

Cipla

Seventieth Annual Report 2005-2006

Special care has been taken to produce this report at a lower cost, without compromising the contents. As a result, there has been a saving of Rs.45 lakhs. Cipla has added a matching contribution and donated the total amount of Rs.90 lakhs to the Cipla Cancer and AIDS Foundation.

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Cipla Limited

Founder

Dr. K.A. Hamied
(1898-1972)

Chairman & Managing Director

Dr. Y.K. Hamied

Joint Managing Directors

Mr. M.K. Hamied

Mr. Amar Lulla

Non-Executive Directors

Dr. M.K. Gurjar

Mr. V.C. Kotwal

Dr. H.R. Manchanda

Mr. S.A.A. Pinto

Mr. M.R. Raghavan

Mr. Ramesh Shroff

Bankers

Bank of Baroda

Canara Bank

Corporation Bank

Indian Overseas Bank

Standard Chartered Bank

The Hongkong & Shanghai Banking
Corporation Limited

Union Bank of India

Auditors

R.S. Bharucha & Co.

R.G.N. Price & Co.

Registered Office

Mumbai Central, Mumbai 400 008

Website

www.cipla.com

NOTICE

NOTICE is hereby given that the SEVENTIETH ANNUAL GENERAL MEETING of CIPLA LIMITED will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034, on Tuesday, 5th September 2006 at 3.00 p.m. to transact the following business:

1. To consider and adopt the Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare Dividend for the year ended 31st March 2006.
3. To appoint a Director in place of Mr. S. A. A. Pinto who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Mr. V. C. Kotwal who retires by rotation and being eligible offers himself for reappointment.
5. To consider and, if thought fit, to pass, with or without modification, the following resolution, as an Ordinary Resolution:

“RESOLVED THAT M/s. R. S. Bharucha & Co., Chartered Accountants together with M/s. R. G. N. Price & Co., Chartered Accountants be and are hereby appointed as Joint Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting upon such remuneration and other out of pocket expenses incurred incidental to their functions, as may be agreed to between the Board of Directors/Audit Committee of the Company and the respective auditors and that the Board of Directors/Audit Committee of the Company be and is hereby authorised to fix the remuneration as aforesaid.

RESOLVED FURTHER THAT the Board of Directors/Audit Committee be and are hereby authorised to appoint auditors for the Company's branch office(s) (whether now or as may be established) in terms of Section 228 of the Companies Act, 1956 in consultation with the Joint Statutory Auditors to examine and audit the accounts for the financial year 2006-07 on such remuneration, terms and conditions as the Board of Directors/Audit Committee may deem fit”

By Order of the Board of Directors

Mumbai, 21st July 2006

Mital Sanghvi
Company Secretary

NOTICE *contd.*

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

Proxies, to be effective should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the Meeting.

2. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, 22nd August 2006 to Tuesday, 5th September 2006, both days inclusive.
3. The dividend for the year ended 31st March 2006 as recommended by the Board, if sanctioned at the Meeting, will be paid to those members whose names appear in the Company's Register of Members on 5th September 2006. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depositories Ltd. and Central Depository Services (India) Ltd.
4. The Company has appointed M/s. Karvy Computershare Pvt. Ltd. as its Share Transfer Agents in place of M/s. Intime Spectrum Registry Ltd. w.e.f. 1st April 2005. Members holding shares in physical form are requested to forward all applications for transfers and all other shares related correspondence, including intimation for change of address, if any, to the Share Transfer Agents of the Company at the following address:
Karvy Computershare Pvt. Ltd.
(Unit: Cipla Ltd.)
Karvy House No. 46, Avenue 4,
Street No.1, Banjara Hills, Hyderabad-500 034
Tel: (040) 23420818
Fax: (040) 23420814
5. Members holding shares in demat mode may please note that, the bank details as furnished by the respective Depositories to the Company will be used for the purpose of distribution of dividend through Electronic Clearing Service (ECS) as directed by the Stock Exchanges. In the absence of ECS facility, the bank account details, if available, will be printed on the dividend warrants. Members holding shares in demat mode must give instructions regarding bank accounts in which they wish to receive dividend, to their Depository Participants. The Company or the Share Transfer Agents will not act on any direct request from these members for change/deletion in such bank details.
6. The Company has transferred the unclaimed dividend upto the financial year ended 31st March 1995 to the General Revenue Account of the Central Government. Members who have not encashed the dividend warrants for the said period(s) are requested to claim the amount from the Registrar of Companies, Maharashtra, CGO Complex, CBD Belapur, Navi Mumbai-400 614, by submitting an application in Form No. II.

NOTICE *contd.*

Members may note that unclaimed dividend for the financial year 1998-99 shall become due for transfer to Investor Education & Protection Fund (IEPF) on 17th October 2006. Members should note that any sum transferred to IEPF shall stand forfeited and no claim shall lie either against the IEPF or the Company. Those members, who have not encashed their dividends for the financial year 1998-99, are requested to claim it from the Share Transfer Agents immediately. Such of those members who have not so far claimed their dividend for the subsequent financial years are also advised to claim it from the Share Transfer Agents.

7. The face value of shares have been sub-divided from Rs.10 to Rs.2 in the year 2004. Shareholders who have not yet exchanged share certificates of Rs.10 face value are requested to surrender their old certificates to M/s. Karvy Computershare Pvt. Ltd. at the address stated above for exchange with new certificates of Rs.2 face value.
8. Members who hold shares in the physical form can nominate a person in respect of all the shares held by them singly or jointly. Members who hold shares in single name are advised, in their own interest, to avail of the nomination facility by filling Form 2B in duplicate. On request, the Company's Share Transfer Agents will supply blank forms. Members holding shares in the dematerialised form may contact the Depository Participant for recording nomination in respect of their shares.
9. As required under Clause 49 VI(A) of the Listing Agreement, the relevant information in respect of the Directors seeking reappointment at the Annual General Meeting is annexed hereto.

NOTICE *contd.*

RELEVANT INFORMATION IN RESPECT OF THE DIRECTORS SEEKING REAPPOINTMENT AT THE ANNUAL GENERAL MEETING AS REQUIRED UNDER CLAUSE 49 VI(A) OF THE LISTING AGREEMENT IS AS UNDER:

A. Mr. S. A. A. Pinto

Mr. S. A. A. Pinto is an M. A. in Economics from Madras University and LL.B. from Bombay University and an Advocate of the Bombay High Court. He joined the Board of Directors of the Company in 1983.

He was instrumental in setting up Grindlays Bank's first merchant banking unit in India in 1968 and became its first Indian Director in 1973. In 1982, he set up a financial services consultancy with Mr. Uday Kotak and in 1985 they established a financial services company which later changed its name to Kotak Mahindra Bank Ltd. to which Mr. Pinto has devoted most of his working life since then.

Nature of expertise in specific functional areas

Industrial Relations, Corporate Law and Merchant Banking.

He is the Chairman of the Audit Committee, Shareholders'/Investors' Grievance Committee and member of Share Committee of the Company.

As on the date of this Notice, he holds 6,19,150 equity shares of Rs.2 each in the Company.

B. Mr. V. C. Kotwal

Mr. V. C. Kotwal is a senior advocate of Bombay High Court. He joined the Board of Directors of the Company in 1989.

He is a Science & Law graduate from Bombay University. He has been in the legal profession since 1961 and has been designated as Senior Advocate since 1983.

Nature of expertise in specific functional areas

Civil Law, Commercial Law, Admiralty & Shipping Litigation and Arbitration.

He does not hold directorship of any other company. He does not hold any share in the Company.

DIRECTORS' REPORT

The Directors take pleasure in presenting the Seventieth Annual Report of the Company and Audited Accounts for the year ended 31st March 2006.

Financial Summary

| Year ended 31st March 2005 | | Year ended 31st March 2006 | Increase over previous year (%) |
|-------------------------------|---|-------------------------------|------------------------------------|
| 2,483 | Sales and other income | 3,236 | 30 |
| 570 | Gross profit before depreciation and tax | 790 | 39 |
| 410 | Net profit for the year | 608 | 48 |
| 94 | Surplus brought forward from last balance sheet | 234 | |
| 504 | Profit available for appropriation | 842 | |
| | Appropriations: | | |
| 105 | Dividend | 156 | |
| 15 | Tax on dividend | 22 | |
| 150 | Transfer to general reserve | 360 | |
| 234 | Surplus carried forward | 304 | |

Rupees in crore

Share Capital

Following the approval accorded by the members through postal ballot on 21st March 2006, the Company has in April 2006 raised US\$ 170 million (Rs.767.18 crore) through an issue of 1,10,46,310 Global Depository Receipts (GDRs). Each GDR represents one equity share of Rs.2 each and was priced at US\$ 15.39 (equivalent to Rs.695). The GDRs have been listed on the Luxembourg Stock Exchange.

