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
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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.

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

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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.
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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.

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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.
Our specialty bulk active list comprises of high-end specialty drugs that have fairly stable margins and a few manufacturers the world over. 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)
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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, fluticasone, 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.

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.

**INDIAN MARKET**

**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

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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 helps us withstand pricing pressure better.

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. Cumulative 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.

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.

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.

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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.
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NDDS TECHNOLOGIES

In the niche areas of NDDS we are pursuing complex technologies for delivery systems - complex technologies that nevertheless build 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 to the company by the patent owners.

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 retainent 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 lung 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.

LUPRIDE DEPOT

Lupride contains a chain of amino acids (technically called a peptide) called leuprolide acetate 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.

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.
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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 prostate 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.**

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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.

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

This medication 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.

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. 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.

During the course of the year several regulatory approvals were sought- USFDA, UKHMRA, 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.
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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.

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 policies 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, UK MHA, 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.
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, based on growth from its existing products. On this turnover, it had net cash from operations of $22 mill, up from $45 mill in the previous year.

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.

Caraco has seen its turnover increase from $2.3 mill to $60+ mill 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.

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- Mestrin, an antiinflammatory 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.

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

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.

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 specialty 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.

* Dec 2004

14
US generics

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(* After subsequent event)
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 stockpile ups, 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.

Bulk actives

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 mlyear 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 oncologics, 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.

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 oncologics. 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.
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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.

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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.
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### 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
- Escalolopram HBr
- Esomeprazole Magnesium
- Flurbiprofen
- R(-) Flurbiprofen
- S(-) Flurbiprofen
- Flurbiprofen Sodium
- Fluticasone Propionate
- Fluvoxamine Maleate
- Gabapentin
- Glimeperide
- Irenesartan
- Irbesartan
- Isradipine
- Lacidipine
- Lercanidipine HCl
- Letrozole
- Leuprolide Acetate
- Losartan Potassium
- Loteprednol Etabonate
- Magnesium Valproate
- Meloxicam
- Mesalamine (5 ASA)
- Metamizol Magnesium
- Metaxalone
- Metformin HCl
- Methylenidate 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
- Rolipram
- Rosiglitazone Maleate
- Sertraline HCl
- Sodium Valproate
- Sumatriptan Succinate
- Tizanidine HCl
- Topiramate
- Tramadol HCl
- Valproic Acid
- Venlafaxine HCl
- Zolpidem Hemitartate
- Ziprasidone HCl
**New Products**

<table>
<thead>
<tr>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SYNERGY</td>
<td>Sleep disorders, Narcolepsy</td>
<td>SOLARES</td>
<td>Gastric Prokinetic</td>
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<tr>
<td></td>
<td>Antipsychotic</td>
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<td></td>
<td>Antidepressant</td>
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<tr>
<td></td>
<td>Antidepressive</td>
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<td></td>
<td>Parkinson's disease</td>
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<td>SYMBIOSS</td>
<td>Alzimer's</td>
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<td>ADO</td>
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<td>Antipsychotic</td>
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<td>ORTUS</td>
<td>Plaque Porirosis</td>
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<td>Psoriasis Vulgoes</td>
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<td></td>
<td>Topical Antiinflammatory</td>
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<td></td>
<td>Antifungal</td>
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<tr>
<td>SIRIUS</td>
<td>Antiinflammatory</td>
<td></td>
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<tr>
<td></td>
<td>Migrane, Essential 'Temor'</td>
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<tr>
<td></td>
<td>Nootropic</td>
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<tr>
<td></td>
<td>Myasthenia</td>
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<tr>
<td>SUN</td>
<td>Epilepsy</td>
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<tr>
<td></td>
<td>Muscle Relaxant</td>
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<tr>
<td>SUN ONCOLOGY</td>
<td>Breast Cancer</td>
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<td></td>
<td>Non Small Cell Lung Cancer</td>
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<tr>
<td></td>
<td>Anticancer</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Antifungal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INCRA</td>
<td>BPH</td>
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</table>

### Directors' Report

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

#### FINANCIAL RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Year ended</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31st March, 2005</td>
<td>31st March, 2004</td>
</tr>
<tr>
<td>Total Income</td>
<td>12468</td>
<td>9598</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>3057</td>
<td>2594*</td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preference Shares</td>
<td>1</td>
<td>9</td>
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<tr>
<td>Equity Shares Final</td>
<td>69%</td>
<td>603</td>
</tr>
<tr>
<td>Corporate Dividend tax</td>
<td>98</td>
<td>79</td>
</tr>
<tr>
<td>Transfer to various Reserves</td>
<td>1500</td>
<td>1003</td>
</tr>
<tr>
<td>Rate of dividend on equity shares</td>
<td>75%</td>
<td>65%*</td>
</tr>
</tbody>
</table>

Book value per equity share (Rs. 5 paid up) |

<table>
<thead>
<tr>
<th></th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60</td>
</tr>
</tbody>
</table>

* Figures shown at: Paid Bonus rate for the purpose of comparison. The Pre-Bonus Dividend rate is 75%.

