9.348,72** | 45.370,10 |
| STATEMENT OF CHANGES IN NET WORKING CAPITAL | | |
| **Current assets:** | | |
| At the beginning of the period | **96.135,39** | 40.163,59 |
| At the end of the period | **108.969,15** | 96.135,39 |
| | **12.833,76** | 55.971,80 |
| **Current liabilities:** | | |
| At the beginning of the period | **16.174,10** | 5.572,40 |
| At the end of the period | **19.659,14** | 16.174,10 |
| | **3.485,04** | 10.601,70 |
| **Changes in net working capital** | **9.348,72** | 45.370,10 |

The explanatory notes are an integral part of the financial statements.

# SUN Farmacêutica Ltda.

## Notes to the Financial Statements for the Period Ended as of March 31, 2005

(In Brazilian Reais)

### A) GENERAL ASPECTS OF THE COMPANY'S INCORPORATION AND RECORDS:

**1 - Company's Incorporation:**

**SUN Farmacêutica Ltda** was constituted in Brazil as per the Articles of Association dated of October 18, 2001 and registered with JUCESP – Chamber of Commerce of the State of São Paulo, under number 7.254.208, during a session held on November 14, 2001, NIRE –35.217.254.208 duly registered with the Ministry of Finance under number CNPJ/MF 04.853.101/0001-66 and main office in the District of São Paulo, State of São Paulo at Rua Fiação da Saúde, no. 40 – cj. 113 – BRAZIL. Its stockholding composition is seen as follows:

**SUN PHARMACEUTICAL INDUSTRIES LIMITED**
Headquarters: SPARC, Akota Road, Akota, Baroda 390020, Gujarat, INDIA.

**MARCO ANTONIO BELCHIOR** – Attorney - São Paulo / Brazil

**Initial Capital:**

The initial capital stock subscribed at the constitution of the company was R$ 100,000.00 (one hundred thousand Reais) that had 6 (six) months as subscription period, counted upon the date of constitution, corresponding to 1000 (one thousand) quotas, with face value of R$ 100.00 (one hundred Reais) each, distributed between the quota holders as follows:

| Quota Holders | Quantity of Quotas | Value of Capital – R$ | Interests held (%) |
|---|---|---|---|
| SUN Pharmaceutical Industries Limited. | 990 | 99,000.00 | 99 % |
| Marco Antonio Belchior | 10 | 1,000.00 | 1 % |
| **Total** | **1,000** | **100,000.00** | **100 %** |

**Business Purpose:** The company has as purpose:

a) Import, export, sale, distribution and commercial representation of pharmaceutical products (medicines);

b) Hold interests in other companies as a partner, quota holder or stockholder, within the Brazilian territory or overseas.

**Accounting Year:** In accordance with the articles of association, the company's accounting year is the same as the calendar year, that is, from January 1 to December 31. In Brazil, the fiscal year also obligatorily coincides with the calendar year. The financial statements submitted to the auditing process comprise the period from April 1 to March 31 of the subsequent year.

**2 - 1st Amendment to the Articles of Association:**

The first amendment to the articles of association of **SUN Farmacêutica Ltda** was dated of April 1, 2002 and registered with JUCESP – Chamber of Commerce of the State of São Paulo, under number 79.872/02-05, during a session held on April 25, 2002, comprising the following changes:

a) Transference of the main place of business to Rua Luís Góis, no. 519, Bairro Saúde – CEP 04043-250 in the District of São Paulo – State of São Paulo / BRAZIL.

b) Capital Stock increase from R$ 100,000,00 (one hundred thousand Reais) to R$ 300,000.00 (three hundred thousand Reais), with subscription of 2,000 (two thousand) new quotas, with face value of R$ 100.00 (one hundred Reais) each. The increase of R$ 200,000.00 (two hundred thousand Reais) was subscribed by the partner **SUN PHARMACEUTICAL INDUSTRIES LIMITED** to be paid in domestic currency, within 36 months, counted upon April 1, 2002.

c) We need to comment that the partner **SUN PHARMACEUTICAL INDUSTRIES LIMITED** has already paid the amount of R$ 49,140.00 (forty nine thousand, one hundred and forty Reais), corresponding to US$ 21,000.00 (twenty one thousand American dollars) referring exchange contract no. 02/017715 as of March 11, 2002.

**Stockholding composition after the 1st amendment:**

| Quota Holders | Quantity of Quotas | Value of Capital – R$ | Interests held (%) |
|---|---|---|---|
| SUN Pharmaceutical Industries Limited. | 2,990 | 299,000.00 | 99.6667 % |
| Marco Antonio Belchior | 10 | 1,000.00 | 0.3333 % |
| Total | 3,000 | 300,000.00 | 100.00 % |

**3 - 2nd Amendment to the Articles of Association:**

The second change to the articles of association of **SUN Farmacêutica Ltda** was dated of June 30, 2004 and registered with JUCESP – Chamber of Commerce of the State of São Paulo, under number 303.016/04-8, during a session held on July 7, 2004, comprising the following changes.

a) Capital Stock increase from R$ 300,000,00 (three hundred thousand Reais) to R$ 338,000.00 (three hundred and thirty eight thousand Reais), represented by 338,000 (three hundred and thirty eight thousand) quotas with face value of R$ 1.00 (one Real) each. The R$ 38,000.00 (thirty eight thousand Reais) increase was subscribed and paid by the partners at the following ratio:

   **SUN PHARMACEUTICAL INDUSTRIES LIMITED** – 37,538 (thirty seven thousand, five hundred and thirty eight) quotas, amounting R$ 37,538.00 (thirty eight thousand, five hundred and eight Reais.)

   **MARCO ANTONIO BELCHIOR** – 462 (four hundred and sixty two) quotas, amounting R$462.00 (four hundred and sixty two Reais).

(In Brazilian Reais)

**Stockholding composition after the 2nd amendment:**

| Quota Holders | Quantity of Quotas | Value of Capital – R$ | Interests held (%) |
|---|---|---|---|
| SUN Pharmaceutical Industries Limited. | 336,538 | 336,538.00 | 99.5675 % |
| Marco Antonio Belchior | 1,462 | 1,462.00 | 0.4325 % |
| **Total** | **338,000** | **338,000.00** | **100.00 %** |

**4 - Company's Management**

It was elected to mange the company, as administrator for an undetermined period, Mr. **JOÃO CARLOS FONTES ESCOBAR,** Brazilian, pharmacologist, to represent the company before all public entities at municipal, state and federal levels, as well as before financial institutions, clients, suppliers, and any and all third parties to the extent of his delegation and powers, practicing all acts and signing all documents necessary to the compliance with legal provisions.

Except for specific cases of contracting or settling exchange contracts and import of products from the majority stockholder, in addition to participation in public biddings, for amounts exceeding R$20,000.00 (twenty thousand Reais), it is necessary the signature of the majority stockholder along with the one of the administrator when any other acts are practiced and the signature of documents enforce the company to and/or exonerate third parties of responsibilities.

The administrator can practice, lawfully and severally on behalf of the company he is managing, all necessary acts to the administration and management of the company, as well as enter into debts and obligations at any amounts on its behalf. It is forbidden to him to practice any acts strange to the activities of the company, besides the use of its name in affairs different from its business purpose.

**5 - Amounts Sent to Brazil:**

**SUN PHARMACEUTICAL INDUSTRIES LIMITED** made the following remittals to Brazil, in favor of SUN Farmacêutica Ltda.

**a) As Capital Stock:**

| Value in US$ | Value in R$ | |
|---|---|---|
| **115,975.00** | 336,538.75 | Foreign capital in the amount of US$ 115,975.00 corresponding to R$ 336,538.00 is duly registered with CENTRAL BANK OF BRAZIL, as seen in certificate no. RDE-IED IA035199 Cademp – no. 537520. |

**b) As Loans:**

| Value in US$ | Value in R$ | |
|---|---|---|
| **88,000.00** | **257,921.00** | As of March 23, 2005, the amounts were paid back to **SUN PHARMACEUTICAL INDUSTRIES LIMITED** in the total of US$ 88,000.00 established at the exchange rate of R$ 2.719 to U$S 1.00, totaling R$ 239,272.00. |

**SUN PHARMA GLOBAL INC.**

| Value in US$ | Value in R$ |
|---|---|
| **88,000.00** | **239,272.00** |

Loan as registered with Central Bank of Brazil under no. TA330736 for payment in 2 installments in the amount of US$ 44,000.00 each.
There is a 24 months grace period in the total period of 30 months as follows: US$44,000.00 payable on March 23, 2007 and US$ 44,000.00 payable on September 23, 2007.
Annual interest rate of 6% payable together with the principal amount.
In Brazil, interest on foreign loans are levied by income tax payable by the creditor, at the rate of 15% when domiciled in a country where there is no double-taxation treaty and at the rate of 25% when the creditor is domiciled in a tax haven.

**c) As an Refund of Expenses:**

| Value in US$ | Value in R$ | |
|---|---|---|
| **115,975.00** | **324,943.02** | The remittals made by **SUN PHARMACEUTICAL INDUSTRIES LIMITED,** were classified as Expense Refunds. Such amounts were credited to the Permanent/Deferred Assets account, as reducers of the Pre-operating Expenses in the period 2004 / 2005. |

**6 - General Taxation System in Brazil:**

In Brazil, the companies have basically the following kinds and tax and contribution burden to be applied:

**a) TAXES ON INCOME**

Through both the ASSUMED INCOME method, as well as through the TAXABLE INCOME method, for the calculation of IRPJ – Corporate Income Tax and CSLL – Social Contribution on Net Income, the fiscal year coincides with the calendar year (January 1 to December 31 of each year) where, after the end of the period, the company has to file an adjustment statement, regardless of the fact the accounting year of the company is different from the corresponding calendar year.

- **Assumed Income:**

  The ASSUMED INCOME method is very advantageous when the company has a profit margin, before taxation, over 40%. However, when the company adopts this option, it has to keep it for all the period, even if it has losses, which cannot be offset. In the Assumed Income method, IRPJ and CSLL are based on the Gross Revenue, not considered in this case, all other costs and expenses and this option can only be adopted for companies which annual gross revenue is not over R$ 48,000,000.00 (forty eight million Reais).

(In Brazilian Reais)

The calculation base for Assumed Income is 8% of the Gross Revenue for goods sale activities, plus other revenue from Capital Gains and/or Financial Earnings.

In this case, the IRPJ is calculated at the rate of 15% on the calculation base, plus an additional of 10% on the amount that exceeds the annual calculation base of R$ 240,000.00 (two hundred and forty thousand Reais) or R$ 20,000.00 (twenty thousand per month).

CSLL is payable on the same revenue. However, it has as basis the amount corresponding to 12%, and, in this case, CSLL is determined at the rate of 9% of the calculation base and the CSLL does not have the additional that is applied in the assessment of IRPJ.

- **Taxable Income:**

In the Taxable Income method, we have the same tax rates, though applied on the actual PROFIT for the period, assessed by the Income Statement and adjusted by the addition of expenses that are considered as non-deductible, as determines the Brazilian Corporate Income Tax Regulations.

