

**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, 2006, 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, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 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, 2006
    - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
    - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For **DELOITTE HASKINS & SELLS**  
Chartered Accountants

**N. P. Sarda**  
Partner

Mumbai, June 7, 2006

Membership No. 9544

Sun Pharmaceutical Industries Ltd.



## **ANNEXURE TO THE AUDITORS' REPORT**

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

1. In our opinion and according to the information and explanations given to us, the nature of the Company's business / activities during year is such that clauses xiii, xviii and xx of 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 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 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. 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. 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. 2,907.46 Million from four parties and the maximum amounts involved during the year was Rs. 6,815.95 Million from six parties.
  - (ii) The rate of interest, wherever applicable 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 as per stipulation.
  - (iv) There is no overdue amount in excess of Rs. 1 lakh in respect of loans granted to Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.
  - (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, hence clauses (e), (f) & (g) are not applicable.

Sun Pharmaceutical Industries Ltd.

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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 the firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.
9. We have broadly reviewed the books of accounts and records maintained by the Company relating to manufacture of formulation and bulk drug products pursuant to the Order made by the Central Government for maintenance of cost records under section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained. 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, 2006 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, 2006 on account of any dispute, are as under:

<b>Statute &amp; Nature of Dues</b>	<b>Financial Year to which the matter pertains</b>	<b>Forum where dispute is pending</b>	<b>Amount Rs. Millions</b>
<b>The Central Excise Act</b>			
Excise Duty, Interest & Penalty	1998-99, 2002-03, 2004-05, 2005-06	Commissioner	1.8
	1998-99, 2001-02, 2002-03, 2004-05	Tribunal	6.9
<b>Customs Act, 1962</b>			
Custom Duty, Penalty Interest	2000-01	Appeal to be filed at High Court	9.4
<b>Sales Tax Act</b>			
Sales Tax, Interest & Penalty	2000-01,2001-02	Dy. Commissioner	13.0
	2001-02,1994-95,1998-99	Asst. Commissioner	5.2
	2000-01, 2001-02, 1999-00, 2002-03	Joint.Commissioner	6.1
	1988-89 to 1991-92, 1999-00, 1997-98, 1998-99, 2000-01, 1999-00, 1997-98	Tribunal	6.4
	1999-00, 1981-82 to 1985-86	High Court	1.1
	1993-94 to 1998-99	Assessing officer	10.8
<b>Income Tax Act</b>			
Income tax, Interest	1995-96, 1997-98, 1998-99, 1988-89 to 7.12.1998, 1999-00, 2000-01 & 2001-02	Tribunal	62.0
	2000-01, 2002-03 & 2003-04	Commissioner	127.8
<b>Employee State Insurance Act.</b>			
Contribution	Upto 1996	Appellate authority	0.2
<b>Drug Price Control Order</b>			
DPEA & 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.

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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 or debenture holders.
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 unsecured debentures. Pursuant to the business acquisition of M J Pharmaceuticals Limited ('M J Pharma') by the Company on March 31, 2005, unsecured debentures issued by the erstwhile M J Pharma that were outstanding at the beginning of the year have been fully repaid as at the year end. No securities had been created by the Company on such unsecured debentures.
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

**N. P. Sarda**  
Partner

Mumbai, June 7, 2006

Membership No. 9544



## BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedules	As at 31st March, 2006		As at 31st March, 2005	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Funds</b>					
Share Capital	1	942.7		941.6	
Share Capital Suspense	1A	-		0.1	
Reserves and Surplus	2	13706.7	14649.4	10112.8	11054.5
<b>Loan Funds</b>					
Secured Loans	3	182.3		139.2	
Unsecured Loans	4	17275.9	17458.2	18007.3	18146.5
<b>Deferred Tax Liability (Net)</b>	5		1044.4		853.0
<b>TOTAL</b>			<b>33152.0</b>		<b>30054.0</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	6	7442.6		6120.5	
Less: Depreciation / Amortisation / Impairment and Lease Terminal Adjustment		2080.7		1729.0	
Net Block		5361.9		4391.5	
Capital Work-in-Progress (including advances on capital account)		308.0	5669.9	479.4	4870.9
<b>Investments</b>	7		7796.2		9852.4
<b>Current Assets, Loans and Advances</b>					
Inventories	8	2634.1		1866.2	
Sundry Debtors	9	2564.7		2349.7	
Cash and Bank Balances	10	12308.2		8900.3	
Other Current Assets	11	175.5		45.0	
Loans and Advances	12	4890.2		4384.1	
		22572.7		17545.3	
<b>Less: Current Liabilities and Provisions</b>	13				
Current Liabilities		1661.8		1370.1	
Provisions		1225.0		844.5	
		2886.8		2214.6	
<b>Net Current Assets</b>			19685.9		15330.7
<b>TOTAL</b>			<b>33152.0</b>		<b>30054.0</b>

### SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS 21

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

As per our report of even date attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**N. P. SARDA**  
Partner

Mumbai, 07th June, 2006

**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

Vadodara, 06th June, 2006

Sun Pharmaceutical Industries Ltd.

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

	Schedules	Year ended 31st March, 2006		Year ended 31st March, 2005	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>INCOME</b>					
Income from Operations					
Gross Sales		13530.1		10443.5	
Less: Excise Duty		613.7		487.3	
Net Sales		12916.4		9956.2	
Other Operating Income	14	3899.1		2093.3	
		16815.5		12049.5	
Other Income	15	1244.1	18059.6	418.6	12468.1
<b>EXPENDITURE</b>					
Cost of Materials / Goods	16	8309.0		5564.4	
Indirect Taxes	17	413.9		412.4	
Personnel Cost	18	820.1		653.1	
Operating and Other Expenses	19	2088.1		1533.7	
Research and Development Expenditure	20	1134.4		741.4	
Depreciation / Amortisation		407.3	13172.8	328.3	9233.3
<b>PROFIT BEFORE TAXATION</b>			<b>4886.8</b>		<b>3234.8</b>
Provision for Taxation - Current Tax			73.8		65.3
- Deferred Tax			191.4		112.4
- Fringe Benefit Tax			8.7		—
<b>PROFIT AFTER TAX</b>			<b>4612.9</b>		<b>3057.1</b>
<b>BALANCE OF PROFIT BROUGHT FORWARD</b>			<b>2594.5</b>		<b>1905.7</b>
Adjustment of Carried Forward Profit / (Loss) of Amalgamating Company			—		1.9
<b>AMOUNT AVAILABLE FOR APPROPRIATION</b>			<b>7207.4</b>		<b>4964.7</b>
<b>APPROPRIATIONS</b>					
Proposed Dividend					
Preference Shares		0.8		0.8	
Equity Shares-Final		1023.0		695.7	
Proposed Dividend written back		—		(58.4)	
Corporate Dividend Tax		143.6		99.1	
Corporate Dividend tax written back		—	1167.4	(7.5)	729.7
Transfer to General Reserve		2000.0		1500.0	
Transfer to Capital Redemption Reserve		0.1		140.5	
Transfer to Debenture Redemption Reserve		136.7	2136.8	—	1640.5
<b>BALANCE OF PROFIT CARRIED TO BALANCE SHEET</b>			<b>3903.2</b>		<b>2594.5</b>
<b>EARNING PER SHARE (Refer note 13 (ii) of Schedule 21)</b>					
Basic (Rs.)			24.9		16.5
Diluted (Rs.)			22.3		16.0

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS 21**

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

As per our report of even date attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**N. P. SARDA**  
Partner

Mumbai, 07th June, 2006

**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

Vadodara, 06th June, 2006

Sun Pharmaceutical Industries Ltd.



## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
<b>A. Cash Flow From Operating Activities:</b>		
Net Profit Before Tax	4886.8	3234.8
Adjustments for:		
Depreciation	407.3	328.3
Interest Expense	112.3	114.8
Interest Income	(943.5)	(219.5)
(Profit) / Loss On Fixed Assets Sold (net)	0.6	6.7
(Profit) / Loss on sale of Investments	(109.3)	(68.5)
Goodwill written off	—	24.5
Bad Debt Written off / back	21.6	19.0
Liability No Longer Required Written Back	5.1	(58.6)
Provision For Gratuity and Leave Encashment	7.3	7.2
Unrealised Foreign Exchange (Gain) / Loss	(91.6)	15.3
Dividend writeback	—	65.9
Lease Terminal Adjustment	(0.1)	(1.9)
<b>Operating Profit Before Working Capital Changes</b>	<b>4296.5</b>	<b>3468.0</b>
<b>Adjustments for Changes In Working Capital :</b>		
(Increase)/Decrease in Sundry Debtors	(284.4)	(1049.1)
(Increase)/Decrease in Other Receivables	(341.8)	(22.5)
(Increase)/Decrease in Inventories	(767.9)	(251.7)
Increase/(Decrease) in Trade and Other Payables	359.4	152.5
<b>Cash Generated From Operations</b>	<b>3261.8</b>	<b>2297.2</b>
Taxes (Paid) / Received (Net of TDS and Refund)	(153.5)	(99.1)
<b>Net Cash Generated From Operating Activities</b>	<b>3108.3</b>	<b>2198.1</b>
<b>B. Cash Flow From Investing Activities:</b>		
Purchase of Fixed Assets / Capital Work in Progress	(1241.5)	(1275.2)
Proceeds From Sale of Fixed Assets	17.6	37.0
Proceeds From Sale of Investments	21989.5	13517.6
Purchase of Investments	(19709.8)	(17714.6)
Loans/Inter Corporate Deposits Received back / Given (Net)	(100.6)	(3324.9)
Interest Received	652.4	125.7
<b>Net Cash Generated/ (Used) In Investing Activities</b>	<b>1607.6</b>	<b>(8634.4)</b>
<b>C. Cash Flow From Financing Activities:</b>		
ECB Loan taken	(0.2)	(80.5)
Zero Coupon Foreign Currency Convertible Bonds	—	15753.5
Zero Coupon Debenture	—	262.3
Redemption of Zero Coupon Debenture	(136.7)	(125.6)
Repayment of Deferred Sales Tax Loan	(2.4)	(52.3)
Redemption of Preference Share Capital	(0.1)	(140.5)
Short Term Loan Repaid	(306.4)	(358.0)
Borrowing from Bank	43.1	13.9
Interest Paid	(112.3)	(69.2)
Dividend Paid	(695.3)	(552.4)
Dividend Tax Paid	(97.7)	(72.3)
<b>Net Cash Generated In Financing Activities</b>	<b>(1308.0)</b>	<b>14578.9</b>
<b>Net Increase/(Decrease) In Cash and Cash Equivalents</b>	<b>3407.9</b>	<b>8142.6</b>
<b>Cash and Cash Equivalents (Opening)</b>	<b>8900.3</b>	<b>757.5</b>
Cash and Cash Equivalents Acquired on Amalgamation	—	0.2
<b>Cash and Cash Equivalents (Closing)</b>	<b>12308.2</b>	<b>8900.3</b>



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006**

	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
<b>Cash and Cash Equivalents Comprise:</b>		
Cash and Cheques on hand and balances with Scheduled / Other banks	12328.4	8900.3
Unrealised exchange Loss	(20.2)	-
<b>Cash and Cash equivalents at the end of the year</b>	<u><u>12308.2</u></u>	<u><u>8900.3</u></u>

**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 for previous year 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. 7.3 Million (Previous Year Rs. 6.2 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

**N. P. SARDA**  
Partner

Mumbai, 07th June, 2006

**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

Vadodara, 06th June, 2006



## SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million
<b>SCHEDULE 1 : SHARE CAPITAL</b>		
<b>Authorised</b>		
307,900,000 (Previous Year 307,900,000) Equity Shares of Rs. 5 each	1539.5	1539.5
25,000,000 (Previous Year 25,000,000) Preference Shares of Re.1 each	25.0	25.0
2,015,000 (Previous Year 2,015,000) Preference Shares of Rs.100 each	201.5	201.5
	<u>1766.0</u>	<u>1766.0</u>
<b>Issued, Subscribed and Paid Up</b>		
185,731,637 (Previous Year 185,511,356) Equity Shares of Rs. 5 each	928.7	927.6
13,983,534 (Previous Year 14,030,430) 6% Cumulative Redeemable Preference Shares of Re.1 each	14.0	14.0
	<u>942.7</u>	<u>941.6</u>

### Notes:

#### Of the above :

- 1) 161,630,010 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 and 4274 Equity Shares of Rs. 5 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, M.J.Pharmaceuticals Ltd and Phlox Pharmaceuticals Limited. 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, 46,896 (Previous Year 224,698) Preference shares were redeemed at par and Nil (Previous Year 140,261,922) Preference shares have been bought back during the year.
- 4) 216,007 (Previous Year Nil) Equity Shares of Rs. 5 each were allotted to the holders of Zero Coupon Foreign Currency Convertible Bond on exercise of conversion option.

### SCHEDULE 1A : SHARE CAPITAL SUSPENSE

Nil (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.

<u>—</u>	<u>0.1</u>
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Sun Pharmaceutical Industries Ltd.

**SCHEDULES TO THE FINANCIAL STATEMENTS**

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 2 : RESERVES AND SURPLUS</b>				
<b>Capital Reserve</b>				
As per last Balance Sheet	267.2		16.7	
Transferred from Amalgamating company	—		250.5	
Amalgamation Adjustment	(8.2)		—	
Transferred from Share Capital Suspense (Refer note 18 of Schedule 21)	0.1	259.1	—	267.2
<b>Securities Premium</b>				
As per last Balance Sheet	—		—	
Received during the year	156.5	156.5	—	—
<b>Capital Redemption Reserve</b>				
As per last Balance Sheet	140.5		351.3	
Add : Transferred from Profit and Loss Account	0.1		140.5	
	140.6		491.8	
Less: Utilised for Issue of Bonus Equity Shares	—	140.6	351.3	140.5
<b>Debenture Redemption Reserve</b>				
As per last Balance Sheet	—		—	
Add : Transferred from Profit and Loss Account	136.7		—	
	136.7		—	
Less: Transferred to General Reserve on redemption of Debentures	136.7	—	—	—
<b>General Reserve</b>				
As per last Balance Sheet	7110.6		5703.6	
Add : Transferred from Amalgamating Company	—		26.1	
Transferred from Profit and Loss Account	2000.0		1500.0	
Transferred from Debenture Redemption Reserve	136.7		—	
	9247.3		7229.7	
Less: Utilised for issue of Bonus equity shares	—		112.4	
Utilised for Buy-Back of Preference Shares (Rs 46,896)	0.0		4.2	
Utilised for Impairment of Fixed Assets	—	9247.3	2.5	7110.6
<b>Surplus As Per Profit And Loss Account</b>				
		3903.2		2594.5
		<u>13706.7</u>		<u>10112.8</u>
<b>SCHEDULE 3 : SECURED LOANS</b>				
Short Term Loan from Banks (Secured by hypothecation of stock and book debts.)		182.3		139.2
		<u>182.3</u>		<u>139.2</u>
<b>SCHEDULE 4 : UNSECURED LOANS</b>				
<b>Long Term</b>				
External Commercial Borrowings in foreign currency from Banks*	1808.1		1808.3	
Zero Coupon Foreign Currency Convertible Bonds (Refer note 19 of Schedule 21)	15467.8		15753.5	
Nil (Previous Year 1,367,011) - 0% Debentures	—		136.7	
Deferred Sales Tax Liability	—		2.4	
Other Loans	—	17275.9	0.2	17701.1
<b>Short Term</b>				
From Banks		—		306.2
		<u>17275.9</u>		<u>18007.3</u>

\* includes repayable within one year Rs. 907.9 Million (Previous Year Nil)

Sun Pharmaceutical Industries Ltd.



## SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 5 : DEFERRED TAX LIABILITY (NET)</b>				
Deferred Tax Assets				
Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961		17.9		18.6
Others		8.9		7.8
		<u>26.8</u>		<u>26.4</u>
Deferred Tax Liability				
Depreciation on Fixed Assets		1071.2		879.4
		<u>1044.4</u>		<u>853.0</u>