* 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.
New Products

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<td><strong>SOLARES</strong></td>
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<tr>
<td>Mold µelart (Meldrilm)</td>
<td>Sleep disorders, Narcolepsy</td>
<td>Sampraz D</td>
<td>Gastric Prokinetic</td>
</tr>
<tr>
<td>Arpare (Arpiozil)</td>
<td>Antipsychotic</td>
<td>(Esmprazol + Domperidone)</td>
<td>COPD, Bronchial asthma, Neuropathy</td>
</tr>
<tr>
<td>Necaever Forte</td>
<td>Antidepressant</td>
<td>Predmet (Methyl Prednisolone)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>(Ezacitrapir + Cloxopamin)</td>
<td>Antidepressant</td>
<td>Dulane (Duloxetine)</td>
<td>Antiallergic</td>
</tr>
<tr>
<td>Duxile (Duolaste)</td>
<td>Parkinsons disease</td>
<td>Dealer MD (Duloxetine + Methylprednisolone)</td>
<td>Pain Management</td>
</tr>
<tr>
<td>Adapase (Entapase)</td>
<td></td>
<td>Rufacil, Refaelo P (Acnuclifenes)</td>
<td></td>
</tr>
</tbody>
</table>

**SYMBIOSIS**

Admanta (Mentirene) | Antiulcers
Attaelor (Atsestomene) | Topical Analgesic
Stadene MD (Ropinolone mouth dissolving)

**ORTUS**

Tazotop (Tazaronene) | Venous Ulceration
Robical Ointment (Calcios) | Cancer
Ciasa (Cioemazon) | Antiinfective
Am Lasey (Amipine-nail lag) | Anticancer

**SIRIUS**

Tigial (Tigapene) | Loreticulosis
Betaprost (Propanolol) | Antiinfective
Smuro (Cinolene) | Anticoagulant
Gravitor (Pyritoxigmine) | Antiinfective
Lamcosyn (Lamigereina) | Anticancer

**SUN**

Adllool (Adolfin Diprotis) | Chronic Hepatitis-B
Neualford Forte SGC (Methylcobalamin + Vitamin B12) | Vitamin- Antioxidant
Urocal SR (Urocalcic Acid) | Gastroesophageal Reflux Disease
Fluxa D (Metadoxil + Diclofenac) | Muscle Relaxant

**SUN ONCOLOGY**

Anabap (Anastrozol) | Breast Cancer
Gemat (Gemeclines) | Non Small Cell Lung Cancer
Lipodam (Liposomal Dacarbazine) | Anticancer
Caexa (Capcitabine) | Anticancer
Voraze (Vincristol) | Anticancer

**INCA**

Darus (Duxomincidane) | BPH
Tanzo P (Temulsion + Flutamox) | BPH

**FINANCIAL RESULTS**

<table>
<thead>
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**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.
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.

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.

Net profit* margin 32%, operating margin 36%

* Consolidated

Standalone

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit (Rs. Mill.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>127</td>
</tr>
<tr>
<td>2003</td>
<td>370</td>
</tr>
<tr>
<td>2004</td>
<td>491</td>
</tr>
<tr>
<td>2005</td>
<td>516</td>
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<tr>
<td>2006</td>
<td>889</td>
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<td>2007</td>
<td>1108</td>
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Standalone

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Worth (Rs. Mill.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>142</td>
</tr>
<tr>
<td>2003</td>
<td>217</td>
</tr>
<tr>
<td>2004</td>
<td>267</td>
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<tr>
<td>2005</td>
<td>316</td>
</tr>
<tr>
<td>2006</td>
<td>535</td>
</tr>
<tr>
<td>2007</td>
<td>692</td>
</tr>
</tbody>
</table>

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Management Discussion and Analysis

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Net profit* margin 32%, operating margin 36%
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.

Company performance

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.