In this system, the advantage arises when the company has a lower profitability and in the event of losses, these are integrally compensated with future profits, until the offsetting limit of 30% of profit for the period and the remaining staying for the subsequent periods.

b) **TAXES ON GROSS REVENUE**

Besides taxes on profit, there is also the taxation on gross revenue, called PIS - Employees' Profit Participation Program and COFINS - Contribution for Social Security Financing. The rates of such taxes are different in case the company opts for one or the other taxation method as follows:

- **Option for Assumed Income Method – Cumulative PIS and COFINS System**

If the company opts for this system, the calculation bases for PIS and COFINS on gross revenue from sales are respectively 0.65% and 3%, the so-called cumulative system.

- **Option for Taxable Income Method – Non-Cumulative PIS and COFINS System**

If the company opts for this system, the calculation bases for PIS and COFINS on gross revenue from sales are respectively 1.65% and 7.6%, the so-called non-cumulative system. The difference is that in this non-cumulative system, the company can credit PIS and COFINS related to its purchases, including what was paid in imports, and the final payment will be made by the difference between the debits from sales, less the credits from entrances.

**c) STATE TAXES – ICMS:**

At the State level, there is also ICMS - Tax on the Circulation of Goods and Transportation and Communication Services (Brazilian VAT). This tax also works in the non-cumulative system and its payment during purchase and/or import operations are credited and the final payment is made through the difference between sales and the credits from entrances. ICMS taxation is variable according to the destination of sales. As a rule, for sales within the State of São Paulo and in the South and Southeast region of Brazil, the ICMS rate is 18% and for the sales made in the Northeast and North region they are respectively 12% and 7%.

**d) FEDERAL SOCIAL CONTRIBUTIONS – INSS and FGTS on Salaries:**

On payrolls, there are social charges as follows: INSS – Contribution to the Brazilian Social Security Institute – with an average taxation of 26.7% on the total amount of payroll and FGTS – Severance Indemnity Fund – with taxation of 8.5% also no the payroll.

**e) OTHER FEDERAL TAXES**

**CPMF - Provisional Contribution on Financial Transactions:**

Payable on all funds leaving bank accounts at the rate of 0.038%, except when such exits refer to transference to other account of the same individual or legal entity.

**f) TAXES ON IMPORTS:**

In the case of import of goods, at the moment of the customs clearance, the company has to pay Import Tax, IPI - Tax on Industrialized Products (Brazilian Excise Tax), ICMS, PIS and COFINS and about the last three, the company can hold the credits, to offset them with sales debits.

## B) GENERAL COMMENTS ABOUT THE FINANCIAL STATEMENTS:

**1 - Basis of Presentation**

In the recording of operations and preparation of the financial statements for the periods ended as of March 31, 2005 and 2004 the Brazilian Generally Accepted Accounting Principles were used, as well as the practices arising from the Brazilian Corporate Law.

**2 - Summary of Main Accounting Practices**

**a. Assessment of revenue from sales, services and expenses in general**

The company has not started its commercial operating activities of purchase and sale yet and is still in the pre-operating phase, with the purpose of structuring its facilities and regularize and register the products it intends to sell in Brazil with ANVISA – Brazilian Sanitary Surveillance Agency.

Within this context, all expenses arising from the installation process and structuring of the company before the beginning of its operating and commercial activities, are debited to the Permanent/Deferred Assets as Pre-Operating Expenses and they are deduced of the possible revenue credits from exchange rate variance and/or entries of funds as refund of expenses.

Pre-Operating expenses should be amortized as from the beginning of the commercial operating activities and the amortization can be made within a minimum period of 5 (five) years and a maximum period of up to 10(ten) years.

**b. Property, plant and equipment**

Fixed assets are stated at acquisition cost. Depreciation is calculated by the straight-line method on acquisition cost and the following annual rates are applied: 10% for Furniture, Fixtures and Facilities and 20% for Computers and Peripherals. The amount of depreciation is added to Deferred Assets to have its amortization in accordance with what is described in item **"a"** above.

**3) Comments about the Composition of Equity Accounts:**

**CURRENT ASSETS**

| | | | |
|---|---|---|---|
| **a) Cash and cash equivalents** | **Mar/31/2005** | **R$** | **78,109.15** |
| | **Previous balance** | **R$** | **96,135.39** |

# SUN Farmacêutica Ltda.

## Notes to the Financial Statements for the Period Ended as of March 31, 2005

### (In Brazilian Reais)

1. Cash: R$ 136.33

This balance, as per the control position of March 31, 2004, is composed by funds available for coverage of little day-by-day payments. The controls kept by the management allow the reasonability of this account, in view of its non-materiality. During the period from April 2005 to March 2005, it was injected, as cash supply, the amount of R$ 27,140.15 (twenty seven thousand, one hundred and forty Reais and fifty cents) that correspond to monthly average expenses or around R$ 2,261.68 (two thousand, two hundred and sixty one Reais and sixty eight cents).

For a more reliable and adequate control, we recommend the management to implant a petty cash system of around R$ 1,000.00 (one thousand Reais).

2. Bank checking accounts: R$ 77,972.82

This amount corresponds to cash available in the bank checking account. The balance was reconciled with the respective bank statement and the amount of R$ 77,972.82 refers to an account with Banco Itaú – Agency 067 – Account no. 10427-3.

| | | | |
|---|---|---|---|
| **b) Credits Realizable** | **Mar/31/2005** | **R$** | **30,860.00** |
| | **Previous balance** | **R$** | **—** |

1. Advances to Suppliers - R$ 30,860.00

This balance is composed of advances made to the company Technofarma – Instalações Industriais Ltda. for a general remodeling of the facilities at Rua Luís Góes, which advances are the following:

| | | |
|---|---|---|
| Dec/14/2004 | R$ | 12,344.00 |
| 03/02/2005 | R$ | 9,258.00 |
| Mar/28/2005 | R$ | 9,258.00 |
| Balance | **R$** | **30,860.00** |

## PERMANENT ASSETS

| | | | |
|---|---|---|---|
| **c) Fixed Assets And Deferred Items (net)** | **Mar/31/2005** | **R$** | **483,315.59** |
| | **Previous balance** | **R$** | **510,978.86** |

| Development of Permanent Assets Accounts | Balances on Mar/31/2004 R$ | Entries in the Periods R$ | Write-offs in the Periods R$ | Balances on Mar/31/2004 R$ |
|---|---|---|---|---|
| **Property Plant and Equipment:** | | | | |
| Furniture and Fixtures | 1,720.00 | — | — | 1,720.00 |
| Facilities | 2,391.28 | — | — | 2,391.28 |
| Computers and Peripherals | — | 790.00 | — | 790.00 |
| Trademarks and Patents – Registers in Progress | — | 1,780.00 | — | 1,780.00 |
| Sub-total | 4,111.28 | 2,570.00 | — | 6,681.28 |
| (-) Accumulated Depreciation | - 726.36 | - 440,70 | — | - 1,167.06 |
| Total residual balance | **3,384.92** | **2,129.30** | — | **5,514.22** |
| **Deferred:** | | | | |
| Pre-Operating Expenses | **507,593.94** | **295,150.45** | **- 324,943.02** | **477,801.37** |
| **Total Permanent Assets** | **510,978.86** | **297,279.75** | **- 324,943.02** | **483,315.59** |

**Comments about acquisitions:**

**Property Plant and Equipment:**

- Computers and Peripherals: R$ 790.00

  Amount referring to the purchase of 1 microcomputer.

- Trademarks and Patents – Registers in Progress: R$ 1,780.00

  Amount referring to payments of Registration of Trademarks and Patents in Progress.

**Deferred:**

- Pre-Operating Expenses:

| | | |
|---|---|---|
| R$ 295,150.45 | - | Amount referring to total net expenses and expenditure, recognized to Deferred items in the period. The general composition and break down of this amount is detailed at the end of this report as **ATTACHMENT I.** |
| (R$ 324,943.02) | - | Credits referring to the amount of expense refund received from **SUN PHARMACEUTICAL INDUSTRIES LIMITED,** as detailed in item **A) 5- c)** of this report. |
| **(R$ 29.79,25)** | - | Net effect |

Pre-Operating Expenses should be amortized, as from the beginning of commercial operations and the amortization can be made within a minimum period of 5 (five) years and a maximum period of up to 10 (ten) years.

(In Brazilian Reais)

### CURRENT LIABILITIES

| | | | |
|---|---|---|---|
| **d) Obligations Payable** | **Mar/31/2005** | **R$** | **19,659.14** |
| | **Previous balance** | **R$** | **16,174.10** |

1. Tax Obligations: R$ 224.10

   Amount corresponding to IRRF – Withholding Income Tax of third parties on technical translation services and on the payment of rent of the facilities at Rua Luís Góes.

   This amount was paid in the month of April/2005.

2. Labor Obligations: R$ 2,970.35

   The amount corresponding to social charges on payroll, which payments were made in April/2005, have the following composition:

| | | |
|---|---|---|
| - INSS Payable | R$ | 2,426.35 |
| - FGTS Payable | R$ | 544.00 |
| **Total** | **R$** | **2,970.35** |

3. Other Obligations: R$ 6,105.90

   The amount corresponding to obligations related to technical translation services and rent of the office has the following composition:

| | | |
|---|---|---|
| - Brasil Translations & Solutions – Invoice 146 | R$ | 4,018.80 |
| - Rents Payable in the month of March / 2005 | R$ | 2,087.10 |
| **Total** | **R$** | **6,105.90** |

4. Accruals for Labor Obligations: R$ 10,358.79

   The amount corresponding to accruals for labor obligation referring to vacations and annual bonuses (13th salaries) incurred until March 31, 2005, plus social charges and has the following composition:

| | | |
|---|---|---|
| - Accrual for Vacations Payable | R$ | 6,400.00 |
| - Accrual for Annual Bonus (13th Salary Payable 3/12) | R$ | 1,200.00 |
| - Social Charges referring INSS on Vacations and 13th Salary | R$ | 2,112.80 |
| - Social Charges referring FGTS on Vacations and 13th Salary | R$ | 645.99 |
| **Total** | **R$** | **10,358.79** |

### LONG-TERM LIABILITIES

| | | | |
|---|---|---|---|
| **e) International Loans** | **Mar/31/2005** | **R$** | **234,625.60** |
| | **Previous balance** | **R$** | **254,401.40** |

**SUN PHARMA GLOBAL INC.**

| Date | Value in US$ | Value in R$ | |
|---|---|---|---|
| 23/03/2005 | **88.000,00** | **234.625,60** | Adjustment by the official exchange rate at Mar/31/2005 of R$ 2.6662 to US$ 1.00 |

Loan as register with Central Bank of Brazil no. TA330736 for payment in 2 installments in the amount of US$ 44,000.00 each.
There is a 24 months grace period in the total period of 30 months as follows: US$44,000.00 payable on March 23, 2007 and US$ 44,000.00 payable on September 23, 2007.
Annual interest rate of 6% payable together with the principal amount.
In Brazil, interest on foreign loans are levied by income tax payable by the creditor, at the rate of 15% when domiciled in a country where there is no double-taxation treaty and at the rate of 25% when the creditor is domiciled in a tax haven.