Again, pursuant to the approval accorded by the members through postal ballot on 21st March 2006, the Company has in May 2006 allotted bonus shares in the ratio of three shares for every two shares held. Following the allotment of bonus shares, the paid-up capital of the Company has increased to Rs.155.46 crore.

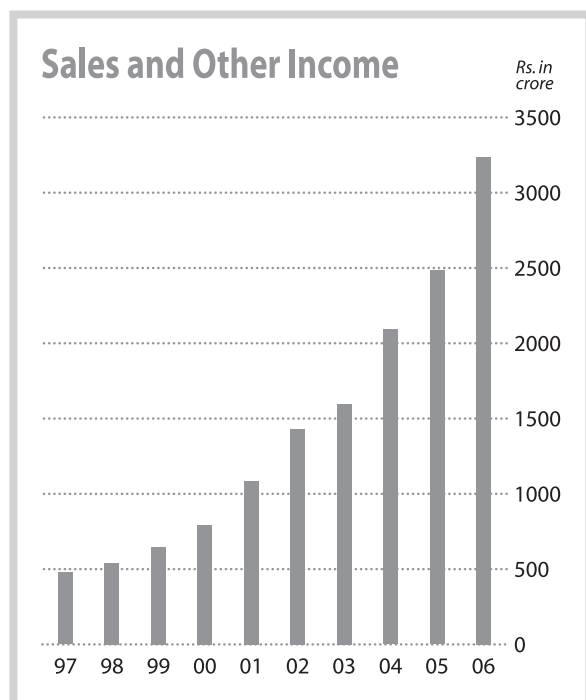
Dividend

The Board recommends a dividend of Rs.2 per share on 77,72,91,357 equity shares of Rs.2 each (including shares underlying GDRs and bonus shares) for the year 2005-06 amounting to Rs.155.46 crore.

DIRECTORS' REPORT *contd.*

MANAGEMENT REVIEW: 2005-06 Industry Structure and Developments

The domestic pharmaceutical industry in India grew at more than double the rate, recording a 11 per cent growth in value as per ORG-IMS, compared to 4.2 per cent during 2004-05. As expected, it was a year of consolidation, mergers and acquisitions. Several international pharmaceutical companies established and strengthened their presence in India.



Performance Review

For the first time, the Company's turnover crossed the Rs.3,000 crore mark. At Rs.3,019.68 crore, sales recorded a healthy 30 per cent growth over the previous year. Once again, this was way above the overall growth rate of the industry.

Exports continued to do well and at Rs.1,513.64 crore contributed 50 per cent to the overall sales of the Company. Cipla now exports to nearly 170 countries in Europe, Australia, Africa, Asia, the Middle East, and North, Central and South America. Technical know-how/ fees received during the year amounted to Rs.41.56 crore.

The Company continued with its successful strategy of working through partnerships and strategic alliances in order to sustain its expansion in international markets.

The overall net profits of the Company grew by 48 per cent and stood at Rs.607.64 crore. This was mainly on account of improved product mix, optimum utilisation of tax benefits and higher non-operating income.

The Company's steady progress won it the Express Pharma Pulse Award for "sustained growth" for the year 2005-06. Cipla is one of the handful of companies in India that has consistently increased its turnover and profitability over the past 15 years in a row.

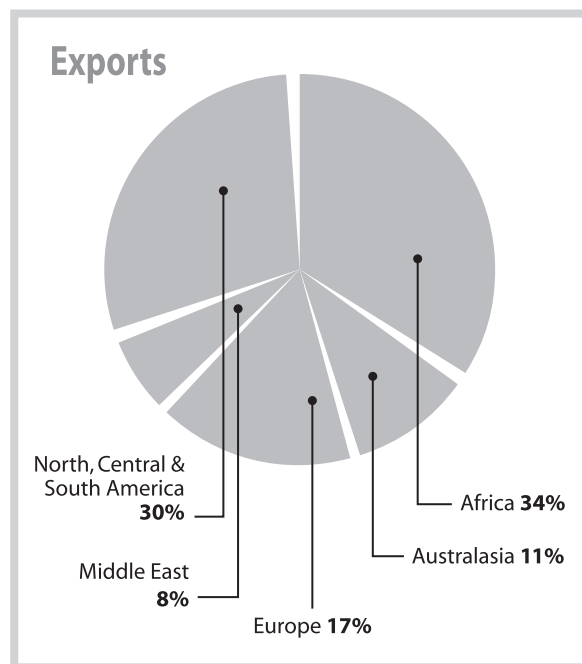
Products

Cipla yet again took a lead in introducing many drug formulations and Active Pharmaceutical Ingredients (APIs) in the country. Some of the formulations have the unique distinction of being the first products of their kind in the world. These introductions included:

- Imidara (imiquimod cream) - Topical immune response modifier for genital warts
- Lopimune (lopinavir and ritonavir softgelcaps) - Combination protease inhibitor for HIV/AIDS

DIRECTORS' REPORT *contd.*

- Bifilin (prebiotic and postbiotic capsules and sachet) - Probiotic supplement
- Dorzox T (dorzolamide and timolol eye drops) - Combination therapy for glaucoma
- Latim (latanoprost and timolol eye drops) - Novel combination therapy for glaucoma
- Ribocor (d-ribose sachet) - Cardiac energy supplement
- Simcard EZ (simvastatin and ezetimibe tablets) - Combination therapy for lowering cholesterol and lipids
- Tenvir (tenofovir tablets) - Novel antiretroviral for HIV/AIDS
- Aqwet (sodium carboxymethylcellulose spray) - Hydrating spray for dry mouth
- Diurem (metolazone tablets) - Thiazide-like diuretic
- Migset (miglitol tablets) - Novel alpha-glucosidase inhibitor for use in diabetes
- Zoratame (acitretin capsules) - Retinoid for psoriasis
- 8X shampoo (ciclopirox shampoo) - Antifungal shampoo for dandruff and seborrhoeic dermatitis
- Cresar (telmisartan tablets) - New angiotensin II receptor antagonist for hypertension
- Urimax D (tamsulosin and dutasteride tablets) - Novel combination treatment for benign prostatic hyperplasia
- Propcaine (proparacaine eye drops) - Topical anaesthetic agent for use in ocular surgery
- Divaine (minocycline tablets) - Antibiotic for acne



INFRASTRUCTURE

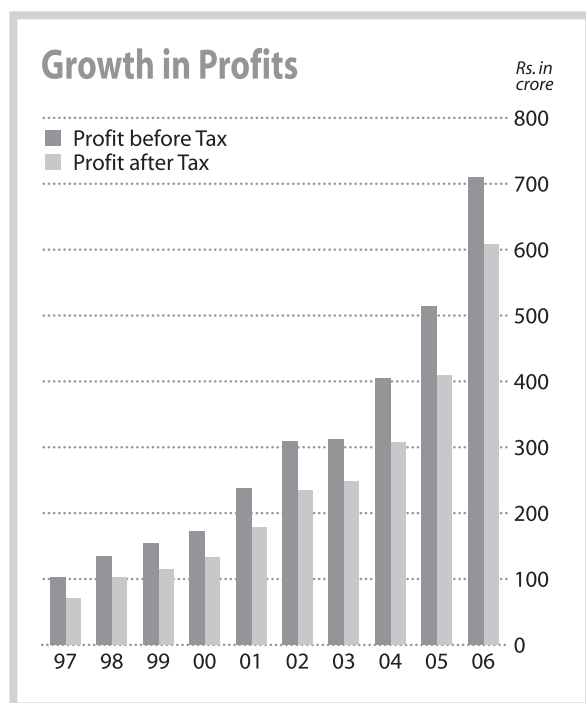
Manufacturing Facilities

The Company's new export-oriented manufacturing unit for APIs and drug formulations is nearing completion at Patalganga. It is expected to commence production in the second quarter of 2006-07. During the year, the Company expanded its facilities at Baddi in Himachal Pradesh.

In addition, the Company is planning to set up a large drug formulation manufacturing facility for various dosage forms at a Special Economic Zone (SEZ) in Goa.