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.
### New Products

<table>
<thead>
<tr>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SYNERGY</strong></td>
<td></td>
<td><strong>SYNERGY</strong></td>
<td></td>
</tr>
<tr>
<td>Moldkart (Modifinyl)</td>
<td>Sleep disorders, Narcolepsy</td>
<td>Adasense (Ampirat)</td>
<td>Antipsychotic</td>
</tr>
<tr>
<td>Arpezol (Arpizon)</td>
<td>Antidepressant</td>
<td>Adiplace (Adimel)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>Neoxo Forte (Esteract + Closazapam)</td>
<td>Antidepressant</td>
<td>Adacourt (Acimel)</td>
<td>Antipsychotic</td>
</tr>
<tr>
<td>Duzala (Duloxetine)</td>
<td>Antidepressant</td>
<td>Adacord (Aditrel)</td>
<td>Pain Management</td>
</tr>
<tr>
<td>Adacpampe (Entacapam)</td>
<td>Parkinsons disease</td>
<td></td>
<td></td>
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<tr>
<td><strong>SYMBIOSIS</strong></td>
<td></td>
<td><strong>SYMBIOSIS</strong></td>
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<tr>
<td>Admenta (Memantine)</td>
<td>Antipsychotic</td>
<td>Admeta (Amsite)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>Tazarop (Tazarotene)</td>
<td>Antipsychotic</td>
<td>Aztra (Aztral)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>Admeta (Memantine)</td>
<td>Antipsychotic</td>
<td>Zalper (Zalfor)</td>
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<tr>
<td><strong>ORTUS</strong></td>
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<td><strong>ORTUS</strong></td>
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<tr>
<td>Tazotop (Tazarotene)</td>
<td>Antipsychotic</td>
<td>Alzamers (Addo)</td>
<td>Antidepressant</td>
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<tr>
<td>Rosil Ointment (Calcrox)</td>
<td>Topical Antiinflammatory</td>
<td>ADD (Antiinflammatory)</td>
<td>Antipsychotic</td>
</tr>
<tr>
<td>Claia (Ciclosporin)</td>
<td>Antipsychotic</td>
<td>Am Luquer (Limusin)</td>
<td>Topical Antiinflammatory</td>
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<tr>
<td>Am Luquer (Limusin)</td>
<td>Antipsychotic</td>
<td></td>
<td>Antipsychotic</td>
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<tr>
<td><strong>SIBUS</strong></td>
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<tr>
<td>Tigetol (Tigabolin)</td>
<td>Antipsychotic</td>
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<tr>
<td>Cilatrop (Cilastrol)</td>
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<td>Avorst (Avosten)</td>
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<td>Lamosyn (Lamotgolin)</td>
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<td><strong>SUN</strong></td>
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<td><strong>SUN</strong></td>
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<td>Adefovir (Adefovir Dipivoxil)</td>
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<td>Fasura D (Metastazol + Doxilastazol)</td>
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<td><strong>SUN ONCOLOGY</strong></td>
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<td><strong>SUN ONCOLOGY</strong></td>
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<td>Anticancer</td>
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<td>Lipodox (Liposomal Doxazocin)</td>
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<tr>
<td>Caxaex (Capocetacin)</td>
<td>Anticancer</td>
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<td>Anticancer</td>
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<tr>
<td>Voraze (Vorinazezol)</td>
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<td><strong>INCA</strong></td>
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<td>Duratas (Dutarsate)</td>
<td>BPH</td>
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<td>BPH</td>
</tr>
<tr>
<td>Tamaro P (Tinumol + Frestrozol)</td>
<td>BPH</td>
<td></td>
<td>BPH</td>
</tr>
</tbody>
</table>

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### Directors' Report

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

### FINANCIAL RESULTS

<table>
<thead>
<tr>
<th>Year ended 31st March, 2005 (Rs. Millions)</th>
<th>Year ended 31st March, 2004 (Rs. Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>12468</td>
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<tr>
<td>Profit after tax</td>
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<tr>
<td>Dividend</td>
<td>2817</td>
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<tr>
<td>Preference Shares</td>
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<tr>
<td>Equity Shares Final</td>
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<tr>
<td>Corporate Dividend tax</td>
<td>6211</td>
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<tr>
<td>Transfer to various Reserves</td>
<td>7590</td>
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<tr>
<td>Rate of dividend on equity shares</td>
<td>8019</td>
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<tr>
<td>Book value per equity share (Rs. 5 paid up)</td>
<td>9598</td>
</tr>
</tbody>
</table>

*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.
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 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 $0.1 mill. 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)
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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.

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* (corrected for subsequent event)
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.