## SCHEDULE 6 : FIXED ASSETS

Rs in Million

Particulars	Gross Block (At Cost)					Depreciation / Amortisation					Impairment of Assets	Net Block	
	As At 1.4.05	Additions on Amalgamation	Additions 05-06	Deletions 05-06	As at 31.03.06	As at 1.4.05	Additions on Amalgamation	For year 05-06	Written back/ Deleted 05-06	As at 31.03.06		As at 31.03.06	As at 31.03.05
<b>A. OWNED ASSETS</b>													
<b>I. TANGIBLE ASSETS</b>													
Freehold Land	23.9	—	—	—	23.9	—	—	—	—	—	—	23.9	23.9
Leasehold Land	20.0	—	7.4	—	27.4	4.8	—	0.2	—	5.0	—	22.4	15.2
Buildings	1,582.4	—	295.5	—	1,877.9	196.2	—	42.0	—	238.2	—	1,639.7	1,386.2
Plant and Machinery	3,814.3	—	1,006.2	7.3	4,813.2	1,228.0	—	316.0	0.6	1,543.4	—	3,269.8	2,586.3
Vehicles	68.2	—	27.2	2.3	93.1	23.7	—	7.4	1.2	29.9	—	63.2	44.5
Furniture and Fixtures	137.8	—	25.4	—	163.2	42.5	—	11.0	—	53.5	—	109.7	95.3
<b>Sub -Total</b>	<b>5,646.6</b>	<b>—</b>	<b>1,361.7</b>	<b>9.6</b>	<b>6,998.7</b>	<b>1,495.2</b>	<b>—</b>	<b>376.6</b>	<b>1.8</b>	<b>1,870.0</b>	<b>—</b>	<b>5,128.7</b>	<b>4,151.4</b>
<b>II. INTANGIBLE ASSETS</b>													
Trademarks, Designs and Other Intangible Assets	409.7	—	34.2	—	443.9	180.0	—	30.7	—	210.7	—	233.2	229.7
<b>Sub -Total</b>	<b>409.7</b>	<b>—</b>	<b>34.2</b>	<b>—</b>	<b>443.9</b>	<b>180.0</b>	<b>—</b>	<b>30.7</b>	<b>—</b>	<b>210.7</b>	<b>—</b>	<b>233.2</b>	<b>229.7</b>
<b>SUBTOTAL-A</b>	<b>6,056.3</b>	<b>—</b>	<b>1,395.9</b>	<b>9.6</b>	<b>7,442.6</b>	<b>1,675.2</b>	<b>—</b>	<b>407.3</b>	<b>1.8</b>	<b>2,080.7</b>	<b>—</b>	<b>5,361.9</b>	<b>4,381.1</b>
<b>B. LEASED ASSETS</b>													
Assets Given On Lease	64.2	—	—	64.2	—	29.8	—	—	29.8	—	—	—	—
Lease Terminal Adjustment	—	—	—	—	—	24.0	—	—	24.0	—	—	—	—
<b>SUBTOTAL-B</b>	<b>64.2</b>	<b>—</b>	<b>—</b>	<b>64.2</b>	<b>—</b>	<b>53.8</b>	<b>—</b>	<b>—</b>	<b>53.8</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>10.4</b>
<b>TOTAL A+B</b>	<b>6,120.5</b>	<b>—</b>	<b>1,395.9</b>	<b>73.8</b>	<b>7,442.6</b>	<b>1,729.0</b>	<b>—</b>	<b>407.3</b>	<b>55.6</b>	<b>2,080.7</b>	<b>—</b>	<b>5,361.9</b>	<b>4,391.5</b>
Previous Year	5,100.8	1.1	1,091.4	72.8	6,120.5	1,428.9	—	328.3	30.7	1,726.5	2.5	308.0	479.4
												5,669.9	4,870.9

Capital Work-in-Progress (including advances on capital account)

### NOTES :

- Buildings include Rs. 1020 (Previous Year Rs 1020) towards cost of shares in a Co-operative Housing Society.

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million

## SCHEDULE 7 : INVESTMENTS

### (I) LONG TERM INVESTMENTS (At Cost)

#### A) Government Securities

National Savings Certificates Rs. 70,000 (Previous Year Rs. 70,000) (Deposited with Government Authorities)	0.1	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
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Sun Pharmaceutical Industries Ltd.

**SCHEDULES TO THE FINANCIAL STATEMENTS**

	<b>As at 31st March, 2006</b>		<b>As at 31st March, 2005</b>	
	<b>Rs in Million</b>	<b>Rs in Million</b>	<b>Rs in Million</b>	<b>Rs in Million</b>
<b>C) Other Investments</b>				
<b>a) In Bonds</b>				
<b>Quoted</b>				
US64 Bonds		<b>42.2</b>		42.2
399,734 (Previous Year 399,734) units of Rs.100 each Market Value Rs.40.6 Million(Previous Year Rs.41.8 Million)				
<b>Unquoted</b>				
National Housing Bank Bonds		<b>53.2</b>		53.2
5,315 (Previous Year 5,315) Units of Rs.10,000 each fully paid				
Rural Electrification Corporation Ltd Bonds		<b>10.1</b>		5.3
1,015 (Previous Year 530) Units of Rs.10,000 each fully paid				
<b>b) In Subsidiary Companies</b>				
<b>Quoted</b>				
Caraco Pharmaceutical Laboratories Ltd.USA		<b>303.9</b>		303.9
8,382,666 (PreviousYear 8,382,666) fully paid Common Shares of No Par Value Market Value - Rs.4,864.7 Million (Previous Year Rs.2,999.9 Million)				
<b>Unquoted</b>				
Zao Sun Pharma Industries Ltd. Russia	<b>0.2</b>		0.2	
1,000 (Previous Year 1,000) Shares of Rubles 20 each fully paid				
Sun Pharma Global Inc. BVI	<b>17.6</b>		17.6	
500,000 (Previous Year 500,000) Shares of US \$ 1 each fully paid				
Sun Pharma Global Inc. BVI	<b>4481.4</b>		2025.4	
1,000,000 (Previous Year 450,000) 0% Optionally Fully Convertible Debentures of US\$100 each fully paid				
Milmet Pharma Ltd	—		0.5	
Nil (Previous Year 49,800) Equity Shares of Rs.10 each fully paid				
Sun Farmaceutica Ltda, Brazil	<b>5.2</b>		5.2	
336,538 (Previous Year 336,538) quota of Capital Stock of Real (R\$) 1 each				
Sun Pharma De Mexico, S.A. DE C.V.	<b>3.3</b>		3.3	
750 (Previous Year 750) Common Shares of no Face Value				
Sun Pharmaceutical Industries inc.	<b>0.2</b>		0.2	
5,000 (Prevous Year 5,000) fully paid Common Stock of \$ 1 Par Value				
Sun Pharmaceutical (Bangladesh) Ltd.				
434,469 (Previous Year 434,469) Ordinary Shares of 100 Takas each fully paid	<b>36.5</b>		36.5	
Share Application Money	<b>31.6</b>		27.0	
Sun Pharmaceuticals UK Ltd.	<b>0.1</b>		—	
100 (Prevous Year Nil) Ordinary Shares of £ 10 each.				
Sun Pharmaceutical Peru S.A.C.	<b>0.0</b>		—	
(Rs. 21,734 (Previous Year Rs.Nil)) 149 (Previous Year Nil) Ordinary Shares of Soles 10 each fully paid				
SPII DE Mexico SA DE CV	<b>0.2</b>		—	
100 Nominative and free Shares of \$500 Mexican Pesos each fully paid				
	_____	<b>4576.3</b>	_____	2115.9

Sun Pharmaceutical Industries Ltd.



## SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>c) In Capital of Partnership Firm</b>				
Sun Pharma Exports (Previous Year Rs.152)*	125.0		0.0	
Sun Pharmaceutical Industries**	1431.8	1556.8	1166.6	1166.6
<b>d) In Equity Shares</b>				
Ramin Developers Pvt Ltd		2.1		2.1
200 (Previous Year 200) Equity Shares of Rs.100 each fully paid (pending registration)				
<b>e) Others</b>				
Solapur Organics Ltd.		—		0.1
Nil (Previous Year 900) 0% Optionally fully Convertible Debentures of Rs.100 each fully paid				
<b>f) In Mutual Fund (Units of Face Value of Rs. 10/- Each) Unquoted</b>				
Kotak Mahindra Mutual Fund		—		150.0
“Kotak Fixed Maturity Plans (8)”- Growth Plan				
Nil (Previous Year 15,000,000) Units				
Reliance Capital Mutual Fund “Reliance Fixed Term Scheme-Annual Plan-3”-Growth Option Nil (Previous Year 25,000,000) Units		—		250.0
Standard Chartered Mutual Fund “G31 Grindlays Fixed Maturity Annual Plan “-Growth Nil (Previous Year 35,000,000) Units		—		350.0
ING Vysya Mutual Fund “ING Vysya Fixed Maturity Fund Series-II Growth Option 10,000,000 (Previous Year 10,000,000) Units		100.0		100.0
JM Financial Mutual Fund “J120JM Fixed Maturity Plan-YSW”-Growth Option Nil (Previous Year 20,000,000) Units		—		200.0
JM Financial Mutual Fund “J130JM Equity & Derivative Fund” -Growth Option Nil (Previous Year 25,000,000) Units		—		250.0
Principal Mutual Fund “Principal Deposit Fund (FMP) 371 days Plan”-Growth Nil (Previous Year 20,000,000)		—		200.0
Principal Mutual Fund “Principal Deposit Fund (FMP-6) 371 days plan-Nov-04”-Growth Nil (Previous Year 10,000,000) Units		—		100.0
Principal Mutual Fund “Principal Deposit Fund Growth-Feb-05 Nil (Previous Year 10,000,000) Units		—		100.0
SBI Mutual Fund “Magnum Debt Fund Series 15 Months Fund” -Growth Option 10,000,000 (Previous Year 10,000,000) Units		100.0		100.0
ABN Amro Asset Management-ABN Amro Fixed Term Plan-Series1-Regular- Growth Plan 5,000,000 (Previous Year Nil) Units		50.0		—
Principal Mutual Fund “Principal Pnb Fixed Maturity Plan-460 Dys-Series I Growth Plan-Feb-06 40,000,000 (Previous Year Nil) Units		400.0		—
Standard Chartered Mutual Fund “G134 GFMP-20 <sup>th</sup> Plan “-Growth 50,000,000 (Previous Year Nil) Units		500.0		—
<b>Total (I)</b>		<b>7695.7</b>		<b>5490.4</b>

Sun Pharmaceutical Industries Ltd.