The Company has also planned major additions to its manufacturing facilities at Kurkumbh and Bangalore.

DIRECTORS' REPORT *contd.*



Regulatory Approvals

Several dosage forms and APIs manufactured in the Company's various plants continue to enjoy the approval of most major international regulatory agencies. These agencies include the US FDA, MHRA (UK), PIC (Germany), MCC (South Africa), TGA (Australia), Department of Health (Canada), ANVISA (Brazil), SIDC (Slovak Republic), the Danish Medical Agency and the WHO.

Safety and Environment Care

As always, the Company maintained high standards of occupational health, safety and environment friendly practices at all units. During the year, Cipla's Kurkumbh unit was awarded the "Five Star" rating and qualified for the "Sword of Honour" while the Patalganga unit was awarded the "Sword of Honour" for the second time, by the British Safety Council, UK.

In addition, the Kurkumbh plant has been certified for compliance with ISO 14001 and OHSAS 18001 standards. Cipla's Goa unit was awarded the "Longest Accident-Free Year" trophy by the Chief Minister of Goa after certification of its performance by the Green Triangle Society, Goa in consultation with the Factory Inspectorate, Goa.

Internal Control Systems

The Company's internal control procedures are tailored to match the organisation's pace of growth and increasing complexity of operations. These ensure compliance with various policies, practices and statutes. Cipla's internal audit team carries out extensive audits throughout the year, across all functional areas, and submits its reports to the Audit Committee of the Board of Directors.

Human Resources

In keeping with its policy of enhancing the individual's growth potential within the framework of corporate goals, training of technical and marketing personnel continued to receive maximum attention. The Board records its appreciation of the support and contribution of all employees towards the growth of the Company.

Particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956 forms part of this report. Any shareholder interested in obtaining a copy may write to the Company Secretary at the Registered Office of the Company.

DIRECTORS' REPORT *contd.*

THREATS, RISKS, CONCERNS

Patents

The new patent law is now more than a year old. The government is yet to take any decisive step on several important aspects including the cut-off date for royalty, exact definition of patentability, ever-greening of patents and compulsory licensing. In the absence of any clear-cut guidelines, fears persist that monopolistic forces will prevail in the Indian market, pushing essential and vital drugs out of the reach of the masses.

Data Exclusivity

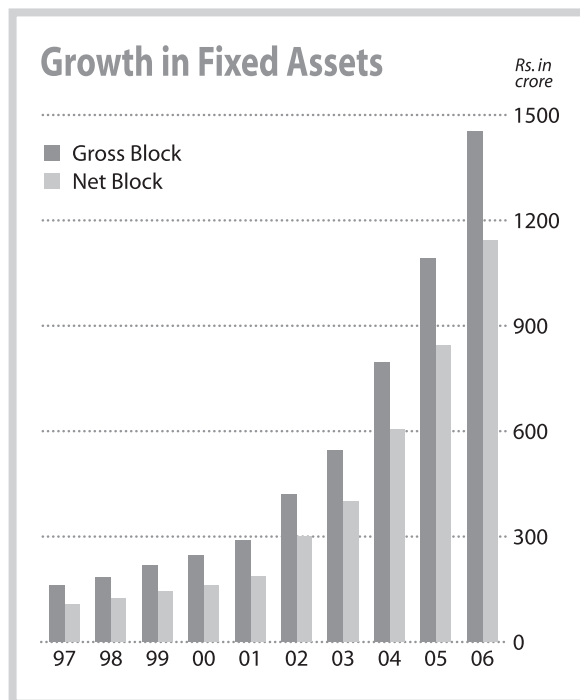
The demand for data exclusivity or data protection by multinational companies if implemented would only lead to ever-greening of patents, thereby extending its normal life beyond 20 years. It will affect research, use of existing drugs for new conditions and the development of new dosage delivery forms. It will also result in blocking of Indian exports to countries where patent laws are yet to be implemented.

Moreover, regenerating existing data would not only be unviable for generic companies but also wasteful in terms of time and resources. The government should not succumb to pressure as granting data exclusivity can only result in extending product monopoly even after patent expiry.

Apart from the United States and some European countries, very few countries have allowed data exclusivity. The Indian decision against such a step is sure to inspire many other developing countries, which are signatories to the WTO. The government stand on this issue will also determine the continued availability of affordable medicines in many of these countries.

Value Added Tax

The states of Uttar Pradesh and Tamil Nadu have not yet implemented VAT. The trade is still wary about lifting their normal quota of goods for fear of being saddled with unsold stock in the midst of persisting uncertainties. Cipla's management continues to work closely with the trade to minimise losses while ensuring regular availability of its medicines to patients across the country.



DIRECTORS' REPORT *contd.*

Drug Pricing

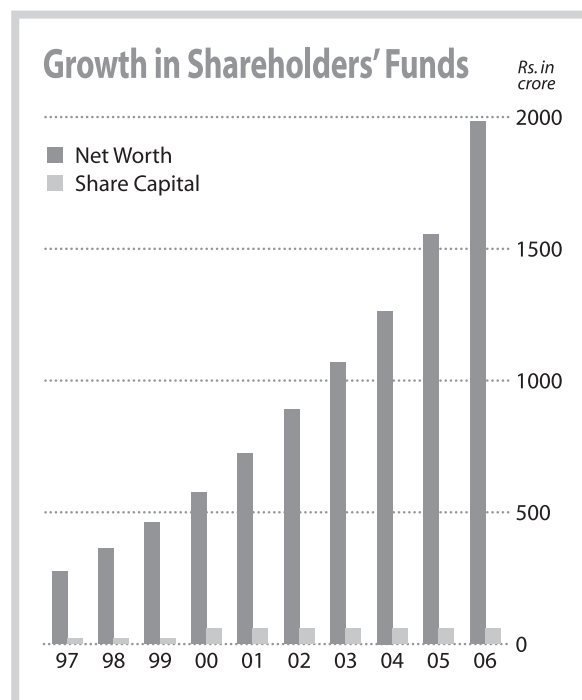
The government's drug pricing policy is still stalled by legal hurdles, leaving the industry without any transparent, open and well-defined pricing guidelines. This all-pervasive element of uncertainty continues to hamper the growth of the pharmaceutical industry in the country.

Drug prices can only be reduced by free and fair competition which should be encouraged by the government.

OPPORTUNITIES

International Markets

While the Company has a strong presence in the developing countries, one of the Company's business strategies is to collaborate with its international business partners to develop and supply products to the regulated and developed markets. Cipla has entered into partnerships for 123 products with a number of partners in the USA alone. The Company has filed over 170 registrations in Europe, principally for marketing its drug formulations in the continent. In addition, Cipla has approvals for over 4000 drug formulations in the emerging markets, including South & Central America, the Middle East and Africa.



Technological Strengths

The Company intends to leverage its technological advantage developed over 70 years to maintain its leadership position in the domestic market while striving to expand its business in other markets.

The Company will retain its focus on result-driven research work to develop and enhance know-how for new drug delivery systems and manufacturing processes both for APIs and drug formulations.

Cipla's strategic alliance with Avestha Gengraine Technologies Pvt. Ltd. for the development of biotherapeutic products is progressing satisfactorily.

The Company has continued to file a number of patents both in India and in many other countries throughout the world.

The Company is confident that its emphasis on large scale commercial exploitation of technologically advanced products in its state-of-the-art facilities will give Cipla a definite advantage in meeting the future demands of the global market.

DIRECTORS' REPORT *contd.*

COMMUNITY CARE

The Cipla Foundation's Palliative Care Centre in Pune continues to provide care to terminally ill cancer patients. As of date, this institution has provided comfort and solace to nearly 5000 patients.

The Company continues to provide patients in India and other countries, drugs for Malaria, HIV and several neglected diseases, at very reasonable prices. Cipla also provides medicines to treat over a million poor, aged patients in slums and villages through Helpage India and the Umeed Foundation.

The Company has always been prompt in providing free medicines to those affected by natural calamities in various parts of the country. During the year, Cipla supplied free medicines to the flood-affected in various states of India and parts of Sri Lanka. We also took up the formidable challenge of commercially manufacturing oseltamivir and zanamivir, two important antiviral drugs that can control avian flu in humans.