**QUOTA HOLDERS' EQUITY**

| | | |
|---|---|---|
| **Mar/31/2005** | **R$** | **338,000.00** |
| **Previous balance** | **R$** | **336,538.75** |

1. Capital stock - R$ 338,000,000

   As of March 31, 2005, the company's capital stock totally subscribed and paid amounted R$ 338,000.00 (three hundred and thirty eight thousand Reais) divided into 338,000 (three hundred and thirty eight thousand) quotas, with face value of R$ 1.00 (one Real) each. The distribution between the stockholders is the following:

| Quota holders | Quantity of Quotas | Value of Capital - R$ | Interests Held (%) |
|---|---|---|---|
| SUN Pharmaceutical Industries Limited. | 336,538 | 336,538.00 | 99.5675 % |
| Marco Antonio Belchior | 1,462 | 1,462.00 | 0.4325 % |
| **Total** | **338,000** | **338,000.00** | **100.00 %** |

**The evolution and operations of this account are detailed in the Statement of Changes in Quota Holders' Equity.**

(In Brazilian Reais)

**ATTACHMENT I**

**COMPOSITION AND BREAK DOWN OF ACCOUNTS THAT COMPOSE**

**PERMANENT/ DEFERRED ASSETS (Entries in the Period)**

**PRE-OPERATING EXPENSES:**

| **Accounts Recognized** | **Accumulated or the previous period** | **Recognitions for the period from Apr/04 to Mar/05** | **Total Accumulated** |
|---|---|---|---|
| **Expenses with Personnel:** | | | |
| - Salaries and Wages | 110,400.00 | 52,800.00 | 163,200.00 |
| - Annual Bonuses (13th salaries) | 9,600.00 | 4,800.00 | 14,400.00 |
| - Vacations | 12,799.99 | 7,760.01 | 20,560.00 |
| - INSS Social Charges | 35,992.01 | 18.163,19 | 54,155.20 |
| - FGTS Social Charges | 12,308.96 | 4,007.96 | 16,316.92 |
| **Total expenses with Personnel:** | **181,100.96** | **87,531.16** | **268,632.12** |
| **Other Administrative Expenses** | | | |
| - Rent and Condominium Expenses | 69,388.44 | 34,542.27 | 103,930.71 |
| - Third Party Services – (Dossier and Technical Translations) | 15,312.26 | 62,183.49 | 77,495.75 |
| - Traveling Expenses and Representations | 13,095.06 | 20,659.56 | 33,754.62 |
| - Fees of ANVISA, Associations and Trade Unions | 13,357.24 | 16,398.70 | 29,755.94 |
| - Communication Expenses – Telephone/ Mail/ Internet | 14,684.41 | 9,615.41 | 24,299.82 |
| - Professional Fees – Accounting and Legal | 15,608.28 | 7,299.57 | 22,907.85 |
| - Cleaning Material, Conservation, Maintenance and Repairs | 10,279.25 | 1,981.30 | 12,260.55 |
| - Transportation, Fuel, Lubricants and Expenses w/ Vehicles | 4,042.87 | 3,426.24 | 7,469.11 |
| - Office Supplies and Copies | 3,531.05 | 2,350.54 | 5,881.59 |
| - Notary Expenses and Legal Expenses | 640.22 | 5,920.04 | 6,560.26 |
| - Cost with Sample Importing | 293.95 | 3,168.67 | 3,462.62 |
| - Electric Power and Water | 1,738.79 | 1,032.26 | 2,771.05 |
| - Newspapers, Magazines, Technical Books and Training | 1,000.00 | 1,420.00 | 2,420.00 |
| - Expenses with Meals | 1,249.05 | 731.99 | 1,981.04 |
| - Insurance Expenses | 409.80 | 233.86 | 643.66 |
| - Little Value Amounts | 89.00 | 508.90 | 597.90 |
| - Depreciation of Fixed Assets | 726.36 | 440.70 | 1,167.06 |
| - Other Expenses | 250.00 | 10,890.77 | 11,140.77 |
| **Total Other Administrative Expenses:** | **165,696.03** | **182,804.27** | **348,500.30** |
| **Taxes, Fees and Contributions** | | | |
| - Municipal Taxes – Fee on Sanitary Surveillance and Fees on the Pick Up of Solid Residues | 148,222.89 | 37,243.02 | 185,465.91 |
| - Fees on Location and Functioning License | 3,687.38 | 71.17 | 3,758.55 |
| - CPMF - Provisional Contribution on Financial Transactions1,910.49 | | 1,230.04 | 3,140.53 |
| - IPTU - Tax on Urban Land and Property | 3,021.88 | 1,919.20 | 4,941.08 |
| - Other Taxes and Fees Payable | 3,384.57 | 424.55 | 3,809.12 |
| **Total Taxes, Fees and Contributions** | **160,227.21** | **40,887.98** | **201,115.19** |
| **Financial Expenses (-) Financial Earnings** | | | |
| - Financial Expenses: | | | |
| - Passive Exchange Rate Variance | 14,32220 | 30,456.80 | 44,779.00 |
| - Bank Expenses | 3,561.70 | 882.52 | 4,444.22 |
| - Commissions on Exchange Operations | 287.28 | 2,722.09 | 3,009.37 |
| - Expenses with Interest and Fines | 240.36 | 98.98 | 339.34 |
| | **18,411.54** | 34,160.39 | 52,571.93 |
| - Financial earnings: | | | |
| - Active Exchange Rate Variance | ( 17,841.80) | ( 50,233.35) | ( 68,075.15) |
| **Net Financial Result** | **569.74** | **(16,072.96)** | **(15,503.22)** |
| **Total Net Deferred Expenses:** | **507,593.94** | **295,150.45** | **802,744.39** |
| **Refund of expenses** | | | |
| - Amounts received from SUN PHARMACEUTICAL INDUSTRIES LIMITED during the period between 2004 and 2005 in the total amount of US$ 115,975.00 | — | **(324,943.02)** | **(324,943.02)** |
| **Total Net Deferred Assets:** | **507,593.94** | **(29,803.22)** | **477,801.37** |

# SUN PHARMA DE MEXICO S. A. de C. V.

## Statutory Auditor's Report

**Mexico City, March 31, 2005.**

**To the Shareholders of Sun Pharma de Mexico S. A. de C. V.**

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the Mexican Corporations Act and the by-laws of Sun Pharma de Mexico S. A. de C.V., I am pleased to submit my report on the veracity, sufficiency and reasonability of the Financial Statements for the year ended December 31, 2004, presented to you by the Board of Directors of the Company.

I have attended the Shareholders' and the Board of Directors' meetings to which I was summoned and I have obtained from the board members and the Company's officers all the information on the Company's operations, documentation and records that I considered necessary for examination. I conducted my review in accordance with generally accepted auditing standards.

In my opinion, the accounting and reporting policies and procedures observed by the Company in the preparation of the financial statements that are being presented to the shareholders are adequate and sufficient, the company was not required to present the financial statements in the previous year. Therefore, it is also my opinion that the above-mentioned financial statements present fairly, in all material respects, the financial position of Sun Pharma de Mexico S. A. de C. V. as at December 31, 2004, and the results of their operations, changes in the Company's shareholders' equity and changes in the company's financial position for the year then ended in conformity with generally accepted accounting principles in Mexico.

**Ing. Hector Macias Meana**

**Statutory auditor**

---

## BALANCE SHEET AS AT DECEMBER 31, 2004

| | | (Amount - Mexican Pesos) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Bank | $606.152 | |
| Customers | $7.106.364 | |
| Inventories | $161.258 | |
| Short Term Receivables | $16.430 | |
| Value Added Tax Recoverable | $457.324 | |
| Prepaid Expenses | $32.336 | **$8.379.864** |
| **Property Equipments and Leaseholds (Note 3)** | | |
| Office Equipments | $246.293 | |
| Depreciation Office Equipments | $14.062 | **$232.231** |
| **TOTAL ASSETS** | | **$8.612.094** |
| **LIABILITIES AND SHARE HOLDERS' EQUITY** | | |
| **Short-Term Liabilities** | | |
| Suppliers (Note - 4) | $3.670.675 | |
| Other Accounts Payable | $360.202 | |
| Witholding Tax Payable | $129.305 | |
| Taxes payable | $756.848 | **$4.917.030** |
| **Long-Term liabilities** | | |
| Long Term Loans (Note 4) | | **$1.128.261** |
| **Shareholders' Equity** | | |
| Capital Stock (Note 5) | $1.010.360 | |
| Net Profit | $1.556.443 | **$2.566.803** |
| **TOTAL LIABILITY AND SHAREHOLDERS' EQUITY** | | **$8.612.094** |

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

C.P. FABIAN BARUTIA FRANCO
For BARRUTIA FRANCO Y ASOCIADOS S. C.
Certified Public accountants
PARTNER
General Accountant

LIC. JOSE MIGUEL RAMOS RODRIGUEZ
General Director

ING. HECTOR MACIAS MEANA
Statutory Auditor

## INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 31, 2004

| | | (Amount - Mexican Pesos) |
|---|---|---|
| Net Sales | | $9.867.430 |
| Cost of Sales | | $2.925.198 |
| **Gross Profit** | | **$6.942.232** |
| **Operating Expenses** | | |
| Sales Expenses | $4.424.001 | |
| Administration Expenses | $368.875 | $4.792.876 |
| **Operating Income** | | **$2.149.356** |
| Exchange Gain - Net | | $143.406 |
| Financial Expenses | | $1.854 |
| **Income before Income tax** | | **$2.290.908** |
| Income tax | | $734.465 |
| **Net Profit** | | **$1.556.443** |
| **Earning Per Share** | | **$1.556,44** |

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

C.P. FABIAN BARUTIA FRANCO
For BARRUTIA FRANCO Y ASOCIADOS S. C.
Certified Public accountants
PARTNER
General Accountant

LIC. JOSE MIGUEL RAMOS RODRIGUEZ
General Director

ING. HECTOR MACIAS MEANA
Statutory Auditor

# SUN PHARMA DE MEXICO S. A. de C. V.

## STATEMENT OF CHANGES IN FINANCIAL POSITION PERIOD ENDED DECEMBER 31, 2004

(Amount - Mexican Pesos)

| | | |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Net Income** | | $1,556,443 |
| **Charges not affecting Resources** | | |
| Depreciation | | $14,062 |
| | | $1,570,504.88 |
| **Changes in :** | | |
| Increase Customers | ($7,106,364) | |
| Increase Inventories | ($161,258) | |
| Increase Short-Tterm Receivable | ($16,430) | |
| Increase Value Added tax Recoverable | ($457,324) | |
| Increase Prepaid Taxes | ($32,336) | |
| Increase suppliers | $3,670,675 | |
| Increase others accounts payable | $360,202 | |
| Increase witholding Tax Payable | $129,305 | |
| Increase taxes payable | $756,848 | ($2,856,681) |
| **Resources used in Operationng Activities** | | **($1,286,176)** |
| **FINANCING ACTIVITIES** | | |
| Loans Accepted | | $1,035,629 |
| **Resources generated by Financing Activities** | | **$1,035,629** |
| **INVESTING ACTIVITIES** | | |
| Acquisition of Equipments | | $246,293 |
| **Resources used in Investment Activities** | | **$246,293** |
| **INCREASE (DECREASE) IN CASH** | | **($496,841)** |
| **CASH AND EQUIVALENTS AT THE BEGINNING** | | **$1,102,993** |
| **CASH AND INVESTMENS AT END OF PERIOD** | | **$606,152** |

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

C.P. FABIAN BARUTIA FRANCO
For BARRUTIA FRANCO Y ASOCIADOS S. C.
Certified Public accountants
PARTNER
General Accountant

LIC. JOSE MIGUEL RAMOS RODRIGUEZ
General Director

ING. HECTOR MACIAS MEANA
Statutory Auditor

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY PERIOD ENDED DECEMBER 31, 2004

(Amount - Mexican Pesos)

| Shareholders' Name | Opening and Closing Balance | |
|---|---|---|
| | No. of Shares | Amount |
| Sun Pharmaceutical industries Ltd. | 750 | $757.770 |
| Serral S. A. DE C. V. | 250 | $252.590 |
| Total Capital Stock | **1000** | **$1.010.360** |

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

C.P. FABIAN BARUTIA FRANCO
For BARRUTIA FRANCO Y ASOCIADOS S. C.
Certified Public accountants
PARTNER
General Accountant

LIC. JOSE MIGUEL RAMOS RODRIGUEZ
General Director

ING. HECTOR MACIAS MEANA
Statutory Auditor

## NOTES TO THE FINANCIAL STATEMENTS

1. **PRESENTATION :**

This is a Mexican Company with a foreign investor, involved in the trading business of pharmaceutical products.