**SCHEDULES TO THE FINANCIAL STATEMENTS**

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)</b>				
<b>a) In Subsidiary Companies</b>				
<b>Unquoted</b>				
Sun Pharma Advance Research Company Ltd. 500,000 (Previous Year Nil) Equity Shares of Re 1 each fully paid		0.5	—	—
<b>b) In Mutual Fund (Units of Face Value of Rs. 10/- Each)</b>				
Kotak Mahindra Mutual Fund "Inst Premium "-Growth Nil (Previous Year 2,249,027) Units	—		30.0	
JM Financial Mutual Fund "J94JM High Liquidity Fund-Super Institutional Plan" -Growth Nil (Previous Year 4,796,025) Units	—		50.0	
DWS Investment S.A"DWS Institutional USD Money Plus" Nil (Previous Year 9,167) Units	—		4282.0	
Principal Mutual Fund "Principal Cash Management Fund Growth" 9,183,495 (Previous Year Nil) Units	100.0		—	4362.0
		<b>100.0</b>		
<b>Total (II)</b>		<b>100.5</b>		<b>4362.0</b>
<b>Total (I+II)</b>		<b>7796.2</b>		<b>9852.4</b>

AGGREGATE VALUE OF INVESTMENT	Book Value	Market Value	Book Value	Market Value
Quoted	346.1	4905.3	346.1	3041.7
Unquoted	7450.1		9506.3	
<b>*Partners</b>	Share	<b>Capital</b>		<b>Capital</b>
Sun Pharmaceutical Industries Limited.	80%	125.0	—	—
Solapur Organics Private Limited	10%	—	—	—
Dilip S. Shanghvi	10%	—	—	—
<b>**Partners</b>	Share	<b>Capital</b>		<b>Capital</b>
Sun Pharmaceutical Industries Limited.	95%	1431.8		1166.6
Sun Pharmaceutical Industries Key Employees' Benefit Trust	5%	303.1		139.5

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million

**SCHEDULE 8 : INVENTORIES**

Consumables Stores		71.4		34.4
Stock in Trade				
Raw Materials	950.5		829.7	
Packing Materials	115.9		78.1	
Finished Goods	587.5		434.3	
Work-in-Progress	908.8	2562.7	489.7	1831.8
		<b>2634.1</b>		<b>1866.2</b>

Sun Pharmaceutical Industries Ltd.



## SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 9 : SUNDRY DEBTORS</b>				
(Unsecured-Considered Good, unless stated otherwise)				
(Refer note 13 ( i ) of Schedule 21)				
Over Six Months				
Considered Good		392.3		237.9
Considered Doubtful	34.9		21.4	
Less: Provison for Doubtful Debts	34.9	—	21.4	—
Other Debts		<u>2172.4</u>		<u>2111.8</u>
		<u><u>2564.7</u></u>		<u><u>2349.7</u></u>
<b>SCHEDULE 10 : CASH AND BANK BALANCES</b>				
Cash / Cheques on hand		4.2		4.6
Balances with Banks				
Schedule Banks				
Current Accounts	83.2		28.6	
Deposit Accounts	9670.8		7283.3	
Unpaid Dividend Accounts	7.3	9761.3	6.2	7318.1
Other Banks (Refer note 15 of Schedule 21)				
Current Accounts	17.9		0.7	
Deposit Accounts	2524.8	2542.7	1576.9	1577.6
		<u>12308.2</u>		<u>8900.3</u>
<b>SCHEDULE 11 : OTHER CURRENT ASSETS</b>				
Interest accrued on - Investment		3.3		34.1
- Bank Balance		172.2		10.9
		<u>175.5</u>		<u>45.0</u>
<b>SCHEDULE 12 : LOANS AND ADVANCES</b>				
(Unsecured-Considered Good, unless stated otherwise)				
Advances and loans to subsidiaries (Refer note 16 of Schedule 21)		2967.5		3098.0
Loan to Employees / Others*		387.7		135.7
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		393.2		211.0
Considered Doubtful	9.5		4.5	
Less: Provison for Doubtful Advances	9.5	—	4.5	—
Advances to Suppliers		349.9		345.1
Balances with Central Excise and Customs		324.8		161.6
DEPB and Advance Licence		225.4		222.9
Other Deposits		52.6		45.0
Advance Payment of Income Tax (Net of Provisions)		189.1		164.8
		<u>4890.2</u>		<u>4384.1</u>

\* Secured Loans Rs. Nil (Previous Year Rs. 24.1 Million)



**SCHEDULES TO THE FINANCIAL STATEMENTS**

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 13 : CURRENT LIABILITIES AND PROVISIONS</b>				
<b>Current Liabilities</b>				
Sundry Creditors				
Due to Small Scale Industrial Undertakings	—		—	
Others	769.6		642.3	
Advance from Customers	36.4		189.0	
Security Deposits	18.3		26.8	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	7.4		6.2	
Other Liabilities	797.0		482.1	
Interest accrued but not due on Loans	33.1	1661.8	23.7	1370.1
	<hr/>		<hr/>	
<b>Provisions</b>				
Provision for Fringe Benefit Tax	—		—	
(Net of Advance Tax Rs. 8.7 Million)				
Proposed Dividend - Equity Shares	1023.0		695.7	
- Preference Shares	0.8		0.8	
	<hr/>		<hr/>	
	1023.8		696.5	
Corporate Dividend Tax	143.6		97.7	
Provision for Earned Leave	57.6	1225.0	50.3	844.5
	<hr/>		<hr/>	
		<b>2886.8</b>		<b>2214.6</b>
		<hr/> <hr/>		<hr/> <hr/>
	<b>Year ended 31st March, 2006</b>	<b>Rs in Million</b>	<b>Year ended 31st March, 2005</b>	<b>Rs in Million</b>
<b>SCHEDULE 14 : OTHER OPERATING INCOME</b>				
Share of Profit from Partnership Firm		3887.0		2078.5
Lease Rental and Hire Charges-TDS Rs.0.5 Million	12.0		13.0	
(Previous Year Rs.0.5 Million)				
Add: Lease Equalisation Account	0.1	12.1	1.8	14.8
	<hr/>	<hr/>	<hr/>	<hr/>
		<b>3899.1</b>		<b>2093.3</b>
		<hr/> <hr/>		<hr/> <hr/>
<b>SCHEDULE 15 : OTHER INCOME</b>				
Interest from Banks & Other Advances / Deposits		830.7		104.8
TDS Rs.49.0 Million (Previous Year Rs. 20.4 Million)				
(Refer note 6 of Schedule 21)				
Profit on Sale of Fixed Assets		0.2		1.6
Profit on Sale of Current Investments		109.3		68.5
Sundry Balances Written Back (Net)		—		58.2
Insurance Claims		4.0		6.0
Miscellaneous Income-TDS Rs. 0.3 Million (Previous Year Rs. 1.7 Million)		299.9		179.5
		<hr/>		<hr/>
		<b>1244.1</b>		<b>418.6</b>
		<hr/> <hr/>		<hr/> <hr/>
<b>SCHEDULE 16 : COST OF MATERIALS / GOODS</b>				
Inventories at the beginning of the year		1831.8		1613.9
Purchases during the year		9039.9		5782.3
Inventories at the end of the year		(2562.7)		(1831.8)
		<hr/>		<hr/>
		<b>8309.0</b>		<b>5564.4</b>
		<hr/> <hr/>		<hr/> <hr/>



## SCHEDULES TO THE FINANCIAL STATEMENTS

	Year ended 31st March, 2006		Year ended 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 17 : INDIRECT TAXES</b>				
Sales Tax		406.0		403.5
Turnover Tax		0.5		1.1
Purchase Tax		7.4		7.8
		<u>413.9</u>		<u>412.4</u>
<b>SCHEDULE 18 : PERSONNEL COST</b>				
Salaries, Wages, Bonus and Benefits		704.7		546.9
Contribution to Provident and Other Funds		46.7		52.7
Staff Welfare Expenses		68.7		53.5
		<u>820.1</u>		<u>653.1</u>
<b>SCHEDULE 19 : OPERATING AND OTHER EXPENSES</b>				
Stores and Spares Consumed		115.5		70.0
Manufacturing Charges		116.1		120.1
Power and Fuel		255.5		143.0
Rent		5.5		5.4
Rates and Taxes		9.6		10.0
Insurance		18.2		15.4
Selling and Distribution		634.5		148.1
Commission and Discount		166.7		158.8
Repairs				
Building	21.0		29.1	
Plant and Machinery	115.0		92.7	
Others	22.8	158.8	22.3	144.1
Printing and Stationery		18.9		15.6
Travelling and Conveyance		44.3		37.4
Overseas Travel and Export Promotion		331.3		280.2
Communication		31.5		37.7
Provision for Doubtful Advances		5.1		19.0
Sundry Balances/Bad Debts writtn off (Net)	27.8		—	
Less : Adjusted out of Provision	6.0	21.8	—	—
Professional and Consultancy		18.5		40.2
Donations		3.9		1.3
Loss on Sale of Fixed Assets		—		8.3
Loss on Fire		1.2		—
Auditors' Remuneration (net of service tax)*				
Audit Fees	4.2		5.3	
Other Services	0.1		0.3	
Out of Pocket Expenses Rs. 34,900	0.0	4.3	0.1	5.7
Goodwill on Amalgamation Written off		—		24.5
Miscellaneous		126.9		248.9
		<u>2088.1</u>		<u>1533.7</u>

\* Includes Rs. Nil (Previous Year Rs. 2.7 Million) paid to erstwhile Statutory Auditor of the Company.