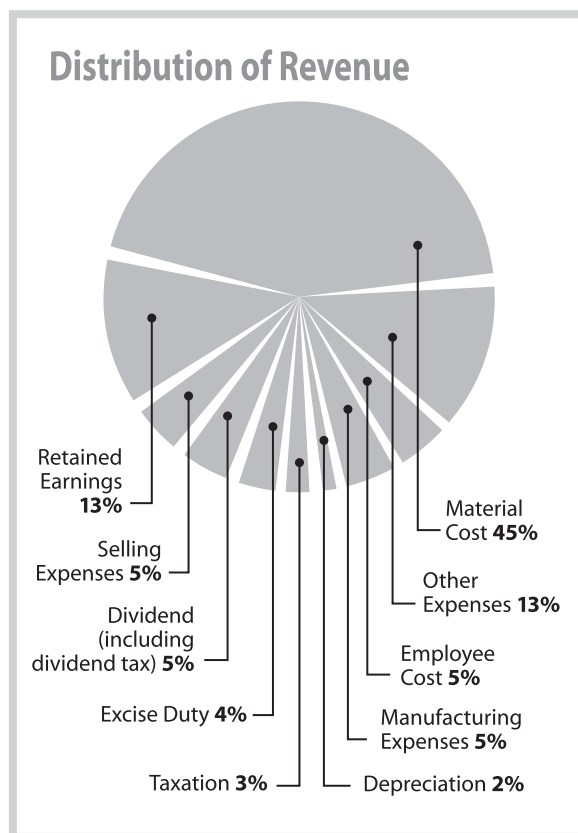
In addition, the Company continued to support the promotion of education and community welfare, both directly and through its charitable trusts.

CORPORATE MATTERS

Responsibility Statement

Pursuant to Section 217 (2AA) of the Companies Act, 1956 it is confirmed that the Directors have:

- i. followed applicable accounting standards in the preparation of the annual accounts;
- ii. selected such accounting policies and applied them consistently and made judgements and estimates that are 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 ended 31st March 2006 and of the profit or loss of the Company for that period;
- iii. 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; and
- iv. prepared the annual accounts on a going concern basis.



DIRECTORS' REPORT *contd.*

Corporate Governance

Your Company is committed to good corporate governance practices. The report on corporate governance as stipulated under Clause 49 of the Listing Agreement forms part of this report.

Fixed Deposits

The Company neither accepted nor renewed any fixed deposits from the public during the year. In all, 15 deposits, amounting to Rs.0.01 crore, due for repayment remain unclaimed as on 31st March 2006 by the depositors.

Disclosure of Particulars

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data are annexed to this report.

Directors

During the year under review, Mr. Amar Lulla was reappointed by the Board of Directors as Joint Managing Director for a period of five years with effect from 14th December 2005 and the same was approved by the shareholders through postal ballot on 21st March 2006.

Mr. S.A.A. Pinto and Mr. V.C. Kotwal retire by rotation and being eligible, offer themselves for reappointment. A brief resume of the directors is provided in the Notice.

Cost Audit

Messrs R. Nanabhoy & Co. have been reappointed to carry out the cost audit for the year.

Auditors

Messrs R.S. Bharucha & Co. and Messrs R.G.N. Price & Co., joint auditors of the Company, retire at the conclusion of the forthcoming Annual General Meeting and are eligible for reappointment.

On behalf of the Board,

Y.K. Hamied

Chairman & Managing Director

Mumbai, 21st July 2006

ANNEXURE TO THE DIRECTORS' REPORT

Information under 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.

I. CONSERVATION OF ENERGY

- a. The Company is striving continuously to conserve energy by adopting innovative measures to reduce wastage and optimize consumption. Some of the specific measures undertaken are:
 - i. The Company carried out an energy conservation audit at its Kurkumbh plant and implemented various measures including replacement of existing vapour absorption system with energy efficient screw chillers, improvements in chilled water piping & pumping system and automation of heating ventilation air conditioning systems. These measures have resulted in substantial savings in power consumption.
 - ii. The Company has installed and commissioned thermal storage system for chilled water system and set up automatic power factor control panel to improve power factor, leading to reduction in power usage.
 - iii. Installation of flow meter in chilled water and cooling water lines of chillers and strict scheduling of air handling units at Baddi has resulted in significant reduction in power consumption.

- b. Impact of the above measures for reduction of energy consumption and consequent impact on the cost of production of goods:

The adoption of the above energy conservation measures have helped to curtail the proportionate increase in total energy usage consequent to overall increase in production. This has made it possible to maintain cost of production at optimum levels.

- c. Total energy consumption and energy consumption per unit of production as per Form A:

Considering that the Company has a multi-product, multi-facility production system, it is not possible to determine product-wise energy consumption. Therefore, the consumption is categorised under different classes of goods as shown below. The figures for the year are not exactly comparable with the previous year's figures because of changes in the product mix.

ANNEXURE TO THE DIRECTORS' REPORT *contd.*

A. Power and Fuel Consumption

| | | 2006 | 2005 |
|-----|---|-----------------|----------|
| 1. | Electricity | | |
| a. | Purchased | | |
| | Units | kwh | |
| | Total amount | Rs. in crore | |
| | Rate/Unit | Rs. | |
| | | 89795068 | 62684642 |
| | | 48.95 | 29.55 |
| | | 5.45 | 4.71 |
| b. | Own generation | | |
| i. | Through diesel generator | | |
| | Units | kwh | |
| | Units per litre of diesel oil | kwh | |
| | Cost/Unit | Rs. | |
| | | 6310319 | 2335416 |
| | | 3.45 | 3.41 |
| | | 8.46 | 8.19 |
| ii. | Through steam turbine/generator | - | - |
| 2. | Others/Internal generation | | |
| | Light diesel oil/diesel oil/furnace oil | | |
| | Quantity | kl | |
| | Total cost | Rs. in crore | |
| | Average rate | Rs./kl | |
| | | 6106 | 4795 |
| | | 14.13 | 7.74 |
| | | 23140 | 16141 |

B. Consumption per Unit of Production

| | | | |
|----|---|--------------|-------|
| 1. | Electricity | | |
| | Bulk drugs | (kwh/mt) | |
| 2. | Light diesel oil/diesel oil/furnace oil | | |
| | Bulk drugs | (kl/mt) | |
| | | 63435 | 54718 |
| | | 2.65 | 3.38 |

It is not feasible to classify energy consumption data on the basis of product categories, since the Company manufactures a large range of formulations with different energy requirements.

II. RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

A. Research & Development

- Specific areas in which R&D work is carried out:

The focus of the Company's R&D efforts was on the following areas:

- Development of new drug formulations for existing and newer active drug substances.
- Development of agrotechnology, genetics and biotechnology for cultivation of medicinal plants and isolation of active ingredients from plant materials.
- Development of new drug delivery systems for existing and newer active drug substances as also newer medical devices.
- Patenting of newer processes/newer products/newer drug delivery systems/newer medical devices/newer usage of drugs for both local and international markets.

ANNEXURE TO THE DIRECTORS' REPORT *contd.*

- v. Development of new innovative technology for the manufacture of existing APIs and their intermediates.
 - vi. Development of new products, both in the area of APIs as well as formulations, specifically for export.
 - vii. Development of methods to improve safety procedures, effluent control, pollution control, etc.
 - viii. Projects to develop APIs and formulations jointly with overseas companies.
 - ix. Development of products related to the indigenous system of medicines.
2. Some of the major benefits derived as a result of R&D include:
- i. Successful commercial scale up of several new APIs and formulations.
 - ii. Development of new drug delivery systems and devices.
 - iii. Improved processes and enhanced productivity in both APIs and formulations.
3. Future plan of action:
The Company will continue its R&D efforts in the various areas indicated in (1) above. The major thrust would be on developing new products and delivery systems.

4. Expenditure on R&D:

| | Rs. in crore |
|--------------|---------------|
| a. Capital | 34.92 |
| b. Recurring | 120.48 |
| Total | <u>155.40</u> |

The total R&D expenditure as a percentage of total turnover is over 5 per cent.

B. Technology Absorption, Adaptation and Innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation:
- i. Development and patenting of new molecular forms and methods of synthesis.
 - ii. Development of new drug delivery systems.
2. Benefits derived as a result of the above efforts:
- i. Improvement in operational efficiency through reduction in batch hours, increase in batch sizes, better solvent recovery and simplification of processes.
 - ii. Meeting norms of external regulatory agencies to facilitate more exports.
 - iii. Improvements in effluent treatment, pollution control and all-round safety standards.
 - iv. Maximum utilization of indigenous raw materials.
 - v. Development of products for import substitution.