The Financial Statements have been prepared in accordance with accounting principles generally accepted in Mexico, the financial statements are presented in Mexican pesos.

2. **SIGNIFICANT ACCOUNTING POLICIES.**

The Significant policies adopted by the Company are in accordance with accounting principles generally accepted in Mexico.

**a) Fixed Assets :**

The fixed assets are registered at their original purchase cost. Depreciation and Amortization are calculated and provided on the straight line method at the rates specified under the Mexican Tax Laws. The depreciation on the new addition to the fixed assets is provided from the day, the Company starts using such new assets.

**b) Revenue Recognition :**

Revenues are accounted for on accrual basis.

**c) Sales :**

Sales are stated Net of Discounts.

**d) Income Tax, Asset Tax and Employee's Statutory Profit Sharing :**

The Liabilities in respect of the Income tax, Assets tax and Employees Statutory Profit Sharing are determined and provided for in accordance with the vigor Mexican Laws.

3. **OFFICE EQUIPMENTS**

| Particulars | Depn. Rate | December 31, 2004 |
|---|---|---|
| Computer Equipment | | **$153,940** |
| Accumulated Depreciation– Computer | **30%** | **($10,495)** |
| Office Equipment | | **$92,353** |
| Accumulated Depreciation– Office Equipment | **10%** | **($3,567)** |
| **NET FIXED ASSETS** | | **$232,231** |

4. **BALANCES OF AND OPERATIONS WITH RELATED PARTIES**

**Balances :**

| **Particulars** | | **December 31, 2004** |
|---|---|---|
| **Suppliers :** | | |
| Serral S. A. de C. V. | — | $3,305,810 |
| **Long Term Loans :** | | |
| Sun Pharmaceutical Industries Ltd. | — | $841,373 |
| Serral S.A. de C.V. | — | $286,887 |

**Operations :**

| **Particulars** | | **Period Ended December 31, 2004** |
|---|---|---|
| Purchases | — | $3,086,455 |
| Service Charges | — | $713,433 |

5. **CAPITAL STOCK**

At December 31, 2004, the fixed capital stock represents an amount of $1,010,360 (Mexican Pesos ) represented by 1000 ordinary, nominative shares with no par value.

# SUN PHARMACEUTICAL INDUSTRIES, INC.

## DIRECTORS' REPORT

To,

The Members of Sun Pharmaceutical Industries Inc.

Your Directors take pleasure in submitting the 1st Annual Report and Statement of Audited Accounts for the initial period ended March 31, 2005 (September 14, 2004 to March 31, 2005).

**Directors**

During the period under review, the Board of Directors of the Company appointed Mr. Jayesh Shah as the initial director on September 14, 2004. On February 11, 2005, Mr. Sudhir Valia was appointed as an additional director. On March 31, 2005, Mr. Sunilkumar K. Gandhi was appointed as an additional director of the Company with effect from March 31, 2005. All three directors have been appointed to hold office till the conclusion of the next Annual General Meeting.

**Financial Results**

Our results have been satisfactory for the initial period. We posted net revenues of $609,478. We earned operating income of $130,195 and net income of $106,131 after interest and before taxes. After tax, we earned net income of $81,796 during the period under review.

**Dividend**

No dividend for the initial period under review is proposed to be paid to the equity shareholders of the Company.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS OF

SUN PHARMACEUTICAL INDUSTRIES INC. (USA)

Director

## INDEPENDENT AUDITORS' REPORT

**August 17, 2005**

To The Board of Directors and Stockholder
Sun Pharmaceuticals Industries, Inc.

We have audited the accompanying balance sheet of Sun Pharmaceuticals Industries, Inc. (a Michigan Corporation) as of March 31, 2005, and the related statements of operation, changes in stockholder's equity and cash flows for the period September 14, 2004 to March 31, 2005 (initial period of operation). 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 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 audit provides 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 Sun Pharmaceuticals Industries, Inc. as of March 31, 2005 and the results of their operations and their cash flows for the period September 14, 2004 to March 31, 2005 (initial period of operation)., in conformity with accounting principles generally accepted in the United States of America.

Martin, Arrington & Hasse, P.C.
Certified Public Accountants

## BALANCE SHEET
## MARCH 31, 2005

**ASSETS**

| | |
|---|---|
| CURRENT ASSETS: | |
| Cash and Cash Equivalents | $ 27,940 |
| Accounts Receivable - Trade | 609,479 |
| TOTAL CURRENT ASSETS | 637,419 |
| OTHER ASSETS: | |
| Trademarks (net of accumulated amortization of $59,526) | 3,400,474 |
| Organization Expense (net of accumulated amortization of $271) | 2,229 |
| TOTAL OTHER ASSETS | 3,402,703 |
| | $ 4,040,122 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | |
| CURRENT LIABILITIES: | |
| Accounts Payable - Trade | 251,927 |
| Accrued Expenses | 50,399 |
| Note Payable - Parent Corporation | 3,650,000 |
| Other Notes Payable | 1,000 |
| TOTAL CURRENT LIABILITIES | 3,953,326 |
| LONG-TERM DEBT | — |
| TOTAL LIABILITIES | 3,953,326 |
| STOCKHOLDER'S EQUITY: | |
| Common Stock, $1 par value, 60,000 shares authorized, 5,000 shares issued and outstanding | 5,000 |
| Retained Earnings | 81,796 |
| TOTAL STOCKHOLDER'S EQUITY | 86,796 |
| | $ 4,040,122 |

See accompanying notes to financial statements

## STATEMENT OF OPERATION
## FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005 (INITIAL PERIOD OF OPERATION)

| | |
|---|---|
| REVENUE | $ 609,478 |
| COST OF REVENUE: | |
| Materials | 343,531 |
| Freight and Supplies | 70,745 |
| Amortization | 59,526 |
| TOTAL COST OF REVENUE | 473,802 |
| GROSS PROFIT | 135,676 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | |
| Bank Charges | 60 |
| Amortization | 271 |
| Taxes - State and Local | 2,000 |
| Travel | 3,150 |
| | 5,481 |
| INCOME FROM OPERATIONS | 130,195 |
| OTHER INCOME (EXPENSE): | |
| Interest Expense | (24,064) |
| TOTAL OTHER INCOME (EXPENSE) | (24,064) |
| NET INCOME BEFORE INCOME TAXES | 106,131 |
| INCOME TAX | |
| Current | (24,335) |
| Deferred | — |
| | (24,335) |
| NET INCOME | $ 81,796 |

See accompanying notes to financial statements

# SUN PHARMACEUTICAL INDUSTRIES, INC.

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005 (INITIAL PERIOD OF OPERATION)

| | Common Stock | Retained Earnings | Total Stockholder's Equity |
|---|---|---|---|
| Issuance of Common Stock | $ 5,000 | $ — | $ 5,000 |
| Net Income | — | 81,796 | 81,796 |
| Balances at March 31, 2005 | $ — | $ 81,796 | $ 86,796 |

See accompanying notes to financial statements

## STATEMENT OF CASH FLOWS FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005 (INITIAL PERIOD OF OPERATION)

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net Income | $ 81,796 |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | |
| Amortization | 59,797 |
| Increase in Accounts Receivable - Trade | (609,479) |
| Increase in Accounts Payable | 251,927 |
| Increase in Accrued Expenses | 50,399 |
| NET CASH USED BY OPERATING ACTIVITIES | (165,560) |
| CASH FLOW FROM INVESTING ACTIVITIES: | |
| Purchases of Trademarks | (3,460,000) |
| Organization Costs | (2,500) |
| Proceeds from Issuance of Common stock | 5,000 |
| NET CASH USED FOR INVESTING ACTIVITIES | (3,457,500) |
| CASH FLOW FROM FINANCING ACTIVITIES: | |
| Proceeds from Parent Company | 3,650,000 |
| Proceeds From Loan from Director | 1,000 |
| NET CASH PROVIDED FROM FINANCING ACTIVITIES | 3,651,000 |
| NET INCREASE IN CASH | 27,940 |
| CASH AT THE BEGINNING OF THE PERIOD | — |
| CASH AT THE END OF THE PERIOD | $ 27,940 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | |
| Cash Paid for Interest | $ — |
| Cash Paid for Income Taxes | $ — |

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005

**NOTE 1: Summary of Significant Accounting Policies**

a) *Nature of Operations*

Sun Pharmaceutical Industries, Inc. (the "Company") is a Michigan Corporation and is a wholly owned subsidiary of Sun Pharmaceutical Industries, Limited ("Sun Pharma"), a leading pharmaceutical company organized under the laws of India. The Company distributes pharmaceutical products throughout the United States and around the world.

b) *Revenue Recognition*

Revenue is recognized at the time the products are supplied to customers.

c) *Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

d) *Accounts Receivable Trade*

Accounts receivable trade are recorded net of an allowance for expected losses. The allowance is estimated based on the amount management expects to collect from outstanding balances.

e) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

f) *Deferred Income Taxes*

The Company recognizes an asset or liability for the deferred tax consequences of temporary differences between the tax basis of assets and liabilities and reported amounts in the financial statements and future benefit realizable due to net operating loss carry forward. Deferred taxes are classified as current or noncurrent depending upon the classification of the assets or liabilities to which they relate.

The Company evaluates the realizability of its net deferred tax assets periodically. During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. As deferred tax assets or liabilities increase or decrease in the future, or if a portion or all of the valuation allowance is no longer deemed to be necessary, the adjustments to the valuation allowance will increase or decrease future income tax provisions.

g) *Amortization*

The costs of acquisition of trademarks are amortized over a period of 15 years. The organization costs are amortized over a period of 5 years.

**NOTE 2: Related Party Transactions**

During August and September 2004, Sun Pharma acquired trademarks, manufacturing know-how of other intellectual property of certain pharmaceutical products from Women First Healthcare, Inc., which was under bankruptcy proceedings. Upon completion of the acquisition on December 29, 2004, these products were assigned to the Company at the same costs totaling to $3,628,000, which included $168,000 of inventory.