**SCHEDULES TO THE FINANCIAL STATEMENTS**

	<b>Year ended 31st March, 2006</b>		Year ended 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>SCHEDULE 20 : RESEARCH AND DEVELOPMENT EXPENDITURE</b>				
Salaries, Wages, Bonus and Benefits		<b>164.7</b>		146.8
Contribution to Provident and Other Funds		<b>9.1</b>		8.6
Staff Welfare Expenses		<b>23.5</b>		19.3
Raw Material, Stores and Spares Consumed		<b>274.5</b>		162.7
Power and Fuel		<b>7.4</b>		1.8
Rates and Taxes		<b>2.9</b>		2.0
Insurance		<b>4.0</b>		3.1
Repairs				
Building		<b>7.2</b>		5.6
Plant and Machinery		<b>34.6</b>		22.7
Others		<b>6.4</b>		6.2
Printing and Stationery		<b>5.3</b>		4.7
Travelling and Conveyance		<b>11.9</b>		10.9
Communication		<b>7.8</b>		5.8
Professional and Consultancy		<b>423.4</b>		175.9
Loss on Sale of Fixed Assets		<b>0.7</b>		—
Interest (Rs.12652)		<b>0.0</b>		0.1
Miscellaneous		<b>153.3</b>		165.8
		<b>1136.7</b>		742.0
Less				
Interest Income	<b>0.5</b>		—	
Misc. Income	<b>0.2</b>		—	
Bad debt Recovered / Sundry balances written Back	<b>0.2</b>		0.4	
Insurance Claim Received	<b>1.3</b>		—	
Rent	<b>0.1</b>	<b>2.3</b>	0.2	0.6
		<b>1134.4</b>		741.4



## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006

### SCHEDULE 21 : 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 / 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. 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 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 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 fair 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 (absorption costing) and net realisable value, on a FIFO basis/specific identification method.

##### VIII Research and Development

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

##### IX Foreign Currency Transactions

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

##### X Taxes on Income

Provision for taxation comprises of Current Tax, Deferred Tax and Fringe Benefit 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 substantially enacted at the Balance Sheet date.

Sun Pharmaceutical Industries Ltd.

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**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006**

**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 is charged to Profit and Loss Account each year. The contribution for Group Gratuity Policy is based on values as actuarially 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 recognised 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 (1) 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 assess 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.

	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million
<b>2 CONTINGENT LIABILITIES NOT PROVIDED FOR</b>		
Guarantees Given by the bankers on behalf of the Company	91.7	46.9
Letters of Credit for Imports	328.5	225.7
Liabilities Disputed - Appeals filed with respect to :		
Sales Tax	42.6	20.8
Excise Duty	8.7	29.9
Income Tax	190.6	212.9
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	14.0	13.0
Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme	9.4	17.2
Claims against the Company not acknowledged as debts	1.1	0.4
<b>3 Estimated amount of contracts remaining to be executed on capital account [net of advances].</b>	<b>131.0</b>	<b>103.3</b>
<b>4 REMUNERATION TO DIRECTORS</b>		
Managerial Remuneration U/s 198 of The Companies Act, 1956		
Salaries and Allowances	18.2	9.7
Contribution to Provident and Superannuation Funds	1.8	1.9
Perquisites and Benefits	0.1	0.1
Commission	2.7	2.3
Total	<b>22.8</b>	<b>14.0</b>

Sun Pharmaceutical Industries Ltd.



## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
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		<b>4886.8</b>		3234.8
Add : Depreciation as per Accounts	<b>407.3</b>		328.3	
Loss on Sale of Fixed Assets	<b>0.7</b>		8.3	
Managerial Remuneration	<b>22.8</b>		14.0	
Directors Sitting Fees	<b>0.3</b>		0.3	
Sundry Balances Written Off / Bad Debts Written off	<b>35.1</b>		—	
Provision for doubtful debt / Advances	<b>5.1</b>	<b>471.3</b>	19.0	369.9
Less: Depreciation as per Section 350 of Companies Act 1956	<b>407.0</b>		328.3	
Profit on Sale of Fixed Assets	<b>0.2</b>		1.6	
Profit on Sale of Investments	<b>109.3</b>		68.5	
Sundry Balances Written Back	<b>13.6</b>		58.6	
		<b>530.1</b>		457.0
Net Profit		<b>4828.0</b>		3147.7
Salaries, Perquisites and Commission @ 1% of the above		<b>48.3</b>		31.5
<b>5 RESEARCH AND DEVELOPMENT EXPENDITURE</b>				
Revenue		<b>1134.4</b>		741.4
Capital		<b>480.5</b>		418.4
<b>6 INTEREST INCOME ON LOANS /DEPOSITS RS. 831.2 MILLION IS NET OF INTEREST EXPENSES AS UNDER:</b>				
Fixed Loans		<b>98.6</b>		73.8
Others		<b>13.7</b>		40.9
		<b>112.3</b>		114.7
<b>7 INFORMATION RELATING TO CONSUMPTION OF MATERIALS</b>				
	<b>Quantity</b>	<b>Value</b>	<b>Quantity</b>	<b>Value</b>
Raw Materials and Packing Materials				
Raw Materials- (In '000 KGs)	<b>15151.0</b>	<b>3844.6</b>	13420.0	2127.2
Raw Materials-(In Kilo Litres)	<b>28897.0</b>		28785.8	
Packing/Other Materials	*	<b>205.5</b>	*	137.2
Total		<b>4050.1</b>		2264.4
*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	<b>%</b>	<b>Value</b>	<b>%</b>	<b>Value</b>
Raw Materials and Packing Materials				
Imported	<b>42.96</b>	<b>1740.0</b>	32.08	726.5
Indigenous	<b>57.04</b>	<b>2310.1</b>	67.92	1537.9
Total	<b>100.00</b>	<b>4050.1</b>	100.00	2264.4
Stores and Spares				
Imported	<b>1.17</b>	<b>1.4</b>	1.00	0.7
Indigenous	<b>98.83</b>	<b>114.2</b>	99.00	69.3
Total	<b>100.00</b>	<b>115.6</b>	100.00	70.0

Sun Pharmaceutical Industries Ltd.

**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006**

As at 31st March, 2006

As at 31st March, 2005

**8 INFORMATION RELATING TO LICENSED CAPACITY AND PRODUCTION**

Tablets/Capsules/Parenterals/Ointments (No.s in Million)		
Licensed Capacity	<b>Not Applicable</b>	Not Applicable
Installed Capacity*	<b>4981.0</b>	3070.0
Actual Production (including loan licence)	<b>1100.3</b>	1137.2
Bulk Drugs/Chemicals		
Licensed Capacity	<b>Not Applicable</b>	Not Applicable
Installed Capacity* (In Kilo Litres)	<b>838.6</b>	674.4
Actual Production (including loan licence) (In '000 Kgs)	<b>2167.5</b>	1773.8
(*as certified by the Management)		

**9 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)								
<b>2005-06</b>	<b>3153.4</b>	<b>9582.9</b>	<b>2006.3</b>	<b>4818.0</b>	<b>178.6</b>	<b>261.8</b>	<b>131.7</b>	<b>232.4</b>
2004-05	2816.8	7144.9	1614.8	3242.2	241.2	220.8	178.6	261.8
Bulk Drugs/Chemicals (Qty in '000 Kgs)								
<b>2005-06</b>	<b>2129.1</b>	<b>3926.6</b>	<b>0.5</b>	<b>0.2</b>	<b>115.0</b>	<b>172.5</b>	<b>153.9</b>	<b>355.1</b>
2004-05	1758.9	3278.7	0.4	10.3	99.7	279.1	115.0	172.5
Others								
<b>2005-06</b>		<b>20.6</b>		<b>12.9</b>		—		—
2004-05		19.9		19.0		—		—
Total								
<b>2005-06</b>		<b>13530.1</b>		<b>4831.1</b>		<b>434.3</b>		<b>587.5</b>
2004-05		10443.5		3271.5		499.9		434.3

\* Includes consignment sales Rs. 4607.9 Million (Previous Year Rs.2699.0 Million).

**10 INCOME/EXPENDITURE IN FOREIGN CURRENCY**

	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
Income		
Exports (FOB basis)	<b>3652.1</b>	2751.0
Interest	<b>396.2</b>	114.0
Lease Rentals	<b>0.2</b>	1.5
Expenditure		
Raw Materials (CIF basis)	<b>1609.3</b>	750.5
Packing Materials (CIF basis)	<b>98.7</b>	39.2
Capital Goods (CIF basis)	<b>296.1</b>	263.3
Spares and Components (CIF basis)	<b>82.4</b>	27.1
Professional Charges	<b>346.8</b>	320.3
Interest	<b>97.6</b>	56.9
Overseas Travel	<b>41.0</b>	39.9
Others	<b>260.8</b>	245.6

Sun Pharmaceutical Industries Ltd.



## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006

- 11 The net exchange gain of Rs 217.3 Million (Previous Year gain of Rs.225.7 Million) is included in the net profit for 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 **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, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
Profit After Tax	4612.9	3057.1
Less: Dividend on Preference Shares	0.8	0.9
Less: Corporate Dividend Tax on Preference Shares	0.1	0.1
Profit used as Numerator for calculating Earnings per share	4612.0	3056.1
Weighted Average number of Shares used in computing basic earnings per share	185514583	185511356
Add: Potential number of equity shares that could arise on exercise of Options on Zero Coupon convertible Bonds- due 2009 -21384843 (Previous year 5681319)	21384843	5711032
Weighted average number of shares used in computing diluted earnings per share	206899426	191222388
Nominal Value Per Share (in Rs.)	5	5
Basic Earnings Per Share (in Rs.)	24.9	16.5
Diluted Earnings Per Share (in Rs.)	22.3	16.0

(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 )

India	9721.5	7569.4
Outside India	3808.6	2874.1
Total Sales	13530.1	10443.5

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



**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006**

	As at 31st March, 2006			As at 31st March, 2005		
	Rs in Million	Rs in Million	Rs in Million	Rs in Million	Rs in Million	Rs in Million
<b>14 Investment Purchased and Sold during the Year</b>						
<b>Mutual Fund Units (Units of Face Value of Rs. 10/- Each)</b>	<b>Units</b>	<b>Purchase Value</b>	<b>Sales Value</b>	<b>Units</b>	<b>Purchase Value</b>	<b>Sales Value</b>
<b>In Liquid Scheme</b>	<b>In Nos</b>	<b>Rs in Million</b>	<b>Rs in Million</b>	<b>In Nos</b>	<b>Rs in Million</b>	<b>Rs in Million</b>
Alliance Capital	24,837,129.7	277.0	277.2	—	—	—
Birla Sun Life Mutual Fund	—	—	—	6,395,686.9	110.0	110.1
Chola Mutual Fund	7,233,011.5	100.0	100.0	40,117,905.5	528.0	528.6
Deutsche Mutual fund	—	—	—	14,970,089.9	150.0	150.5
DSP Merrill Lynch Mutual Fund	—	—	—	3,229,669.7	50.0	50.1
IL & FS Mutual Fund	—	—	—	35,774,114.9	425.0	426.8
ING Savings Trust Mutual Fund	—	—	—	2,965,994.9	40.0	40.0
JM Mutual Fund	20,161,105.6	220.0	220.2	4,419,965.7	48.0	48.0
Kotak Mahindra Mutual Fund	119,975,290.1	1,607.0	1,609.1	251,089,080.7	3,290.5	3,296.1
Principal Mutual Fund	443,572,661.0	4,703.5	4,710.1	327,161,849.8	3,379.4	3,384.5
Prudential ICICI Mutual Fund	407,172,690.8	5,840.1	5,847.9	109,598,243.4	1,770.0	1,774.5
Reliance Mutual Fund	—	—	—	9,957,878.2	100.0	100.2
Sahara Mutual Fund	4,934,157.0	68.0	68.1	—	—	—
Standard Chartered Mutual Fund	163,078,603.4	1,680.0	1,681.3	—	—	—
Tata Mutual Fund	—	—	—	7,720,771.2	90.0	90.2
UTI Mutual fund	70,332,785.0	1,422.0	1,423.1	—	—	—
<b>In FMP Schemes</b>						
JM Mutual Fund	—	—	—	6,000,000.0	60.0	60.7
Principal Mutual Fund	—	—	—	20,000,000.0	200.0	202.3
<b>15 Balances with Other Banks held in:</b>						
<b>Name of the Bank/Institution</b>		<b>(Rs. in Million)</b>			<b>(Rs. in Million)</b>	
		<b>Balance as on 31-03-06</b>	<b>Maximum Balance 2005-06</b>	<b>Balance as on 31-03-05</b>	<b>Maximum Balance 2004-05</b>	
JP Morgan Chase Bank N. A-Sinapore		—	881.7	0.7	12,377.8	
JP Morgan Chase Bank N. A-Florida (Rs. 15296)		0.0	1,603.2	1,576.9	12,250.6	
UBS AG Wealth Management-London		—	225.3	—	4,503.8	
Credit Agricole (Suisse) S. A. Private Bank		1,414.9	1,414.9	—	—	
Vietnam Export Import Bank, Hochiminch Branch, Vietnam		1.0	7.4	—	—	
Standard Chartered, Shanghai Branch, China		1.0	4.3	—	—	
Moscow Bank, Moscow Branch, Moscow		8.7	15.7	—	—	
Belvnesheconom Bank, Minsk Branch, Belarus		0.1	2.0	—	—	
Tsesna Bank, Almaty Branch, Kazakhstan		0.5	3.2	—	—	
Ukreixm Bank, Kyiv Branch, Ukraine		0.5	1.2	—	—	
Deutsche Bank AG London		1,116.0	1,116.0	—	—	
<b>Total</b>		<b>2,542.7</b>		<b>1,577.6</b>		



## SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006

16	Loans / Advances due from Subsidiaries Subsidiary company	(Rs. in Million)		(Rs. in Million)	
		Balance as on 31-03-06	Maximum Balance 2005-06	Balance as on 31-03-05	Maximum Balance 2004-05
	<b>Loans</b>				
	Sun Pharma Global Inc. BVI Dubai	2,896.2	4,959.2	2,925.6	2,925.6
	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. USA	—	1,396.3	164.3	164.3
	Sun Pharmaceutical Peru SA	0.1	1.3	—	—
	Sun Farmaceutica LTDA Brazil	10.5	10.5	—	—
	Sun Pharmaceutical UK Limited	0.7	0.7	—	—
	ICN Hungary Ltd	—	448.0	—	—
	<b>Advances</b>				
	Share Application Money to Sun Pharma De Mexico S.A. DE C.V.	60.0	60.0	—	—
	<b>Total</b>	<b>2,967.5</b>		<b>3,098.0</b>	

- 17 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 managements 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.
- 18 Adjustment to Capital Reserve represents Rs. 8.2 Million paid by the Company in April-2005 for acquisition of Equity Shares of erstwhile Phlox Pharmaceuticals Limited which has amalgamated with the Company in earlier year and Rs. 0.1 Million being transferred from Share Capital Suspense Account as the relevant shares were not required to be issued by the company as they were cancelled off against the investment held by the Company in erstwhile Phlox Pharmaceuticals Limited pursuant to amalgamation with the Company.
- 19 As per the terms of the issue, the holders of Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US \$ 1000 aggregating to US \$ 350 Million have an option to convert FCCBs into Equity Share at an initial 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 adjustment. Further, under certain conditions the company has an option for early redemption in whole but not in part, at any time on or after November 26,2007. Unless previously converted, redeemed or purchased and canceled, the company will redeem these bonds at 125.594 per cent of the principal amount on November 26,2009. In view of likely conversion into Equity Shares, premium on redemption of FCCB has not been provided in this accounts.
- As at the year end Rs. 157.53 Million (US\$ 3.5 Million) worth of FCCB's were converted into 216,007 equity shares, upon conversion option by the FCCB holders.
- 20 As per the best estimate of the management, no provision is required to be made as per Accounting 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.
- 21 The Board of Directors of the Company at their meeting held on 9th Feb. 2006 decided to demerge and transfer its Innovative Research & Development business (including New Drug Delivery Systems) to Sun Pharma Advanced Research Company Ltd. (SPARC), so as to aid in focusing on manufacturing, including Reverse Research and Development activities by the Company and Innovative Research & Development activity by SPARC. The said demerger/ transfer is effective from 1st April, 2006 subject to necessary regulatory approvals.

**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2006**

The Company has identified Pharmaceutical as the only Primary Reportable Segment. The Research & Development activity of the Company are also a part of the Pharmaceutical Segment. During the year the Company has incurred expenditure of Rs. 480.5 Million of Capital nature & Rs. 1134.4 Million of Revenue nature on Research & Development activities.

The Company has not earned any Revenue from the said Research Activity proposed to be demerged / transferred. The innovative Research & Development activities which is at an infant stage to date, forms part of the overall Research & Development activities of the Company, and as no significant expenditure has been incurred on the said Research & Development activity, and as the same has not been identified as a reportable segment, separate information in respect of expenditure on such revenue expenditure on Innovative Research & Development activity is not separately identifiable. Consequently the impact of the said revenue expenditure incurred on Innovative Research & Development activities on the Pre-Tax Profits and Income Tax expenses which is not significant, could not be ascertained. The said Research & Development activity is considered as an operating activity in the cash flow statements for the current & previous years. As at March 31, 2006, the carrying amount of the Assets of the Innovative Research & Development activity was Rs.210.3 Million and its Liabilities were Rs.Nil.

- 22 A** The company enters into forward Exchange Contracts being derivative instruments, which are not intended for trading or speculative purposes, but for hedge purposes, to establish the amount of reporting currency required or available at the settlement date of certain payables and receivables.