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 1 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.

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%.

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.

International markets

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.

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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.

Cautions 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.
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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.

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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.

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.

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### New Products

<table>
<thead>
<tr>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
<th>DIVISION / PRODUCT</th>
<th>THERAPY AREA / USE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SYNERGY</strong></td>
<td></td>
<td><strong>SYNERGY</strong></td>
<td></td>
</tr>
<tr>
<td>Moldeart (Modofinil)</td>
<td>Sleep disorders, Nacoropsy</td>
<td>Solares</td>
<td>Gastric Prokinetic</td>
</tr>
<tr>
<td>Arpezal (Aripiprazole)</td>
<td>Antipsychotic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nexco Forte</td>
<td></td>
<td>Predmet (Methyl Prednisolone)</td>
<td>COPD, Bronchial asthma, Neupathy</td>
</tr>
<tr>
<td>(Escitalopram + Clonazepam)</td>
<td>Antidepressant</td>
<td>Dolase (Duloxetine)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>Dulase (Duloxetine)</td>
<td></td>
<td>Dolase (Duloxetine)</td>
<td>Antidepressant</td>
</tr>
<tr>
<td>Adcapasone (Entanpopate)</td>
<td>Parakeratosis disease</td>
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<td></td>
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<tr>
<td><strong>SYMBOSSIS</strong></td>
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<tr>
<td>Admena (Mitomycin)</td>
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<tr>
<td>Axtaltrazol (Axtaltrazol)</td>
<td></td>
<td></td>
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<tr>
<td>Stezado MD (Stezadox mouth dissolving)</td>
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<tr>
<td><strong>ORTUS</strong></td>
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<tr>
<td>Tazotop (Tazosine)</td>
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<tr>
<td>Rotical Ointment (Cicatric)</td>
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<tr>
<td>Ctris (Cicatricom))</td>
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<tr>
<td>Arz Leqet (Acromytic nail lag)</td>
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<tr>
<td><strong>SIRIUS</strong></td>
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<tr>
<td>Tigelas (Tigameline)</td>
<td>Antipsychotic</td>
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<tr>
<td>Metapil (Metapil)</td>
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<td>Srovi (Cicatricol)</td>
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<td>Granitur (Fentioligene)</td>
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<tr>
<td>Larnosyn (Lamotrigene)</td>
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<td><strong>SUN</strong></td>
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<tr>
<td>Aforbas (Aforbas)</td>
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<tr>
<td>Nucoctal Forte SGC (Methylsulfone + Vitamins)</td>
<td>Vitamin - Antioxidant</td>
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<tr>
<td>Uriocal SR (Ureoseocysol Acid)</td>
<td>Gallstone Disease</td>
<td></td>
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<tr>
<td>Flexura D (Metatexin + Diblocin)</td>
<td>Muscular Relaxant</td>
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<tr>
<td><strong>SUN ONCOLOGY</strong></td>
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<tr>
<td>Anabazole (Anastrozole)</td>
<td>Breast Cancer</td>
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<tr>
<td>Germa (Geomucil)</td>
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<tr>
<td>Lipodol (Lipidol Dexamethasone)</td>
<td>Anticaancer</td>
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<tr>
<td>Cazea (Captopil)</td>
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<tr>
<td>Voraze (Vorace)</td>
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<tr>
<td><strong>INCA</strong></td>
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<tr>
<td>Durata (Doustopire)</td>
<td></td>
<td></td>
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<tr>
<td>Tamh F (Tamulosin + Finestrol)</td>
<td>BPH</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Directors' Report

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

#### FINANCIAL RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31st March, 2005</th>
<th>Year ended 31st March, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. Millions)</td>
<td>(Rs. Millions)</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>12468</td>
<td>9598</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>3057</td>
<td>2594*</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Preference Shares</strong></td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td><strong>Equity Shares Final</strong></td>
<td>696</td>
<td>603</td>
</tr>
<tr>
<td><strong>Corporate Dividend tax</strong></td>
<td>98</td>
<td>79</td>
</tr>
<tr>
<td><strong>Transfer to various Reserves</strong></td>
<td>1500</td>
<td>1003</td>
</tr>
<tr>
<td><strong>Rate of dividend on equity shares</strong></td>
<td>75%</td>
<td>65%*</td>
</tr>
<tr>
<td><strong>Book value per equity share (Rs. 5 paid up)</strong></td>
<td>60</td>
<td>93*</td>
</tr>
</tbody>
</table>

* 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 Vakant 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.
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.

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.

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.

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

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