The trademarks cost consist acquiring cost of these products. The Company amortizes such costs on a straight line basis over the estimated useful life. An impairment is recognized if the carrying amount exceeds the fair value.

On December 29, 2004, the Company entered into a manufacturing and supply agreement with Caraco Pharmaceutical Laboratories, Ltd. ("Caraco"), a Michigan Corporation. Sun Pharma owns 63% of Caraco's issued and outstanding stock. Under the terms of the agreement, Caraco manufacturers and supplies these products to the Company for commercial purposes.

On January 14, 2005, the Company also entered into distribution and sales agreements for the above products with Caraco. Under the provisions of these agreements, Caraco distributes and sales these products through its business organization, management personnel and distribution setup.

All of the accounts receivable of $609,479 are due from Caraco and accounts payable include $249,427 due to Caraco.

The note payable - parent company bears libor interest rate adjusted quarterly. The rate as of March 31, 2005 used for interest calculation was 2.56% Total interest expense on this note, for the period totaled $24,064. Note payable - other consists of non-interest bearing advance by one of the members of the Board of Directors.

**NOTE 3: MAJOR CUSTOMERS**

During the period, all of the sales were to one customer, Caraco, and all of the accounts receivable as of March 31, 2005 were from Caraco. Loss of this customer and uncollectibility of related receivables could have a material adverse effect on the Company's financial condition and results of operation.

# CARACO PHARMACEUTICAL LABORATORIES, LTD.

**(A Subsidiary of Sun Pharmaceutical Industries Limited)**

## DEAR SHAREHOLDERS AND FRIENDS

We recorded higher sales, improved gross margin, and a nominal net loss – chiefly from higher research and development spending for 2004. Our operating results continue to be marked with dramatic improvements. Our team of employees continued their commitment to quality and the overall performance of our Company as reflected in our 2004 results.

### Strong Operating Results

Our net sales for 2004 increased 33% to $60.3 million,. From $45.5 million for 2003. This was our fourth consecutive year of strong sales growth. Our gross profit for 2004 rose 38% to $35.9 million, from $26.0 million the year before. After SG&A expense of $5.3 million, and substantially higher total R&D expenses of $30.5 million, we posted a nominal net loss of $0.2 million, equivalent to $0.01 per fully diluted share. This was a sharp turn-around from net income of $11.2 million, or $0.44 per fully diluted share, that we reported for 2003. However, the net loss for 2004 was largely due to higher non-cash R& D expense of $24.4 million for seven product transfers under our R& D Agreement with Sun Global, Inc., a wholly owned subsidiary of sun Pharmaceutical Industries Ltd. This expense was $3.1 million for 2003, reflecting one product transfer. The non-cash expense is a GAAP (Generally Accepted Accounting Principle) requirement, designed to recognize the preferred-convertible stock paid to Sun for product development under our five-year Product Development Agreement. This Agreement enables us to more quickly develop new, high-quality niche products without impairing cash flow than would otherwise be possible through our Detroit R&D Group.

We also had strong positive cash flow for the year. Net cash generated from operating activities was $22.0 million during 2004, compared to $15.5 million during 2003. Our strong financial position enabled us to pay-off all of our outstanding debt, including the City of Detroit Economic Development Corporation, ICICI Bank and the Bank of Nova Scotia. We also retired $10 million in borrowing from Citibank. Total debt reduction from available cash exceeded $33.0 million. As of December 31, 2004, we are free of all debt.

In addition to the debt elimination, we used available positive cash flow to substantially increase inventories to support our higher sales volumes.

### Plant Renovations Continue

At the plant level, we completed $4.0 million in renovations that added production capacity and improved efficiency. Over the course of the past two to three years, we have made significant changes to our plant. We have expanded the number of production suites; replaced smaller, slower machines with new, high-speed equipment; increased production and quality-control resources; expanded the facility overall in line with requirements for higher-volume manufacturing and quality control; and increased warehouse capacity three fold – including leased warehouse space. These improvements provide us with adequate production, warehouse and support capacity to take us through 2006.

### Solid Product Progress

Our product-development strategy is to continue to take advantage of our relationship with Sun Pharma, as well as augmenting our portfolio of products by in-licensing other products through various means, including authorized generics and acquisition of products from both brand and generic manufacturers. Product development and launches continue to be top priorities. We launched two new drugs during the year. These were citalopram, a generic form of Celexo, which is also an anti-depressant. In addition, we received FDA approval for and launched a 25 mg strength of metro prolol tartrate, which is a beta blocker anti-hypertensive.

These additions brought our portfolio to 19 drugs, in 38 strengths and 92 package sizes, as of December 2004.

At year-end, we had selected 18 of the 25 products covered by our R&D Agreement with Sun. Of these 18 products, eight have passed bioequivalency studies and the balance of new drugs are in various stages. Of the eight products, six ANDAs have been filed with the FDA and received approval for one. At year-end 2004, we had six ANDAs pending FDA approval. We expect to start receiving approvals from the first quarter of 2006.

### Sun Pharma Partnership

Sun Pharma is India's fifth largest pharmaceutical company and a vertically integrated pharmaceutical manufacturer serving international market. Sun Pharma has helped us, when needed, with loans, loan guarantees, plus management, engineering, R&D, technical, personnel, equipment sourcing, product and raw materials. Obviously, Sun is much more than a majority shareholder in our Company. Sun is also a major supplier, including active ingredients, which we purchase on an arms-length basis at competitive prices. Moreover, Sun Pharma's increased beneficial ownership is to us, approximately 64% of our outstanding shares, should, we believe, provide it with additional incentive to help us succeed.

## *2005 – 2006*

Looking forward, we are optimistic about the generic drug industry and our position within that market. We anticipate continued strong growth throughout 2005 and 2006. The positive outlook for our Company, and the industry, is built on our Company's ability to move swiftly to fulfill customer demands and to remain a low-cost manufacturer, from the acquisition of raw materials, to research and development, to the sales and marketing to our customer base. Generic Pharmaceutical standards of quality and lower costs have continued to build awareness among consumer groups and cost-conscious interest groups, including medical and health insurers. Medicare and Medicaid rules add additional preference to 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 also believe that, because we can bring products to market effectively and economically, that we will attract talented individuals who will add value to our Company. As with any Company, its success is built upon the framework of its management team and their commitment to make a difference.

Our optimism is further supported by our expectation that our Fiscal 2006 sales will increase by 15-20%, fueled by growth of our current product portfolio and the introduction of new drugs.

We will also continue to move aggressively to develop new products received from Sun, pursuant to our product agreement. Sun Pharma has a proven record of accomplishments and provides us with quality products.

We expect to develop and file 10 to 12 new ANDAs with the FDA by the end of Fiscal 2006. The development of new products will raise non-cash R& D expense and will affect net earnings. Nonetheless, cash from operations will be available to meet increased working-capital requirements, and finance capital investments, among other things. This, in turn, will strengthen our balance sheet and build shareholder value.

We are experiencing continued pressure on margins from strong competition. We have and will continue to work diligently to counter the pricing pressures through increased sales volumes, better cost absorption of operational overhead, and cost reductions.

Our own management focus for Fiscal 2006 will continue 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 existing products and launching new products.
- Enhancing customer reach and satisfaction.
- Augmenting our product portfolio by searching for opportunities to in-license products and acquire ANDA's that may become available.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction.
- Considering alternative ways of increasing cash flow, including developing, manufacturing and marketing ANDAs owned by Sun Pharma.
- Attracting and retaining the best employees to help differentiate our Company from the competition.
- Utilizing contract-manufacturers to enhance production and sales.

We will also continue to build our management team. Subsequent to year-end, Daniel H. Movens, 47, joined us as Chief Executive Officer. He joined us from Anda, Inc., a wholly owned subsidiary of Andrx Corp., where he served as President. He brings more than two decades of Pharma industry experience and strong, proven leadership and management skills to our Company. I will continue to serve as Chief Financial Officer and Chief Operating Officer.

Before closing, I would like to remind shareholders that the Company has changed its fiscal year from December 31 to March 31, commencing in 2005. The change was effected to synchronize our fiscal year with that of our parent company, Sun Pharma, whose fiscal year ends March 31. We will file a transition report with the SEC for the period January 1, 2005 through March 31, 2005 on Form 10-K by June 14, 2005. Subsequent to this, the Company's Form 10-Ks will cover the fiscal year April 1 to March 31, the same as Sun Pharma's fiscal year.

In closing, and on behalf of our Directors and the entire Caraco Team, I would like to express my thanks to all of our shareholders for your continued trust and support of our Company. In addition, I would like to acknowledge the contributions made by the very talented team of individuals who make-up the Caraco family. Our Company's turn-around, accomplishments and progress would not have been possible without their individual and collective dedication and effort.

**Jitendra N. Doshi**
Chief Exective Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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) (a subsidiary of Sun Pharmaceutical Industries Limited) as of March 31, 2005, December 31, 2004 and 2003, and the related statements of operations, stockholders' equity (deficit) and cash flows for the three months ended March 31, 2005 and for each of the three years in the period ended December 31, 2004. 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 the standards of the *Public Company Accounting Oversight Board (United States)*. 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 March 31, 2005, December 31, 2004 and 2003 and the results of its operations and its cash flows for the three months ended March 31, 2005 and for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*, the effectiveness of the Corporation's internal control over financial reporting as of March 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 7, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Troy, Michigan
June 7, 2005

## BALANCE SHEETS

| | March 31 | December 31 | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 6,627,425 | $ 2,456,469 | $ 4,206,282 |
| Accounts receivable, net | 6,736,778 | 4,602,866 | 4,538,472 |
| Inventories | 18,467,693 | 17,133,811 | 9,610,810 |
| Prepaid expenses and deposits | 1,105,618 | 663,811 | 562,030 |
| **Total current assets** | **32,937,514** | **24,856,957** | **18,917,594** |
| **Property, plant and equipment** | | | |
| Land | 197,305 | 197,305 | 197,305 |
| Buildings and improvements | 9,605,888 | 9,302,317 | 7,917,986 |
| Equipment | 9,701,979 | 9,351,502 | 6,991,024 |
| Furniture and fixtures | 589,329 | 585,705 | 364,140 |
| Total | 20,094,501 | 19,436,829 | 15,470,455 |
| Less accumulated depreciation | 7,197,422 | 6,890,796 | 5,963,780 |
| **Net property, plant and equipment** | **12,897,079** | **12,546,033** | **9,506,675** |
| **Total assets** | **$ 45,834,593** | **$ 37,402,990** | **$ 28,424,269** |