The following are the outstanding Forward Exchange Contracts entered into by the company as on 31<sup>st</sup> March, 2006:

<b>Currency</b>	<b>Amount Million</b>	<b>Buy/Sell</b>	<b>Cross Currency</b>
US Dollar	75.0	Buy	Rupees
US Dollar	2.5	Sell	Rupees
<b>B</b> Principal only Swaps to hedge against fluctuations in exchange rate changes :			
No. of Contracts			2
Notional Principal			\$ 40.3 Millions
<b>C</b> Currency Swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate and interest rate changes :			
No. of Contracts			1
Notional Principal			JPY 2166 Millions
<b>D</b> The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:			
<b>a</b> Amounts receivable in foreign currency on account of the following :			
	Amount in Millions		
Exports of Goods & Services	Rs.1674.0		\$37.5
	Rs.37.7		\$0.7
Loans Receivable	Rs.2906.7		\$65.1
Advances Given (GBP 9025)	Rs. 0.7		GBP 0.0
Interest Receivable	Rs.129.1		\$2.9
<b>b</b> Amounts payable in foreign currency on account of the following :			
Interest Payable	Rs.32.5		\$0.7
Loans Payable	Rs.15,467.8		\$346.5

The above disclosures have been made consequent to an announcement by the Institute of Chartered Accountants of India in December, 2005, which is applicable to the financial periods ending on or after 31<sup>st</sup> March, 2006. Therefore, figures for the previous year have not been disclosed.

- 23** 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	Subsidiaries		Associates		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05
<b>Purchases of goods / DEPB</b>	<b>21.5</b>	<b>13.9</b>	<b>4,896.3</b>	<b>3,251.9</b>	—	—	—	—	<b>2.7</b>	—	<b>4,920.5</b>	3,265.8
Caraco Pharmaceutical Laboratories Ltd	21.5	13.9	—	—	—	—	—	—	—	—	21.5	13.9
Sun Pharmaceutical Industries	—	—	4,896.3	3,251.9	—	—	—	—	—	—	4,896.3	3,251.9
Others (Previous Year Rs.38,300)	—	—	—	—	—	—	—	—	2.7	—	2.7	—
<b>Sale of goods / DEPB</b>	<b>1,264.3</b>	<b>768.0</b>	<b>614.0</b>	<b>752.2</b>	—	—	—	—	—	<b>3.2</b>	<b>1,878.3</b>	1,523.4
Caraco Pharmaceutical Laboratories Ltd	1,250.0	761.8	—	—	—	—	—	—	—	—	1,250.0	761.8
Sun Pharmaceutical Industries	—	—	614.0	752.2	—	—	—	—	—	—	614.0	752.2
Others	14.3	6.2	—	—	—	—	—	—	—	3.2	14.3	9.4
<b>Sale of Fixed Assets / Lease Assets</b>	<b>0.1</b>	—	<b>7.5</b>	—	—	—	—	—	—	—	<b>7.6</b>	—
Caraco Pharmaceutical Laboratories Ltd	0.1	—	—	—	—	—	—	—	—	—	0.1	—
Sun Pharmaceutical Industries	—	—	7.5	—	—	—	—	—	—	—	7.5	—
<b>Receiving of Service</b>												
<b>Services</b>	—	51.7	—	—	—	—	—	—	—	—	—	51.7
Sun Pharma Global Inc - BVI	—	51.7	—	—	—	—	—	—	—	—	—	51.7
<b>Reimbursement of Expenses</b>	<b>1.9</b>	17.4	—	—	—	—	—	—	—	—	<b>1.9</b>	17.4
Caraco Pharmaceutical Laboratories Ltd	—	17.4	—	—	—	—	—	—	—	—	—	17.4
Sun Pharma De Mexico S.A. DE C.V.	1.2	—	—	—	—	—	—	—	—	—	1.2	—
Sun Farmaceutica Ltda - Brazil	0.7	—	—	—	—	—	—	—	—	—	0.7	—
<b>Rendering of Service</b>												
<b>Services</b>	—	17.3	—	—	—	—	—	—	<b>0.4</b>	0.2	<b>0.4</b>	17.5
Caraco Pharmaceutical Laboratories Ltd	—	16.1	—	—	—	—	—	—	—	—	—	16.1
Sun Petrochemical Pvt Ltd	—	1.2	—	—	—	—	—	—	0.4	0.2	0.4	1.4
<b>Reimbursement of Expenses</b>	<b>0.3</b>	—	—	—	—	—	—	—	<b>0.1</b>	—	<b>0.4</b>	—
Sun Pharmaceutical (Bangladesh) Ltd	0.3	—	—	—	—	—	—	—	—	—	0.3	—
Sun Petrochemical Pvt Ltd	—	—	—	—	—	—	—	—	0.1	—	0.1	—
<b>Lease Rent received</b>	<b>0.2</b>	1.5	—	—	—	—	—	—	—	—	<b>0.2</b>	1.5
Caraco Pharmaceutical Laboratories Ltd	0.2	1.5	—	—	—	—	—	—	—	—	0.2	1.5
<b>Finance (including loans and equity contributions in cash or in kind)</b>												
<b>Capital Contribution / (Withdrawal)</b>	<b>0.5</b>	0.2	<b>(4,192.3)</b>	(2,411.4)	—	—	—	—	—	—	<b>(4,191.8)</b>	(2,411.2)
Sun Pharmaceutical Industries	—	—	(4,192.3)	(2,411.4)	—	—	—	—	—	—	(4,192.3)	(2,411.4)
Sun Pharmaceutical Industries - Inc , USA	—	0.2	—	—	—	—	—	—	—	—	—	0.2
Sun Pharma Advanced Research Company Ltd	0.5	—	—	—	—	—	—	—	—	—	0.5	—
<b>Investments Purchase</b>	<b>2,456.0</b>	2,034.0	<b>125.0</b>	—	—	—	—	—	—	—	<b>2,581.0</b>	2,034.0
Sun Farmaceutica Ltda - Brazil	—	5.2	—	—	—	—	—	—	—	—	—	5.2
Sun Pharma De Mexico S.A. DE C.V.	—	3.3	—	—	—	—	—	—	—	—	—	3.3
Sun Pharma Exports	—	—	125.0	—	—	—	—	—	—	—	125.0	—
Sun Pharma Global Inc - BVI	2,456.0	2,025.5	—	—	—	—	—	—	—	—	2,456.0	2,025.5
Others	0.1	—	—	—	—	—	—	—	—	—	0.1	—
<b>Investments Sold</b>	—	2,092.7	—	—	—	—	—	—	—	—	—	2,092.7
Sun Pharma Global Inc - BVI	—	2,092.7	—	—	—	—	—	—	—	—	—	2,092.7
<b>Loans given</b>	<b>3,452.3</b>	3,098.0	—	—	—	—	—	—	—	—	<b>3,452.3</b>	3,098.0
Sun Pharma Global Inc - BVI	1,705.3	2,925.6	—	—	—	—	—	—	—	—	1,705.3	2,925.6
Sun Pharmaceutical Industries - Inc	1,230.9	164.3	—	—	—	—	—	—	—	—	1,230.9	164.3
Sun Pharma De Mexico S.A. DE C.V.	57.0	3.5	—	—	—	—	—	—	—	—	57.0	3.5
Sun Farmaceutica Ltda - Brazil	10.4	—	—	—	—	—	—	—	—	—	10.4	—
ICN Hungary Company Ltd	448.0	—	—	—	—	—	—	—	—	—	448.0	—
Sun Pharmaceutical (Bangladesh) Ltd	—	4.6	—	—	—	—	—	—	—	—	—	4.6
Others	0.7	—	—	—	—	—	—	—	—	—	0.7	—
<b>Guarantees and Collaterals</b>												
Bank Guarantee	—	68.1	—	—	—	—	—	—	—	—	—	68.1

Sun Pharmaceutical Industries Ltd.