ANNEXURE TO THE DIRECTORS' REPORT *contd.*

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports, initiative taken to increase exports, development of new export markets for products and services and export plans:

At Rs.1514 crore, exports registered a growth of 44 per cent and constituted 50 per cent of total sales. The Company earned about Rs.42 crore towards Technical know-how/fees.

There has been a significant increase in exports of both APIs and formulations. The Company consolidated existing alliances and entered into new arrangements with leading US generic companies for the supply of a wide range of finished formulations. The Company currently exports to nearly 170 countries and this will continue to be our thrust area.

2. Total foreign exchange used and earned:

During the year, the foreign exchange outgo was Rs.655 crore and the earnings in foreign exchange were Rs.1566 crore. Details have been given in Notes 16 to 18 in Schedule R to the Accounts.

On behalf of the Board,

Y. K. Hamied

Chairman & Managing Director

Mumbai, 21st July 2006

REPORT ON CORPORATE GOVERNANCE

(Pursuant to Clause 49 of the Listing Agreement)

a. Company's Philosophy on Code of Governance

The Company is committed to good corporate governance. The Company respects the rights of its shareholders to secure information on the performance of the Company and it is its endeavour to maximise the long term value to the shareholders of the Company. The Compliance Report is prepared and given below in conformity with the mandatory requirements of the Listing Agreement with the Stock Exchanges.

b. Board of Directors

- The composition of Board of Directors as on 31st March 2006 is as follows:

| Category | No. of Directors | % |
|-------------------------|------------------|------------|
| Executive Directors | 3 | 33 |
| Non-Executive Directors | 6 | 67 |
| Total | 9 | 100 |

- Six board meetings were held during the year. The dates on which the meetings were held are as follows: 26th April 2005; 25th July 2005; 6th September 2005; 27th October 2005; 24th January 2006; 11th February 2006.
- The attendance of Directors at the board meetings and at the last Annual General Meeting and the number of other directorships and committee memberships in public companies (being a director as on the date of the Directors' Report) are given below:

| Name of the Director | Category of Directorship | No. of Board Meetings Attended | Last AGM Attended | No. of other Directorships held in Public Companies | No. of other Committee Memberships |
|----------------------|-------------------------------|--------------------------------|-------------------|---|------------------------------------|
| Dr. Y.K. Hamied | Executive | 4 | Yes | Nil | Nil |
| Mr. M.K. Hamied | - do - | 5 | Yes | Nil | Nil |
| Mr. Amar Lulla | - do - | 6 | Yes | Nil | Nil |
| Dr. H.R. Manchanda | Non-Executive/ Independent | 6 | Yes | Nil | Nil |
| Mr. S.A.A. Pinto | - do - | 6 | Yes | Nil | Nil |
| Mr. Ramesh Shroff | - do - | 6 | Yes | 2 | Nil |
| Mr. V.C. Kotwal | - do - | 4 | No | Nil | Nil |
| Dr. M.K. Gurjar | - do - | 4 | Yes | 1 | Nil |
| Mr. M.R. Raghavan | - do - | 6 | Yes | Nil | Nil |

REPORT ON CORPORATE GOVERNANCE *contd.*

c. Audit Committee

- The Audit Committee was constituted on 4th September 2000 in compliance with the requirements of Clause 49 of the Listing Agreement. Mr. S.A.A. Pinto is the Chairman and Mr. Ramesh Shroff and Mr. M.R. Raghavan are the members of the Committee, all being independent directors. The Joint Managing Director, Head of Finance and other functional managers along with internal auditors and statutory auditors are invitees to the Audit Committee meeting, as and when necessary. The Company Secretary acts as Secretary to the Committee. The Committee discharges such duties and functions generally indicated in Clause 49 of the Listing Agreement with the Stock Exchanges and such other functions as may be specifically delegated to the Committee by the Board from time to time.
- Meetings and attendance during the year:
The meetings of the Audit Committee were held on 25th July 2005; 6th September 2005 and 24th January 2006 during the year 2005-06 (April to March) where all the members were present.

d. Remuneration to Directors

- The details of remuneration paid to Executive Directors during the year 2005-06 are given below:

| Executive Directors | Salary (Rs.) | Commission (Rs.) | Perquisites and Allowances (Rs.) | Retiral Benefits* (Rs.) |
|---------------------|--------------|------------------|----------------------------------|-------------------------|
| Dr. Y.K. Hamied | 2100000 | 75000000 | 1486073 | 252000 |
| Mr. M.K. Hamied | 1800000 | 70000000 | 1314631 | 216000 |
| Mr. Amar Lulla | 1800000 | 70000000 | 1249134 | 216000 |

* Exclusive of provision for leave encashment and contribution to the approved Group Gratuity Fund, which are actuarially determined on an overall basis.

- Notes: i) The agreement with each Executive Director is for a period of five years or normal retirement date whichever is earlier. Either party to the agreement is entitled to terminate the agreement by giving not less than three months' prior notice in writing to the other party.
- ii) Presently, the Company does not have a scheme for grant of stock options either to the Executive Directors or employees.

REPORT ON CORPORATE GOVERNANCE *contd.*

- The details of payments to Non-Executive Directors during the year 2005-06 are given below:

| Non-Executive Directors | Sitting Fees (Rs.) |
|--------------------------------|---------------------------|
| Dr. H.R. Manchanda | 97000 |
| Mr. Ramesh Shroff | 50000 |
| Mr. S.A.A. Pinto | 122000 |
| Mr. V.C. Kotwal | 20000 |
| Dr. M.K. Gurjar | 25000 |
| Mr. M.R. Raghavan | 50000 |

Note: The above figures are inclusive of fees paid for attendance of committee meetings.

- Shareholding of Non-Executive Directors:

As on 31st March 2006, Mr. S.A.A. Pinto, Dr. H.R. Manchanda and Mr. Ramesh Shroff – Non-Executive Directors held 2,47,660, 1,51,000 and 100 equity shares respectively of the Company. None of the other Non-Executive Directors hold any equity shares of the Company.

Consequent to the issue of Bonus Shares in the ratio of three equity shares of Rs.2 each for every existing two shares of Rs.2 each held on the record date i.e. 25th April 2006, the shareholding of Non-Executive Directors stands increased accordingly.

e. Shareholders’/Investors’ Grievance Committee

- The Company has a Shareholders’/Investors’ Grievance Committee, which is headed by an independent Non-Executive Director – Mr. S.A.A. Pinto, to attend and address the grievances of the shareholders/investors as and when received. The other members of the Committee are:

Mr. M.K. Hamied – Executive Director

Dr. H.R. Manchanda – Non-Executive Director

- During the year, the Committee met on 26th April 2005; 25th July 2005; 27th October 2005 and 24th January 2006.
- The Company Secretary acts as the Compliance Officer of the Company. The Company attends the shareholders’/investors’ grievances/correspondence expeditiously. During the year under review, 35 investor complaints were received and all of them have been resolved. There were 3 share transfer requests and 17 demat requests pending as on 31st March 2006.

f. General Body Meetings

- The last three Annual General Meetings of the Company were held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034 at 3.00 p.m.
- An Extraordinary General Meeting of the Company was held on 21st April 2004 at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034 at 3.00 p.m. *inter alia* for approval of subdivision in face value of shares.

REPORT ON CORPORATE GOVERNANCE *contd.*

- During the year under review, the Company obtained the approval of the members, through postal ballot on the following items:

| Sr. No. | Description | Type of Resolution | Votes cast in favour (%) |
|----------------|--|---------------------------|---------------------------------|
| 1. | Increase in the Authorised Share Capital of the Company | Ordinary Resolution | 97.55 |
| 2. | Alteration in the Memorandum of Association of the Company | Ordinary Resolution | 99.26 |
| 3. | Alteration in the Articles of Association of the Company | Special Resolution | 99.25 |
| 4. | Issue of Bonus Shares | Ordinary Resolution | 99.69 |
| 5. | Further issue of securities in the domestic and/or international market | Special Resolution | 94.83 |
| 6. | Increasing the limit of investment by Foreign Institutional Investors (FIIs) | Special Resolution | 96.72 |
| 7. | Reappointment of Mr. Amar Lulla as Joint Managing Director | Ordinary Resolution | 99.37 |
| 8. | Enhancement of borrowing limits | Ordinary Resolution | 96.14 |

Mr.S.N. Ananthasubramanian, Practising Company Secretary, was appointed as Scrutinizer for conducting the postal ballot process. All the aforesaid resolutions were passed with requisite majority.

g. Disclosures

- The Company has not entered into any transaction of material nature with the Promoters, the Directors or the Management, their subsidiaries or relatives, etc. that may have any potential conflict with the interests of the Company.
- The Company has complied with the requirements of the Stock Exchanges, SEBI and other statutory authorities on all matters related to capital markets during the last three years. There were no penalties imposed nor any strictures passed on the Company by the Stock Exchanges, SEBI or any other statutory authority relating to the above.

h. Code of Conduct

- The Code of Conduct for the Directors and Senior Management of the Company has been laid down by the Board and the same is posted on the website of the Company. The CEO hereby declares that Board Members and Senior Management affirmed compliance with the Code of Conduct of the Company.