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

## CARACO PHARMACEUTICAL LABORATORIES, LTD.
**(A Subsidiary of Sun Pharmaceutical Industries Limited)**

| | March 31 | December 31 | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | | |
| **Current liabilities** | | | |
| Accounts payable, trade | $ 2,577,668 | $ 2,557,078 | $ 1,386,160 |
| Accounts payable, Sun Pharma | 9,639,890 | 7,359,687 | 3,839,815 |
| Accrued expenses | 1,931,442 | 1,710,649 | 4,917,216 |
| Current portion of loans payable to financial institutions | — | — | 8,750,000 |
| Current portion of EDC loan payable | — | — | 1,115,213 |
| **Total current liabilities** | **14,149,000** | **11,627,414** | **20,008,404** |
| Loans payable to financial institutions, net of current portion | — | — | 8,125,000 |
| EDC loan payable, net of current portion | — | — | 5,270,277 |
| **Total liabilities** | **14,149,000** | **11,627,414** | **33,403,681** |
| **Commitments and contingencies (Notes 9, 11 and 12)** | | | |
| **Stockholders' equity (deficit) (Note 7)** | | | |
| Series B convertible preferred stock, no par value; issued and outstanding 5,984,000 shares (March 31, 2005) 4,352,000 shares (December 31, 2004) (Note 12) | 37,700,410 | 27,500,410 | — |
| Common stock, no par value; authorized 30,000,000 shares, issued and outstanding 26,360,294 shares (March 31, 2005) 26,334,694 shares (December 31, 2004) 24,577,828 shares (December 31, 2003) | 44,927,987 | 44,896,257 | 41,442,311 |
| Additional paid-in capital | 2,718,735 | 2,718,735 | 2,718,735 |
| Accumulated deficit | (53,661,539) | (49,339,826) | (49,140,458) |
| **Total stockholders' equity (deficit)** | **31,685,593** | **25,775,576** | **(4,979,412)** |
| **Total liabilities and stockholders' equity (deficit)** | **$ 45,834,593** | **$ 37,402,990** | **$ 28,424,269** |

## STATEMENTS OF OPERATIONS

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 (Unaudited) | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | | | 2004 | 2003 | 2002 |
| Net sales | $ 17,336,500 | $ 13,561,088 | $ 60,340,309 | $ 45,498,400 | $ 22,380,964 |
| Cost of goods sold (Notes 1 and 4) | 7,879,425 | 5,390,702 | 24,441,569 | 19,507,406 | 12,047,410 |
| **Gross profit** | **9,457,075** | **8,170,386** | **35,898,740** | **25,990,994** | **10,333,554** |
| Selling, general and administrative expenses | 1,879,480 | 1,282,355 | 5,276,755 | 7,363,341 | 3,827,707 |
| Research and development costs - affiliate (Note 7) | 10,200,000 | 7,828,160 | 24,397,040 | 3,103,370 | 3,887,423 |
| Research and development costs - other | 1,719,865 | 1,133,331 | 6,053,334 | 3,112,294 | 3,348,789 |
| **Operating (loss) income** | **(4,342,270)** | **(2,073,460)** | **171,611** | **12,411,989** | **(730,365)** |
| **Other income (expense)** | | | | | |
| Interest expense | — | (181,542) | (407,330) | (1,233,531) | (1,539,075) |
| Interest income | 16,385 | 2,015 | 40,316 | 9,102 | 13,436 |
| (Loss) gain on sale of equipment | — | — | (10,636) | 25,531 | — |
| Other income | 4,172 | 10,067 | 6,671 | 9,627 | — |
| **Other income (expense) - net** | **20,557** | **(169,460)** | **(370,979)** | **(1,189,271)** | **(1,525,639)** |
| **Net (loss) income** | **$ (4,321,713)** | **$ (2,242,920)** | **$ (199,368)** | **$ 11,222,718** | **$ (2,256,004)** |
| **Net (loss) income per share:** | | | | | |
| Basic | $ (0.16) | $ (0.09) | $ (0.01) | $ 0.46 | $ (0.10) |
| Diluted | $ (0.16) | $ (0.09) | $ (0.01) | $ 0.44 | $ (0.10) |

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

## CARACO PHARMACEUTICAL LABORATORIES, LTD.
**(A Subsidiary of Sun Pharmaceutical Industries Limited)**

### STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

| | Common | | Stock | | Additional Paid-in Capital | Preferred Stock Dividends | Accmulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| **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 |
| Common 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) |
| Issuance of preferred stock to affiliate in exchange for product technology transfers | 4,352,000 | 27,500,410 | — | — | — | — | — | 27,500,410 |
| Common stock options exercised | — | — | 1,756,866 | 3,453,946 | — | — | — | 3,453,946 |
| Net loss | — | — | — | — | — | — | (199,368) | (199,368) |
| **Balances at December 31, 2004** | 4,352,000 | 27,500,410 | 26,334,694 | 44,896,257 | 2,718,735 | — | (49,339,826) | 25,775,576 |
| Issuance of preferred stock to affiliate in exchange for product technology transfers | 1,632,000 | 10,200,000 | — | — | — | — | — | 10,200,000 |
| Common stock options exercised | — | — | 25,600 | 31,730 | — | — | — | 31,730 |
| Net loss | — | — | — | — | — | — | (4,321,713) | (4,321,713) |
| **Balances at March 31, 2005** | **5,984,000** | **$ 37,700,410** | **26,360,294** | **$ 44,927,987** | **$ 2,718,735** | **$ —** | **$ (53,661,539)** | **$ 31,685,593** |

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

### STATEMENTS OF CASH FLOWS

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 (Unaudited) | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | | | 2004 | 2003 | 2002 |
| **Cash flows from operating activities** | | | | | |
| Net (loss) income | $ (4,321,713) | $ (2,242,920) | $ (199,368) | $ 11,222,718 | $ (2,256,004) |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities | | | | | |
| Depreciation | 306,626 | 189,074 | 932,419 | 683,339 | 539,374 |
| Capital stock issued or to be issued to affiliate in exchange for product formula | 10,200,000 | 7,828,160 | 24,397,040 | 3,103,370 | 3,887,423 |
| Common shares issued in lieu of compensation | — | — | — | 112,310 | 41,400 |
| Loss (gain) on sale of property, plant and equipment | — | — | 10,636 | (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 | (2,133,911) | 1,778,135 | (64,393) | 945,662 | (3,997,627) |
| Inventories | (1,333,882) | (3,035,765) | (7,523,001) | (3,994,848) | (2,706,907) |
| Prepaid expenses and deposits | (441,807) | (31,178) | (140,430) | (90,716) | (292,112) |
| Accounts payable | 2,300,793 | 1,587,310 | 4,690,789 | 1,243,139 | 3,019,936 |
| Accrued expenses | 220,793 | 159,863 | (64,548) | (126,829) | 663,652 |
| **Net cash provided by (used in) operating activities** | **4,796,899** | **6,232,679** | **22,039,144** | **15,508,491** | **(838,600)** |

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 (Unaudited) | Year Ended December 31 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | (657,673) | (1,276,372) | (3,982,413) | (2,493,173) | (1,592,802) |
| Proceeds from sale of property, plant and equipment | — | — | — | 76,200 | — |
| **Net cash used in investing activities** | **(657,673)** | **(1,276,372)** | **(3,982,413)** | **(2,416,973)** | **(1,592,802)** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from loans payable to financial institutions | — | — | 10,000,000 | 1,600,000 | 900,000 |
| Repayments of loans payable to financial institutions | — | (4,500,000) | (26,875,000) | (625,000) | — |
| Payment of preferred stock dividends | — | — | — | (350,380) | — |
| Repayments of short-term borrowings | — | — | — | — | (75,000) |
| Net (repayments of) borrowings on subordinated stockholder notes | — | — | — | (9,700,000) | 1,400,000 |
| Repayments of EDC loan | — | (417,774) | (6,385,490) | (1,217,057) | (1,200,000) |
| Proceeds from issuance of common stock | 31,730 | — | 3,453,946 | 872,973 | 1,699,520 |
| **Net cash provided by (used in) financing activities** | **31,730** | **(4,917,774)** | **(19,806,544)** | **(9,419,464)** | **2,724,520** |
| **Net increase (decrease) in cash and cash equivalents** | **4,170,956** | **38,533** | **(1,749,813)** | **3,672,054** | **293,118** |
| Cash and cash equivalents, beginning of year | 2,456,469 | 4,206,282 | 4,206,282 | 534,228 | 241,110 |
| **Cash and cash equivalents, end of year** | **$ 6,627,425** | **$ 4,244,815** | **$ 2,456,469** | **$ 4,206,282** | **$ 534,228** |

The accompanying notes are an integral part of these 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 ge neric pharmaceuticals and markets them throughout 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 number of products in various 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.

The Corporation's manufacturing facility and executive offices were constructed in 1991, pursuant to a $9.1 million loan from the Economic Development Corporation of the City of Detroit (the "EDC"). Since August 1997, capital infusions and loans have primarily come from Sun Pharmaceutical Industries Limited, a specialty pharmaceutical corporation organized under the laws of India ("Sun Pharma"). Among other things, Sun Pharma has acted as a guarantor on loans to Caraco, has supplied the Corporation with raw materials for certain products, assisted in obtaining machinery and equipment to enhance production capacities at competitive prices, and has transferred certain generic products. Sun Pharma's investment in and support of Caraco has resulted in, since the second quarter of 2002, Caraco achieving the sales necessary to support its operations. As of June 7, 2005, Sun Pharma beneficially owns approximately 64% (71% including its convertible Series B Preferred stock) of the outstanding common shares of Caraco.

Change in Fiscal Year

On January 27, 2005, the Corporation's Board of Directors resolved to change the Corporation's fiscal year from December 31 to March 31, commencing in 2005. This change was made in order to conform the Corporation's fiscal year to the March 31 fiscal year of its parent company, Sun Pharmaceutical Industries Limited ("Sun Pharma") (see below). The resulting three month period ended March 31, 2005 may be referred to herein as "The Transition Period".

Sun Pharmaceutical Industries Limited

Pursuant to a stock purchase agreement, Sun Pharma a Mumbai, India based specialty pharmaceutical manufacturing company, made an initial investment of $7.5 million for the purchase of 5.3 million common shares of Caraco in 1997.

Sun Pharma and its affiliates loaned the Corporation approximately $10 million since August 1997. As of December 31, 2003, all such loans had been repaid. Sun Pharma has also assisted the Corporation, by acting as guarantor, in obtaining line of credit loans from ICICI Bank Limited, The Bank of Nova Scotia and Citibank FSB in the amounts of $5.0 million, $12.5 million and $10.0 million, respectively (see Note 5). The loans for which Sun Pharma had provided guarantees have all been repaid as of December 31, 2004.

In August 1997, Caraco entered into an agreement, whereby Sun Pharma was required to transfer the technology formula for 25 generic pharmaceutical products over a five-year period through August 2003 in exchange for 544,000 shares of Caraco common stock for each technology transfer of an ANDA product (when bio-equivalency studies were successfully completed) and 181,333 shares for each technology transfer of a DESI (Drug Efficacy Study Implementation) product. The products provided to the Corporation from Sun Pharma were selected by mutual agreement. Under such agreement, Caraco conducted, at its own expense, all tests including bio-equivalency studies. Pursuant to such agreement through 2002, Sun Pharma delivered the technology formula for 13 products. This agreement expired on November 21, 2002, and the Corporation entered into a new technology transfer agreement with Sun Global, Inc. ("Sun Global"), an affiliate of Sun Pharma.

Under the agreement, which was approved by the Corporation's independent directors, Sun Global agreed to provide the formulations for 25 new generic drugs over a five-year period. Caraco's rights to the products are limited to the United States and its territories or possessions, including Puerto Rico. Sun Global retains rights to the products in all other territories. The products are selected by mutual agreement. Under such agreement, Caraco conducts at its own expense all tests, including bio-equivalency studies. The Corporation also markets the products consistent with its customary practices and provides marketing personnel. In return for the technology transfer, Sun Global receives 544,000 shares of a newly created Series B Preferred Stock for each generic drug transferred when such drug has passed its bio-equivalency studies.

