

Auditors' Report to the Members of Sun Pharmaceutical Industries Limited

1. We have audited the attached Balance Sheet of Sun Pharmaceutical Industries Limited (the Company) as at March 31, 2008, 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 in Para 3 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, 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 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 read together with 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:
 - (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2008
 - (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

N. P. Sarda
Partner

Place: San Jose, U.S.A.
Date : May 30, 2008

(Membership No. 9544)

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, xiv, xviii, xix and xx of paragraph 4 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 of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account.
 - (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 inventories lying with third parties) were physically verified by the management at reasonable intervals during the year. In respect of inventories lying with third parties, these have substantially been confirmed by them. In our opinion the frequency of verification is reasonable.
 - (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. The Company had not granted or taken any loan, secured or unsecured, to or 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 control systems.
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. No Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.

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. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete. To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records for any other product of the Company.
10. According to the information and explanations given to us in respect of statutory dues:
- (i) the Company has been regular in depositing undisputed statutory dues, including, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and other material statutory dues with the appropriate authorities during the year. There were no undisputed dues that were outstanding as at March 31, 2008 for a period of more than six months from the date they became payable.
- (ii) According to the information and explanations given to us, the details of disputed sales tax, income tax, custom duty and excise duty, which have not been deposited as at March 31, 2008 on account of any dispute, are as under:

Statute & Nature of Dues	Financial Year to which the matter pertains	Forum where dispute is pending	Amount Rs. in Million
The Central Excise Act			
Excise Duty, Interest & Penalty	2004-05, 2005-06, 2006-07, 2007-08	Commissioner	192.3
	1997-98, 1998-99, 1999-00, 2000-01, 2004-05.	Tribunal	6.0
Customs Act, 1962			
Custom Duty, Penalty & Interest	2000-01	High Court	10.3
Sales Tax Act			
Sales Tax, Interest & Penalty	1994-95, 1998-99, 1999-00, 2001-02, 2002-03, 2003-04.	Assistant / Deputy / Joint Commissioner	18.5
	1988-89 to 1991-92, 1997-98, 1999-00, 2000-01, 2001-02	Tribunal	5.2
	1981-82 to 1985-86	High Court	0.7
	2000-01, 2005-06	Assessing officer	4.0
Income Tax Act			
Income tax & Interest	1997-98, 1998-99, 1988-89 to 7.12.1998, 1999-2000, 2000-01, 2001-02, 2002-03 & 2003-04	Tribunal	98.5
ESI Act			
Contribution & Interest	1987 to 1992	Appellate authority	0.3
DPCO			
DPEA and interest	1981-1987	DPLRC	14.0

There were no disputed dues in respect of wealth tax, service tax and cess during the year.

11. In our opinion and according to information and explanations given to us, the company does not have any accumulated losses as at the end of the year. The Company has not incurred 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 repayment of dues to financial institutions and banks. The Company has not obtained any borrowings by way of debentures.
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. 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.
15. 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.
16. 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.
17. 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

N. P. Sarda
Partner

(Membership No. 9544)

Place: San Jose, U.S.A.
Date : May 30, 2008