REPORT ON CORPORATE GOVERNANCE *contd.*

i. CEO/CFO Certification

- The CEO/CFO of the Company have certified to the Board as required under Clause 49(V) of the Listing Agreement.

j. Means of Communication

- The half-yearly/quarterly results are published in the newspapers (Mumbai edition) and are not being sent to each household of shareholders.
- The results are usually published in the following newspapers:
 - i) The Economic Times
 - ii) Navbharat Times
 - iii) The Financial Express
 - iv) Business Standard
 - v) The Hindu Business Line
 - vi) Sakaal
- The annual/half-yearly/quarterly results, other official news releases and presentations are displayed on the website of the Company - www.cipla.com
- The Management Discussion and Analysis Report forms part of the Directors' Report.

k. General Shareholder Information

- Date, Time and Venue of the AGM : Tuesday, 5th September 2006 at 3.00 p.m.
Amar Gian Grover Auditorium,
Lala Lajpat Rai Marg, Haji Ali,
Mumbai-400 034.
- Financial Calendar : April to March
- Adoption of Quarterly Results for the Quarter Ending : 3rd/4th week of
 - 30th June 2006 July 2006
 - 30th September 2006 October 2006
 - 31st December 2006 January 2007
 - 31st March 2007 April 2007
- Date of Book Closure : 22nd August 2006 to 5th September 2006 (both days inclusive)
- Dividend Payment Date : On or before 4th October 2006
- Issue of Bonus Shares : The Company issued and allotted 46,63,74,814 equity shares as fully paid-up Bonus Shares in the ratio of three equity shares for every existing two shares held for which 25th April 2006 was fixed as the record date. The Bonus Shares have been listed on Bombay Stock Exchange Limited effective 19th May 2006 and on National Stock Exchange of India Limited effective 22nd May 2006.

REPORT ON CORPORATE GOVERNANCE *contd.*

- Listing on Stock Exchanges : Equity Shares: Bombay Stock Exchange Limited and National Stock Exchange of India Limited
GDRs: Luxembourg Stock Exchange
The Company has paid the requisite annual listing fees to the above stock exchanges for the financial year 2006-07.
- Stock Code : 500087 on Bombay Stock Exchange Limited
CIPLA EQ on National Stock Exchange of India Limited
- ISIN Number for NSDL & CDSL : INE059A01026
- Market Price Data : The high and low prices of every month during the financial year 2005-06 are given below. The Company's market capitalisation is included in the computation of BSE Sensex and S&P CNX NIFTY Index.

| Year (2005-06) | Bombay Stock Exchange Ltd. (BSE) | | | National Stock Exchange of India Ltd. (NSE) | | |
|-------------------|-------------------------------------|--------------|----------------------------|--|--------------|----------------------------|
| | High (Rs.) | Low (Rs.) | Number of Shares Traded | High (Rs.) | Low (Rs.) | Number of Shares Traded |
| April | 290.00 | 226.00 | 4768214 | 268.45 | 211.65 | 15307551 |
| May | 292.00 | 261.55 | 3006908 | 300.00 | 261.20 | 9833423 |
| June | 317.95 | 282.05 | 6208433 | 317.90 | 272.65 | 14931553 |
| July | 347.50 | 312.30 | 3406626 | 398.95 | 312.55 | 10609354 |
| August | 371.25 | 320.00 | 2544244 | 373.00 | 320.00 | 9372781 |
| September | 384.80 | 343.00 | 2127554 | 384.85 | 315.65 | 8041082 |
| October | 400.80 | 340.00 | 7449232 | 401.10 | 332.00 | 20639533 |
| November | 416.50 | 351.00 | 2628252 | 416.85 | 350.50 | 7857786 |
| December | 446.95 | 388.00 | 2477151 | 450.00 | 385.05 | 7841270 |
| January | 451.80 | 425.05 | 1947914 | 499.00 | 425.00 | 8062047 |
| February | 587.00 | 439.00 | 12808781 | 624.40 | 437.50 | 34819057 |
| March | 665.00 | 548.80 | 7450803 | 665.95 | 548.00 | 21216744 |

REPORT ON CORPORATE GOVERNANCE *contd.*

- Address for Correspondence

The Company has appointed M/s. Karvy Computershare Pvt. Ltd. as its Share Transfer Agents in place of M/s. Intime Spectrum Registry Ltd. w.e.f. 1st April 2005. All communications with regard to transfer, transmission, Electronic Clearing Service (ECS), dividend, demat, etc. should be addressed to the Share Transfer Agents.

Share Transfer Agents : Karvy Computershare Pvt. Ltd.
(Unit: Cipla Ltd.)
Karvy House No.46, Avenue 4,
Street No.1, Banjara Hills, Hyderabad-500 034.
Tel: (040) 2342 0818 Fax: (040) 2342 0814
E-mail: mailmanager@karvy.com
Website: www.karvy.com

Registered Office : Shares Department
Cipla Ltd.
Mumbai Central, Mumbai-400 008
Tel: (022) 2302 3272/2309 5521
Fax: (022) 2300 8101
E-mail: cosecretary@cipla.com
Website: www.cipla.com

REPORT ON CORPORATE GOVERNANCE *contd.*

- Share Transfer System

A Committee of Directors has been constituted to approve the transfer, transmission, issue of duplicate share certificates and allied matters. The Company's Share Transfer Agents, M/s. Karvy Computershare Pvt. Ltd., have adequate infrastructure to process the above matters.

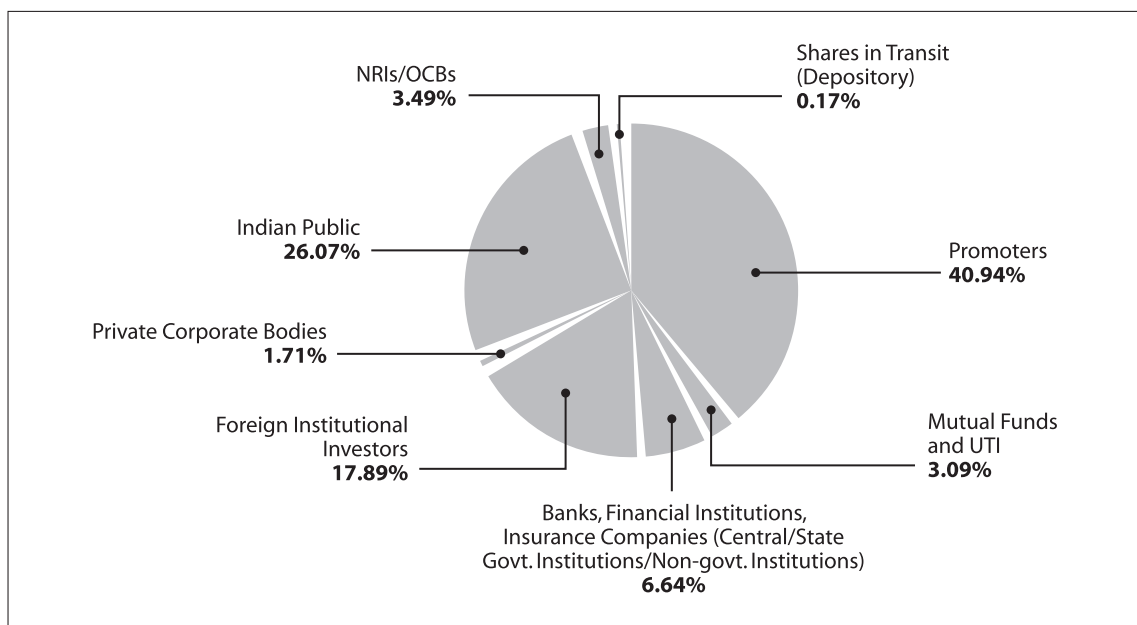
A predetermined process cycle at regular interval ensures transfer of shares expeditiously. In compliance with the Listing Agreement, every six months the system is audited by a Practising Company Secretary and a certificate to that effect is issued and filed with the Stock Exchanges.