The products agreement was amended by the Independent Committee, comprised of the three independent directors, in the first quarter of 2004 to eliminate the provision requiring that the Independent Committee concur in the selection of each product, and provides instead, that each product satisfy certain objective criteria developed by management and approved by the Independent Committee. Pursuant to such objective criteria, 18 products have been selected, eleven of which passed bio-equivalency studies through March 31, 2005 and one additional product since then (Note 12).

Sun Pharma has established Research and Development Centers in Mumbai and Vadodara in India, where the development work for products is performed.

Sun Pharma and its subsidiaries supply the Corporation with certain raw materials (Note 4) and formulations, assist in acquiring machinery and equipment to enhance production capacities, provide qualified technical professionals who work as Caraco employees and perform certain analytical studies for the Corporation. Also, four of the seven Caraco directors are, or were, affiliated with Sun Pharma. Further, Sun Pharma and its affiliates may use Caraco as a contract manufacturer and/or distributor of their products. In December 2004 and during the transition period, Caraco entered into agreements for two such product.

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.

During the first quarter of 2004, Sun Pharma acquired 3,452,291 additional shares of common stock and 1,679,066 stock options from two former directors and a significant shareholder. Sun Pharma exercised these stock options during the fourth quarter of 2004, thereby increasing its beneficial ownership to 64%.

During the Transition Period, SPARC Bioresearch Private Limited ("SPARC") performed certain analytical studies required as part of the bioequivalency process for two products transferred to the Corporation by Sun Pharma pursuant to the products agreement.. The Corporation incurred approximately $172,000 of costs during this period for the studies performed by SPARC. No similar studies were performed by SPARC during the three months ended March 31, 2004 or during the years ended December 31, 2004, 2003 and 2002.

The Corporation entered into a manufacturing and supply agreement and a distribution and sale agreements for one product in December 2004 and an additional product in January of 2005 with an affiliate of Sun Pharma. Caraco earned approximately $100,000 on sales related to these agreements during the Transition Period. No similar amounts were earned during the three months ended March 31, 2004 or during the years ended December 31, 2004, 2003, and 2002.

In addition to its substantial relationship with and dependence on Sun Pharma as described above, 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 maintaining profitable operations, the ongoing 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 (see "Operations", below).

Operations

The Corporation posted record net sales during 2004 and continued to post record net sales for the three month period ended March 31, 2005. Net sales for the Transition Period were $17.3 million as compared to $13.6 million for the comparable period of 2004. The Corporation incurred a net loss of $4.3 million for the Transition Period as compared to a net loss of $2.2 million for the corresponding period of 2004. The Corporation incurred non-cash R&D expenses of $10.2 million during this period during 2005 compared to $7.8 million during 2004. Net cash generated from operating activities was $4.8 million for the three months ended March 31, 2005 as compared to $6.2 million for the same period in 2004.

Management's plans for fiscal 2006 include:

- Continued focus on FDA compliance.
- Increased pace of research and development activities, with a view to maximize ANDA filings.
- Continuing to invest in equipment and facilities to expand capacity to meet requirements of projected growth in the near term.
- 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.
- Research alternate product development sources and product licenses such as in licensing authorized generics from brand innovator companies and acquisitions of ANDA's from competitor manufacturers.

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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer chargebacks (see "Revenue Recognition", below), valuation allowances for deferred tax assets, and valuation of overhead components in inventory.

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 Corporation invests its excess cash primarily with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Corporation may maintain cash on deposit in excess of federally insured limits with financial institutions. The Corporation 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 products 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 94% of the allowance for trade receivables at March 31, 2005 has been established to provide for estimated chargebacks (see Note 3).

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, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the specific identification method, or market.

Net (Loss) Income Per Share

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

The following table sets forth the computation of basic and diluted (loss) income per common share:

| | Three Months Ended March 31 | | Year Ended December 31 | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| | | (unaudited) | | | |
| Numerator: | | | | | |
| Net (loss) income from continuing operations | $ (4,321,713) | $ (2,247,920) | $ (199,368) | $ 11,222,718 | $ (2,256,004) |
| Preferred stock dividends | — | — | — | — | (50,380) |
| Net (loss) income available for common stockholders | $ (4,321,713) | $ (2,242,920) | $ (199,368) | $ 11,222,718 | $ (2,306,384) |
| Denominator: | | | | | |
| Weighted average shares outstanding, basic | 26,348,347 | 24,577,828 | 24,734,282 | 24,137,108 | 22,031,425 |
| Incremental shares from assumed conversion of common stock options | — | — | — | 1,344,851 | — |
| Weighted average shares outstanding, diluted | 26,348,347 | 24,577,828 | 24,734,282 | 25,481,959 | 22,031,425 |
| Net (loss) income per common share | | | | | |
| Basic | $ (0.16) | $ (0.09) | $ (0.01) | $ 0.46 | $ (0.10) |
| Diluted | $ (0.16) | $ (0.09) | $ (0.01) | $ 0.44 | $ (0.10) |

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. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment and reasonably believes the carrying value of these assets will be recovered through cash flow from operations.

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, certain accruals, depreciation and the anticipated utilization of tax net operating losses.

Research and Development Costs

Series B convertible preferred stock (Note 7) is issued on an ongoing basis to Sun Pharma and its affiliates under the Products Agreement between the Corporation and Sun Global in exchange for the formulations of technology products delivered by Sun Global to the Corporation. The resulting amount of research and development expense is charged to operations and is determined based on the fair value of the preferred shares on the date the respective product formula passes its bio-equivalency studies. The fair value of such shares is based upon an independent valuation and includes a discount for marketability.

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

Common Stock Issued to Directors

Common stock was issued from time to time in lieu of cash for directors fees, and was recorded as compensation expense at the fair values of such shares on the dates they were earned. Subsequent to December 31, 2003, directors' fees are paid in cash. Also, since December 31, 2003, independent directors are granted stock options upon completion of their anniversary of serving on the board.

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 November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151 *Inventory Costs, an Amendment of ARB No. 43, Chapter 4.* SFAS 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Corporation does not believe that the adoption of SFAS 151 will have a material impact on its results of operations or financial position.

In December 2004, the FASB issued SFAS 123R (revised 2004), *Share-Based Payment,* (SFAS 123R). SFAS 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, Caraco will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees.* Instead, Caraco will be required to account for such transactions using a fair-value method and recognize the expense in the statement of operations. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123 (R). The new rule allows companies to implement SFAS 123 (R) at the beginning of their next fiscal year, instead of their next reporting period beginning after June 15, 2005. The Corporation plans to adopt the new statement beginning in the first quarter of fiscal 2007. The Corporation expects that the adoption of SFAS 123R will not have a significant impact on its results of operations, nor does it expect that the adoption of SFAS 123R will impact its overall financial position. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS 123R may be different from the calculation of compensation cost under SFAS 123. These differences have been quantified by management which believes the impact will not be material to the financial statements.

In December 2004, the FASB issued SFAS 153 *Exchanges of Nonmonetary Assets, and Amendment of APB Opinion No. 29.* The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to the principle. SFAS 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. The Corporation does not believe that the adoption of SFAS 153 will have a material impact on its results of operations or financial position.

**2. SUPPLEMENTAL CASH FLOWS INFORMATION**

Non-cash Investing and Financing Activities

As described in Notes 1 and 7, pursuant to the technology transfer agreement with an affiliate of the Corporation's parent, Caraco, on an ongoing basis, finances the acquisition of research and development costs in exchange for the issuance of capital stock to its parent. Capital stock earned or issued to affiliates had fair values of $10,200,000 and $7,828,160 for the three month periods ended March 31, 2005 and March 31, 2004 and $24,397,040, $3,103,370 and $3,887,423 for the years ended December 31, 2004, 2003 and 2002, respectively.

Other Cash Flows Information

Cash paid for interest for the three month period ended March 31, 2004 and was $212,433 and was approximately $407,000, $1,783,000 and $1,820,000 for the years ended December 31, 2004, 2003 and 2002, respectively. No cash was paid for interest for the period ended March 31, 2005.

**3. ALLOWANCES FOR SALES ADJUSTMENTS AND DOUBTFUL ACCOUNTS RECEIVABLE (NOTE 1)**

Accounts receivable and related allowances are summarized as follows:

| | March 31 | December 31 | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Accounts receivable - gross | $ 27,766,778 | $ 22,737,866 | $ 20,328,472 |
| Allowances: | | | |
| Chargebacks | 19,810,000 | 16,835,000 | 14,530,000 |
| Sales returns and allowances | 1,120,000 | 800,000 | 650,000 |
| Doubtful accounts | 100,000 | 500,000 | 610,000 |
| Total allowances | 21,030,000 | 18,135,000 | 15,790,000 |
| Accounts receivable, net of allowances | $ 6,736,778 | $ 4,602,866 | $ 4,538,472 |

A summary of the activity in accounts receivable allowances is as follows:

| | Total Allowances |
|---|---|
| **Balance at January 1, 2002** | **$ 400,000** |
| Additions charged to net sales | 28,911,000 |
| Deductions allowed to customers | (20,006,000) |
| **Balance at December 31, 2002** | **9,305,000** |
| Additions charged to net sales | 56,262,000 |
| Deductions allowed to customers | (49,777,000) |
| **Balance at December 31, 2003** | **15,790,000** |
| Additions charged to net sales | 67,670,000 |
| Deductions allowed to customers | (65,325,000) |
| **Balance at December 31, 2004** | **18,135,000** |
| Additions charged to net sales | 21,712,000 |
| Deductions allowed to customers | (18,817,000) |
| **Balance at March 31, 2005** | **$ 21,030,000** |

**4. INVENTORIES**

Inventories consist of the following components:

| | March 31 | December 31 | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Raw materials | $ 5,504,006 | $ 5,030,430 | $ 4,226,363 |
| Goods in transit | 3,700,651 | 2,901,626 | 1,874,625 |
| Work in process | 2,607,903 | 2,993,587 | 1,633,963 |
| Finished goods | 6,655,133 | 6,208,168 | 1,875,859 |
| Total inventories | $ 18,467,693 | $ 17,133,811 | $ 9,610,810 |

The principal components used in the Corporation's business are active and inactive pharmaceutical ingredients and certain 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 the three months ended March 31, 2005 and 2004 and during the years ended December 31, 2004 and 2003, the Corporation purchased inventory components of approximately $5.3 and $4.5, and $16.7 million and $10.3 million, respectively, from Sun Pharma.

## 5. DEBT

EDC Loan

During 2004, the Corporation repaid the entire amount due to the EDC under the Development and Loan Agreement dated August 10, 1990.

Loans Payable to Financial Institutions

Loans payable to financial institutions consisted of the following obligations:

| | March 31 | December 31 | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| 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, and is due in quarterly installments. This term loan was paid in full during 2004. | $ — | $ — | $ 4,375,000 |
| $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, and is due in quarterly installments. This term loan was paid in full during 2004. | — | — | 12,500,000 |
| Total loans payable to financial institutions | — | — | 16,875,000 |
| Less current portion | — | — | 8,750,000 |
| Loans payable to financial institutions, net of current portion | $ — | $ — | $ 8,125,000 |

During 2004, the Corporation obtained a $10,000,000 line-of-credit with Citibank, N.A., that incurred interest at the London Interbank Offered Rate (LIBOR) plus 125 basis points. Borrowings on the line-of-credit are available to Caraco only when secured by an irrevocable standby letter-of-credit from Sun Pharma. Such a letter was provided by Sun Pharma during 2004. The letter had expired as of December 31, 2004, and was terminated on March 15, 2005.