## ANNEXURE 'A' TO NOTES ON ACCOUNT

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

Rs in Million

Particulars	Subsidiaries		Associates		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05	31/03/06	31/03/05
<b>Interest Income</b>	<b>155.4</b>	<b>19.9</b>	<b>28.3</b>	<b>1.1</b>	—	—	—	—	—	—	<b>183.7</b>	<b>21.0</b>
Caraco Pharmaceutical Laboratories Ltd	—	0.5	—	—	—	—	—	—	—	—	—	0.5
Sun Pharmaceutical Industries	—	—	1.1	—	—	—	—	—	—	—	1.1	—
Sun Pharma Exports	—	—	27.2	—	—	—	—	—	—	—	27.2	—
Sun Pharma Global Inc - BVI	129.1	18.3	—	—	—	—	—	—	—	—	129.1	18.3
Sun Pharmaceutical Industries Inc , USA	20.2	—	—	—	—	—	—	—	—	—	20.2	—
Others	6.1	1.1	—	1.1	—	—	—	—	—	—	6.1	2.2
<b>Rent Income</b>	—	—	<b>1.2</b>	<b>1.2</b>	—	—	—	—	<b>0.2</b>	<b>0.1</b>	<b>1.4</b>	<b>1.3</b>
Sun Pharmaceutical Industries	—	—	1.2	1.2	—	—	—	—	—	—	1.2	1.2
Others	—	—	—	—	—	—	—	—	0.2	0.1	0.2	0.1
<b>Director's Remuneration</b>	—	—	—	—	<b>20.1</b>	<b>11.7</b>	—	—	—	—	<b>20.1</b>	<b>11.7</b>
<b>Remuneration (Partner's) Received</b>	—	—	<b>608.2</b>	<b>332.0</b>	—	—	—	—	—	—	<b>608.2</b>	<b>332.0</b>
Sun Pharmaceutical Industries	—	—	608.2	332.0	—	—	—	—	—	—	608.2	332.0
<b>Rent Paid</b>	—	—	—	—	—	—	0.3	0.3	—	—	0.3	0.3
<b>Share of profit from Partnership Firm</b>	—	—	<b>3,278.8</b>	<b>1,746.5</b>	—	—	—	—	—	—	<b>3,278.8</b>	<b>1,746.5</b>
Sun Pharmaceutical Industries	—	—	3,278.8	1,746.5	—	—	—	—	—	—	3,278.8	1,746.5
<b>Outstanding receivables, net of Payables as on 31/03/2006</b>	<b>655.4</b>	<b>381.3</b>	—	—	—	—	—	—	—	—	<b>655.4</b>	<b>381.3</b>
Maximum amount outstanding during the year												
Caraco Pharmaceutical Laboratories Ltd	655.4	381.3	—	—	—	—	—	—	—	—	655.4	381.3

**Note :**

Names of related parties and description of relationship

## 1. Subsidiaries

Sun Pharma Global Inc. BVI.  
 Milmet Pharma Ltd. (Upto October 25,2005)  
 Sun Pharmaceutical (Bangladesh) Ltd.  
 Sun Pharma De Mexico S.A. DE C.V.  
 Sun Farmaceutica Ltda - Brazil  
 Sun Pharmaceutical Industries Inc , USA.  
 Sun Pharma Advanced Research Company Ltd.  
 Sun Pharmaceuticals UK Ltd.  
 ICN Hungary Ltd.  
 Caraco Pharmaceutical Laboratories Ltd - U.S.A  
 Universal Enterprise Pvt. Ltd.  
 Zao "Sun Pharma Industries Limited"  
 Sun Pharmaceutical Peru S.A..C.  
 SPIL De Mexico. S.A. DE C.V.

## 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.

Sun Pharmaceutical Industries Ltd.



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

**I Registration Details**

Registration No.	Balance Sheet Date	State Code
04/19050	31st March, 2006	04

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

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

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

Total Liabilities	Total Assets
21389.4	36038.8
<b>Sources of Funds</b>	Reserves and Surplus
Paid-up Capital	13706.7
942.7	Unsecured Loans
Secured Loans	17275.9
182.3	Investments
<b>Application of Funds</b>	7796.2
Net Fixed Assets	Miscellaneous Expenditure
5669.9	NIL
Net Current Assets	Accumulated Losses
22572.7	NIL

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

Total Income	Total Expenditure
18059.6	13172.8
Profit Before Tax	Profit After Tax
4886.8	4612.9
Earning per share Rs.*	Dividend Rate
24.9	110%

\* 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
30049065	Metformin Hydrochloride
30033900	Losartan Potassium

For and on behalf of the Board

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

**SUDHIR V. VALIA**  
Wholetime Director

**SAILESH T. DESAI**  
Wholetime Director

Vadodara, 06th June, 2006

**KAMLESH H. SHAH**  
Company Secretary

Vadodara, 06th June, 2006

**ANNEXURE (1) TO DIRECTORS' REPORT****CONSERVATION OF ENERGY**

	<u>Year ended 31st March, 2006</u>	<u>Year ended 31st March, 2005</u>
<b>A. Power and Fuel Consumption</b>		
<b>1. Electricity</b>		
<b>(a) Purchased</b>		
Unit (in '000 KWH)	<b>31380</b>	17059
Total Amount (Rs. in Millions)	<b>137.0</b>	67.9
Rate (Rs./Unit)	<b>4.4</b>	4.0
<b>(b) Own Generation through Diesel Generator</b>		
Units (in '000 KWH)	<b>683</b>	497
Units per Litre of Diesel Oil	<b>3.0</b>	3.0
Cost (Rs./Unit)	<b>10.7</b>	9.0
<b>(c) Own Generation through Gas</b>		
Units (in '000 KWH)	<b>10171</b>	8614
Units per M3 of Gas	<b>3.6</b>	3.5
Cost (Rs./Unit)	<b>2.5</b>	2.5
<b>2. Furnace Oil</b>		
Quantity (in '000 Litres)	<b>3542</b>	1913
Total Amount (Rs. in Millions)	<b>60.9</b>	26.5
Average Rate (Rs./Unit)	<b>17.2</b>	13.9
<b>3. Gas (for Steam)</b>		
Gas Units (in '000 M3)	<b>2789</b>	2408
Total Amount (Rs. in Millions)	<b>24.7</b>	21.0
Average Rate (Rs./Unit)	<b>8.9</b>	8.7

**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 Improvisation and continuous monitoring of Power Factor and replacement of weak capacitors by conducting periodical checking of capacitors. We have been able to maintain the Power Factor near to unity (above 0.99) and thereby availing the rebate in electricity charges.
- 2 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 and for drying of Bulk Drugs in tray dryers.
- 3 Provision of storage tanks with electricity Heaters to utilise the same instead of steam, on weekly off / Holiday.
- 4 Providing air handling unit with variable frequency drives, so that the system runs at variable speed, and thereby saving in consumption of electricity.
- 5 Installation of isolating valve in main airline for preventing air loss.
- 6 Gas based electricity generation sets have been set up at bulk drug plants, resulting in significant savings in electricity cost.
- 7 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

Our projects in process chemistry and formulation development address the company's requirements over three horizons - a short term, medium term or long term timeframe so as to balance longer term projects with those that are completed and bring in revenues over the short and medium term.

Our short term projects are reverse engineering based projects in formulation development and process chemistry where we work with a known technology and seek to improve upon it in term of yield or number of steps. These projects help us introduce new products to the Indian market soon after international launch, some of these products use delivery systems which offer patient benefit. Quick new product introduction helps us maintain our leadership position in the Indian market with specialty formulations. It helps us compete in the US generic market with interesting generics. It helps us compete with speciality API for internal use, as well as in the international regulated markets across US/ Europe.

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

Long-term projects are totally new to the world NCE and NDDS projects. These would address world markets, and the investments are larger with longer and more uncertain return horizons. On account of the need for focus, resources and the uncertainty with these projects, the company has announced plans to demerge this part of the business.

This phased approach to research helps the company use revenues from projects that mature earlier in order to fund projects that have longer or more uncertain paybacks, and phase product introduction across markets.

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

During 2005-06, over 40 formulations were introduced across marketing divisions, in addition to several line extensions. All of these were based on technology developed in house. More than 30 API were scaled up, some for international filing including bivalirudin and pregabalin, products that have recently been introduced in the international marketplace. Technology was refined for a number of processes for drug master file submissions. For some of the important API that we already manufacture, more energy efficient or cost effective processes or environment friendly processes were developed and implemented. This offers an advantage for our API business. Some of these reverse engineered products increased our familiarity with new technologies/ areas of development and we would be able to build on this understanding in order to develop new to the world work. A large part of our API sales is to the regulated market of US/ Europe, and this earns foreign exchange and earns us a reputation for quality and dependability. The Company's formulation brands are exported to 26 markets where a local field force promotes these for a prescription pull.

The Department of Scientific and Industrial Research, Ministry of Science and Technology of Government of India has granted approval to the in house research and development facility of your Company under the provision of the Income Tax Act, 1961.

#### 3. Future plan of action

At the end of the year, across the two research centers, close to 500 scientists are at work in over 170 labs spread about over 300,000 sq ft of research floor area. A new world class bioequivalence center spanning on 25000 sq ft and with a 78 bed capacity was built and commissioned this year. One NCE has finished Phase 1 of human trial, and 2 NDDS projects will enter trials over the next two quarters in the developed/ regulated markets. Your company has also announced plans to demerge the innovative part of its business into a separate listed company.



**Financial Statements - 2005-06**

4. Expenditure on R&D	Year ended 31st March, 2006	Year ended 31st March, 2005
	Rs in Million	Rs in Million
a) Capital	480.5	418.4
b) Revenue	1134.4	741.4
c) Total	1614.9	1159.8
d) Total R&D expenditure as % of Total Turnover	12.5%	11.6%

**B. Technology Absorption, Adaptation and Innovation****1. Efforts in brief, made towards technology absorption, adaptation and innovation**

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

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

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

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

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

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

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

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

C. Foreign Exchange Earnings and Outgo	Year ended 31st March, 2006	Year ended 31st March, 2005
	Rs in Million	Rs in Million
1. Earnings	4048.5	2866.5
2. Outgo	2832.7	1742.8