- Distribution of shareholding as on 31st March 2006
(Class-wise distribution of Equity Shares)

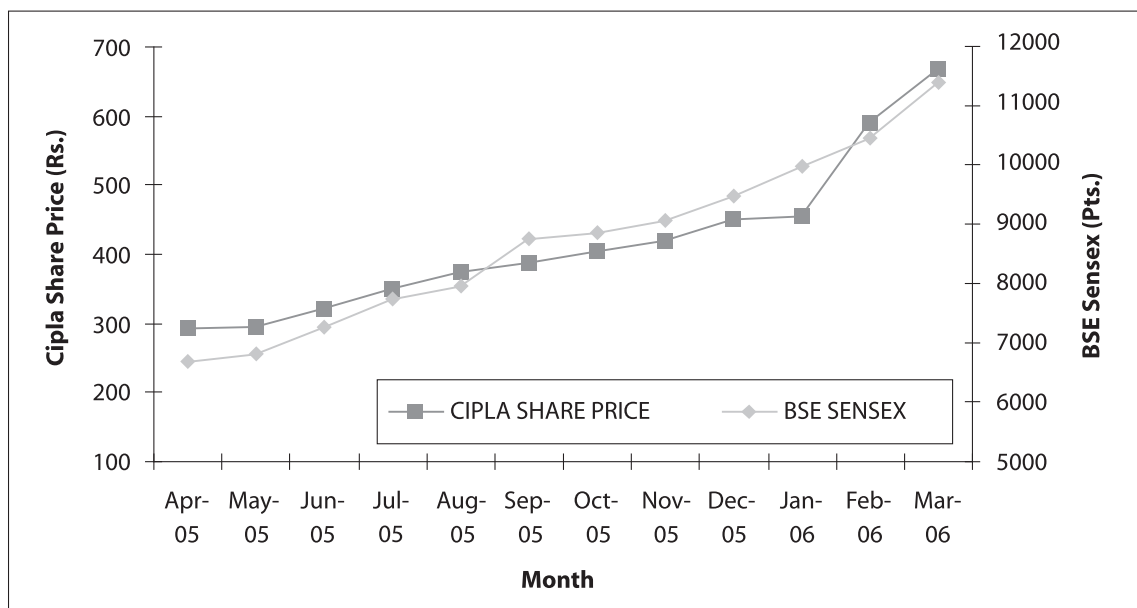
| Shareholding | No. of Folios | % of Total | No. of Shares | % of Total |
|-----------------|---------------|---------------|------------------|---------------|
| 1-2500 | 110677 | 97.29 | 15048303 | 5.02 |
| 2501-5000 | 1143 | 1.01 | 4294846 | 1.43 |
| 5001-10000 | 736 | 0.65 | 5472634 | 1.83 |
| 10001-15000 | 255 | 0.22 | 3249145 | 1.08 |
| 15001-20000 | 153 | 0.13 | 2729585 | 0.91 |
| 20001-25000 | 104 | 0.09 | 2379806 | 0.79 |
| 25001-50000 | 244 | 0.21 | 8596136 | 2.87 |
| Above 50000 | 452 | 0.40 | 258099778 | 86.07 |
| Total | 113764 | 100.00 | 299870233 | 100.00 |
| Physical Mode | 2319 | 2.04 | 51228195 | 17.08 |
| Electronic Mode | 111445 | 97.96 | 248642038 | 82.92 |

REPORT ON CORPORATE GOVERNANCE *contd.*

- Shareholding pattern as on 31st March 2006



- Performance in comparison to BSE Sensex – Year 2005-06



REPORT ON CORPORATE GOVERNANCE *contd.*

- Dematerialisation and Liquidity of Shares

As on 31st March 2006, 83 per cent of the share capital was held in demat mode. The equity shares of the Company are traded in the 'A'/Forward group and have been included in the Sensex at Bombay Stock Exchange Limited. It is also included in S&P CNX NIFTY of National Stock Exchange of India Limited. It is among the select scrips in which derivatives trading has been permitted in the form of stock futures and stock options.

- During the year under review, no Global Depository Receipts/American Depository Receipts/Warrants or any convertible instruments were issued.

However, consequent to the approval of the members through Postal Ballot on 21st March 2006, the Company successfully raised US\$ 170 million through issue of GDRs. On 18th April 2006, the GDR Committee of the Board of Directors approved and allotted 1,10,46,310 equity shares of face value Rs.2 each underlying GDRs to The Bank of New York, the Depository. The GDRs are listed on Luxembourg Stock Exchange and the underlying equity shares are listed on Bombay Stock Exchange Limited effective 26th April 2006 and on National Stock Exchange of India Limited effective 28th April 2006.

- Plant Locations

: L.B.S. Marg, Vikhroli (West),
Mumbai-400 083, Maharashtra

Virgonagar, Old Madras Road,
Bangalore-560 049, Karnataka

MIDC, Patalganga-410 220,
Dist. Raigad, Maharashtra

D-7, MIDC Industrial Area,
Kurkumbh-413 802,
Dist. Pune, Maharashtra

Verna Industrial Estate,
Verna-403 722, Salcette, Goa

Village Malpur Upper, P.O. Bhud,
Nalagarh, Baddi-173 205,
Dist. Solan, Himachal Pradesh

REPORT ON CORPORATE GOVERNANCE *contd.*

To the Members of Cipla Limited,

Re: Certificate on Corporate Governance

I have examined all relevant records of CIPLA LIMITED for the purpose of certifying compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited, Mumbai and National Stock Exchange of India Limited, Mumbai for the financial year ended on 31st March 2006. I have obtained all the information and explanations to the best of my knowledge and belief, which were necessary for the purpose of certification.

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

On the basis of my examination of records produced, explanations and information furnished, I certify that the Company has complied with all the mandatory conditions of the said Clause 49 of the Listing Agreement.

This certificate is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the Management has conducted the affairs of the Company.

Jayavant B. Bhave
Practising Company Secretary
FCS: 4266 CP: 3068

Mumbai, 21st July 2006

AUDITORS' REPORT TO THE MEMBERS OF CIPLA LIMITED

1. We have audited the attached Balance Sheet of Cipla Limited as at 31st March 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 have conducted our audit in accordance with the auditing standards generally accepted in India. These 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 the 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 (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) (Amendment) Order, 2004 (hereinafter referred to as "the Order") issued by the Central Government of India in terms of Section 227(4A) 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:
 - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b. In our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;
 - c. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d. In our opinion the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
 - e. On the basis of the written representations received from the Directors as on 31st March 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2006, from being appointed as a Director in terms of Section 274(1)(g) of the Companies Act, 1956; and
 - f. 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:
 - i. In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2006;
 - ii. In the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii. In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159
Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
Partner
Membership No. 41883
Mumbai, 21st July 2006

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1. a. The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets, other than the situation of furniture and fixtures and office equipment where the situation recorded is the location of the Company's different establishments.
- b. The Company has a policy of physically verifying its fixed assets periodically, which in our opinion is reasonable having regard to the size of the Company and the nature of its business. During the year, some of the fixed assets have been physically verified by the management and discrepancies noticed during the physical verification and the assets scrapped during the year has been properly dealt with in the books of account.
- c. The fixed assets that have been sold/disposed of during the year do not constitute a substantial part of the total fixed assets of the Company. Hence, the going concern concept has not been affected.
2. a. The inventory has been physically verified by the management at reasonable intervals during the year. The verification was made on the basis of the perpetual inventory system operated by the Company. In case of materials lying with third parties, certificates confirming such inventory have been obtained by the Company from most of the third parties.
- b. In our opinion and on the basis of the information and explanations given to us, the procedures for physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- c. The Company has maintained proper records of inventory. The discrepancies noticed on physical verification of stock as compared to the book records were not material.
3. a. As informed to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. Therefore, requirements of clauses (iii-b), (iii-c) and (iii-d) of paragraph 4 of the Order are not applicable.
- b. As informed to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. Therefore, requirements of clauses (iii-f) and (iii-g) of paragraph 4 of the Order are not applicable.
4. In our opinion and according to the information and explanations given to us, there is generally adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of inventory and fixed assets and for the sale of goods and services. During the course of audit, no major weakness has been noticed in these internal control systems.
5. In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in Section 301 of the Companies Act, 1956 that need to be entered in the Register required to be maintained under that section. Hence clause (v-b) of paragraph 4 of the Order is not applicable.
6. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposit from the public within the meaning of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975.
7. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
8. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the 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 not, however, made a detailed examination of the accounts and records with a view to determine whether they are accurate or complete.
9. a. According to the records of the Company, undisputed Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it have been regularly deposited with the appropriate authorities. There were no arrears as at 31st March 2006 for a period of more than six months from the date they became payable.