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 in 2003 and $0.8 million in 2002.

## 6. INCOME TAXES

The Corporation's deferred income taxes result principally from its net operating loss carryforwards. At March 31, 2005 a net deferred income tax asset of approximately $16.4 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 net deferred tax asset, resulting in no net deferred tax asset or liability in the accompanying balance sheets. The valuation allowance increased by approximately $2.0 million for the three month period ended March 31, 2005, $0.4 million in 2004, decreased by approximately $4.1 million in 2003, and increased by approximately $0.8 million in 2002.

At March 31, 2005, net operating loss carryforwards of approximately $48.0 million, which expire between 2007 and 2017, are available to offset future federal taxable income, if any. Sun Pharma has, over time, increased its ownership of the Corporation's capital stock. Under rules established by the Internal Revenue Code, this change in ownership may adversely affect how the Corporation is able to utilize these net operating loss carryforwards in future years.

## 7. STOCKHOLDERS' EQUITY (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

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. Accordingly, at March 31, 2005 and at December 31, 2004 and 2003, no Series A shares remain designated.

In November 2002, in connection with the new technology transfer agreement established with Sun Global (Note 1), the Corporation designated the Series B Convertible Preferred Stock. The Series B preferred shares are non-redeemable and have no par value. In addition, the Series B Convertible 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 three years from the issuance date (or immediately upon a change in control) into one share of common stock, subject to a conversion adjustment (Note 1). While such preferred shares are outstanding, Caraco cannot, without the consent of the holders of a majority of the outstanding shares of the preferred stock, amend or repeal its articles of incorporation or bylaws if such action would adversely affect the rights of the preferred stock. In addition, without such consent, capital stock having any preference or priority superior to the preferred stock may not be issued. As of March 31, 2005, the Corporation has issued 5,984,000 shares of the Series B Convertible Preferred stock to Sun Pharma in exchange for eleven product transfers. Such shares have been valued at $37.7 million as of March 31, 2005 (Note 12).

Other Common Stock Issuances (also see Note 2)

During 2002, the Corporation issued 1,632,000 shares of common stock to an affiliate of Sun Global 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 studies 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 were 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. No shares were earned by non-employee directors during 2004 or 2005 and accordingly no similar expense was recorded during the year.

**8. COMMON STOCK OPTIONS**

Common Stock Option Plans

As of March 31, 2005, the Corporation maintains one stock option plan, the 1999 Equity Participation 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:

| | Three Months Ended March 31, | | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | | 2002 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding, beginning of period | 181,600 | $ 1.41 | 277,000 | $ 1.00 | 687,138 | $ 1.04 | 701,138 | $ 1.03 |
| Granted | 3,000 | 9.60 | 9,000 | 9.60 | — | — | — | — |
| Exercised | (25,600) | 1.24 | (80,400) | 1.08 | (410,138) | 0.97 | — | — |
| Terminated | (2,000) | — | (24,000) | 0.80 | — | — | (14,000) | 1.74 |
| Outstanding, end of period | 157,000 | 1.49 | 181,600 | 1.41 | 277,000 | 1.00 | 687,138 | 1.01 |
| Options exercisable, end of period | 52,800 | 1.50 | 49,800 | 1.02 | 102,500 | 1.07 | 288,075 | 1.04 |

**Options at March 31, 2005:**

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Remaining Contractual Life * | Exercise Price * | Shares | Exercise Price * |
| $0.68 to $1.00 | 97,000 | 2.3 | 0.79 | 24,800 | 0.78 |
| $1.01 to $2.00 | 50,000 | 2.7 | 1.25 | 25,000 | 1.25 |
| $9.01 to $10.00 | 10,000 | 2.1 | 9.59 | 3,000 | 9.59 |
| Total | 157,000 | 2.4 | 1.49 | 52,800 | 1.50 |

*Weighted average

Other Common Stock Option Agreements

The Corporation has issued other stock options outside of the 1999 Plan. 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:

| | Three Months Ended March 31, | | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | | 2002 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding, beginning of period | 200,000 | $ 3.50 | 1,876,666 | $ 2.01 | 2,250,824 | $ 2.00 | 2,250,824 | $ 2.00 |
| Exercised | — | — | (1,676,666) | 2.01 | (374,158) | 1.16 | — | — |
| Outstanding, end of period | 200,000 | 3.50 | 200,000 | 3.50 | 1,876,666 | 2.01 | 2,250,824 | 2.00 |
| Options exercisable, end of period | 200,000 | 3.50 | 200,000 | 3.50 | 1,876,666 | 2.01 | 2,250,824 | 2.00 |

Options at March 31, 2005:

| | Options Outstanding and Exercisable | | |
|---|---|---|---|
| Range of Exercise Prices | Shares | Remaining Contractual Life | Exercise Price |
| $3.01 to $4.00 | 200,000 | — | 3.50 |

The Corporation follows only the disclosure aspects of Statement of Financial Accounting Standards (SFAS) No. 123, *"Accounting for Stock-Based Compensation"*. Management believes that the fair value and pro-forma disclosures, required by SFAS No. 123, are not material to the financial statements. 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. Options to purchase 4,500 and 9,000 shares of common stock were granted for the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively, to the independent directors of the Corporation. 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 Options Agreement

Pursuant to an agreement between the Corporation and an unaffiliated large generic pharmaceutical company, dated October 1, 1993, the Corporation was to receive 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 (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 (Note 12).

**9. LEASES (INCLUDING RELATED PARTY)**

The Corporation entered into two non-cancelable operating leases during 2000 with Sun Pharma to lease production machinery. The leases each require quarterly rental payments of $4,245 and expire during fiscal 2006.

The Corporation entered into a non-cancelable 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 non-cancelable 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 fiscal 2007 with an option to renew for an additional year.

Net rental expense on these operating leases was $64,896 and $38,438 for the three months ended March 31, 2005 and 2004, respectively and $181,129, $176,065 and $51,460 for the years ended December 31, 2004, 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 non-cancelable lease terms in excess of one year as of March 31, 2005:

| Year | Amount |
|---|---|
| 2006 | $ 198,177 |
| 2007 | 199,752 |
| Total minimum payments due | $ 397,929 |

The Corporation also paid approximately $0.1 million and $0.2 million for the three month periods ended March 31, 2005 and 2004, respectively, and $0.6 million and $0.5 million to Sun Pharma during the years ended December 31, 2004 and 2003, 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 the three months ended March 31, 2005 and 2004 or for the years ended December 31, 2004, 2003 and 2002.

**11. CONCENTRATIONS AND COMMITMENTS**

Major Customers

Shipments to three wholesalers accounted for approximately 74% for both the three months ended March 31, 2005 and 2004 and 79%, 80% and 86% of sales for the years ended December 31, 2004, 2003 and 2002, respectively. Two of these customers accounted for 44% and 24%, respectively, of 2004 sales. Balances due from these customers represented approximately 77%, 82% and 84% of gross accounts receivable at March 31, 2005 and December 31, 2004 and 2003, respectively. These wholesaler customers traditionally facilitate and support distribution to certain end user customers that the Corporation has contracted with on an indirect basis.

Major Products

Shipments of two products accounted for approximately 74% and 81% of gross sales for the three months ended March 31, 2005 and 2004, respectively and 80%, 87% and 78% of gross sales for the years ended December 31, 2004, 2003 and 2002, respectively.

Approximately 84% and 83% for the three months ended March 31, 2005 and 2004, respectively and 75%, 73% and 20% of Caraco's raw material purchases for the years ended December 31, 2004, 2003 and 2002, respectively, were made from Sun Pharma.

Product Sales Commitment

Certain of the Corporation's customers purchase its products through designated wholesalers, 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 purchase 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 two of which were 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.

Labor Contract

The majority of the Corporation's hourly work force is covered by a collective bargaining agreement that expires in September 2008.

**12. OTHER MATTERS**

Employment Contracts

The Corporation has employment agreements with three 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. In addition, subsequent to March 31, 2005, the Corporation executed an employment agreement with a new Chief Executive Officer. Under certain circumstances, including termination without cause and a change in control (as defined in the employment agreement), severance pay of as much as 1½ times the highest annual base pay and last earned bonus(es), together with certain benefits and full vesting of all stock options and stock grants, would accrue to the CEO. After one year of employment, this severance could be increased to 2 times the highest annual base pay and last earned bonus(es).

Litigation

On February 12, 2003, C. Arnold Curry filed a complaint in the Wayne County Circuit Court alleging breach of a written employment agreement. Dr. Curry is seeking 175,000 shares of Caraco common stock (35,000 shares for each of the first five ANDAs approved by the FDA). The Corporation and plaintiff each filed a motion for summary disposition. Both parties' motions were denied, and the parties have submitted the matter to binding arbitration. The Corporation intends to vigorously defend itself against these claims, which management believes have no merit.

On September 22, 2004, Ortho-McNeil Pharmaceutical, Inc. ("Ortho-McNeil") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Corporation's filing of an ANDA seeking approval to market its generic version of Ortho-McNeil's Ultracet® drug product infringed Ortho-McNeil's patent, which expires on September 6, 2011. Ortho-McNeil seeks an order from the Court which, among other things, directs the FDA not to approve Caraco's ANDA any earlier than the claimed expiration date. The ANDA filed by the Corporation challenged Ortho-McNeil's patent and the Corporation believes that the Ortho-McNeil patent is invalid and/or will not be infringed by Caraco's manufacture, use or sale of the product. The Corporation intends to vigorously defend this action. Since this action Ortho-McNeil has entered into a license agreement with another manufacturer and has launched their product generically while another manufacturer has launched their approved generic at risk.

The Corporation is involved in certain legal proceedings from time to time incidental to normal business activities. While the outcome of any such proceedings cannot be accurately predicted, the Corporation does not believe the ultimate resolution of any existing matters would have a material adverse effect on its financial position or results of operations.

Product Liability and Insurance

The Corporation currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Corporation also maintains special product liability insurance coverage for one of its products with coverage limits of $1 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.

Royalty Accrual

Pursuant to the Strategic Alliance Stock Options Agreement (Note 8), Caraco received the formulation for one product, Metoprolol Tartrate, in March 1995. However, Caraco has determined that the formula provided to it 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. The Corporation has accrued royalties of approximately $1 million, which is included with accrued expenses in the accompanying balance sheets at March 31, 2005, December 31, 2004 and December 31, 2003, and since April 2003, has discontinued to accrue royalties related to this agreement.

Subsequent Transactions With And Relating To Sun Pharma

Between April 1 and June 7, 2005, Sun Global earned 544,000 shares of Series B preferred stock pursuant to the products transfer agreement for one product transfer (Note 1).

Other Subsequent Event

Effective April 25, 2005, the Articles of Incorporation of the Corporation were amended to increase the authorized number of preferred shares from 5,000,000 to 15,000,000.