ANNEXURE TO THE AUDITORS' REPORT *contd.*

- b. According to the information and explanations given to us, the dues in respect of Sales Tax, Income Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess that have not been deposited with the appropriate authorities on account of dispute as at 31st March 2006 and the forum where the disputes are pending are given below:

| Nature of dues | Financial years to which the matter pertains | Forum where dispute is pending | Amount Rs. in crore |
|-----------------------|---|---------------------------------------|----------------------------|
| Sales Tax | 1990-91 to 1995-96 | State Sales Tax Tribunal | 0.17 |
| Excise Duty | 1994-95, 1999-00, 2000-01, 2001-02 2002-03, 2003-04, 2004-05 | CESTAT/ Commissioner (Appeals) | 3.34 |

10. The Company does not have accumulated losses at the end of the financial year and has not incurred cash losses in the current year or in the immediately preceding financial year.
11. According to the information and explanations given to us and based on our observations during the audit, the Company has not defaulted in repayment of dues to any financial institution or bank.
12. According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit funds/nidhi/mutual benefits funds/society do not apply to the Company.
14. In our opinion and according to the information and explanations given to us, the Company is not a dealer or trader in shares, securities, debentures or other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
15. According to the information and explanations given to us and the representations made by the management, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. The Company has not obtained any term loans.
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 no funds raised on short term basis have been used for long term investment.
18. The Company has not made preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
19. The Company has not issued any debentures.
20. The Company has not raised any money through a public issue during the year.
21. According to the information and explanations given by the Company and based on our audit, no fraud on or by the Company has been noticed or reported by the Company during the year.

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159
Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
Partner
Membership No. 41883
Mumbai, 21st July 2006

BALANCE SHEET

Rupees in crore

| As at 31st March 2006 | Schedule | 2006 | 2005 |
|---|----------|----------------|----------------|
| Sources of Funds | | | |
| Shareholders' Funds | | | |
| Share Capital | A | 59.97 | 59.97 |
| Reserves & Surplus | B | <u>1923.30</u> | <u>1493.66</u> |
| | | 1983.27 | 1553.63 |
| Loan Funds | | | |
| Secured Loans | C | 51.27 | 41.24 |
| Unsecured Loans | D | <u>417.64</u> | <u>149.96</u> |
| | | 468.91 | 191.20 |
| Deferred Tax Liabilities | | | |
| | M | <u>97.95</u> | <u>88.94</u> |
| | | 2550.13 | <u>1833.77</u> |
| Application of Funds | | | |
| Fixed Assets | | | |
| Gross Block | E | 1366.67 | 986.67 |
| Less: Depreciation | | <u>310.06</u> | <u>247.76</u> |
| Net Block | | 1056.61 | 738.91 |
| Capital Work-in-Progress | | <u>87.01</u> | <u>105.96</u> |
| | | 1143.62 | 844.87 |
| Investments | | | |
| | F | 22.43 | 18.30 |
| Current Assets, Loans & Advances | | | |
| Inventories | G | 957.00 | 745.68 |
| Sundry Debtors | H | 875.96 | 587.32 |
| Cash & Bank Balances | I | 44.48 | 11.20 |
| Other Current Assets | J | 13.35 | 13.51 |
| Loans & Advances | K | <u>401.49</u> | <u>391.33</u> |
| | | 2292.28 | 1749.04 |
| Less: Current Liabilities & Provisions | | | |
| Liabilities | L | 635.89 | 494.46 |
| Provisions | | <u>272.31</u> | <u>283.98</u> |
| | | 908.20 | 778.44 |
| Net Current Assets | | | |
| | | 1384.08 | 970.60 |
| | | 2550.13 | <u>1833.77</u> |
| Notes to the Accounts | R | | |

As per our report of even date

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159

Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
Partner
Membership No. 41883

Y.K. Hamied
Chairman & Managing Director

M.K. Hamied
Amar Lulla
Joint Managing Directors

M.K. Gurjar
V.C. Kotwal
H.R. Manchanda
S.A.A. Pinto
M.R. Raghavan
Ramesh Shroff
Directors

Mital Sanghvi
Company Secretary

Mumbai, 21st July 2006

PROFIT AND LOSS ACCOUNT

Rupees in crore

| For the year ended 31st March 2006 | Schedule | 2006 | 2005 |
|---|----------|----------------|----------------|
| Income | | | |
| Gross Sales | | 3019.68 | 2327.63 |
| Less: Excise Duty | | <u>122.27</u> | <u>146.37</u> |
| Net Sales | | 2897.41 | 2181.26 |
| Other Income | N | 216.15 | <u>155.24</u> |
| | | 3113.56 | <u>2336.50</u> |
| Expenditure | | | |
| Material Cost | O | 1411.57 | 1094.69 |
| Employee Cost | P | 150.76 | 116.58 |
| Manufacturing Expenses | | 159.59 | 130.31 |
| Other Expenses | Q | 590.20 | 417.63 |
| Interest – Fixed period | | 10.64 | 7.10 |
| – Others | | 0.78 | 0.53 |
| Depreciation | | 80.92 | 55.17 |
| Less: Transferred from Revaluation Reserve | | <u>0.74</u> | <u>0.12</u> |
| | | 80.18 | <u>55.05</u> |
| | | 2403.72 | <u>1821.89</u> |
| Profit before Tax | | 709.84 | 514.61 |
| Provision for Tax – Current Tax | | 89.00 | 82.00 |
| – Deferred Tax | | 9.00 | 23.00 |
| – Fringe Benefit Tax | | 4.20 | – |
| Profit after Tax | | 607.64 | 409.61 |
| Surplus brought forward from last Balance Sheet | | 233.82 | 94.11 |
| Profit available for Appropriation | | 841.46 | <u>503.72</u> |
| Appropriations | | | |
| Proposed Dividend | | 155.46 | 104.95 |
| Tax on Dividend | | 21.80 | 14.95 |
| Transferred to General Reserve | | 360.00 | 150.00 |
| Surplus carried forward | | 304.20 | 233.82 |
| | | 841.46 | <u>503.72</u> |
| Basic and Diluted Earning per Share (Rs.) (Schedule R–Note 24) | | 20.26 | <u>13.66</u> |
| Notes to the Accounts | | R | |

As per our report of even date

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159

Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
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H.R. Manchanda
S.A.A. Pinto
M.R. Raghavan
Ramesh Shroff
Directors

Mital Sanghvi
Company Secretary

Mumbai, 21st July 2006

SCHEDULES TO THE ACCOUNTS

| | | Rupees in crore | |
|---|--|-----------------|--------------|
| | | 2006 | 2005 |
| (A) Share Capital | | | |
| Authorised | | | |
| 87,50,00,000 Equity Shares of Rs.2 each | | 175.00 | 65.00 |
| (Previous year 32,50,00,000 Equity Shares of Rs.2 each) | | <u>175.00</u> | <u>65.00</u> |
| Issued | | | |
| 30,08,73,628 Equity Shares of Rs.2 each | | 60.17 | 60.17 |
| (Previous year 30,08,73,628 Equity Shares of Rs.2 each) | | <u>60.17</u> | <u>60.17</u> |
| Subscribed & Paid-up | | | |
| 29,98,70,233 Equity Shares of Rs.2 each | | 59.97 | 59.97 |
| (Previous year 29,98,70,233 Equity Shares of Rs.2 each) | | <u>59.97</u> | <u>59.97</u> |
| <i>Notes: Of the above Equity Shares:</i> | | | |
| i. 29,19,45,630 shares of Rs.2 each (Previous year 29,19,45,630 shares of Rs.2 each) were allotted as fully paid-up Bonus Shares by capitalisation of General Reserve & Securities Premium Account. | | | |
| ii. 8,488 Equity Shares of Rs.2 each were issued for consideration other than cash pursuant to the Scheme of Arrangement. | | | |

| | | Rupees in crore | |
|---|---------------|-----------------|----------------|
| | | 2006 | 2005 |
| (B) Reserves & Surplus | | | |
| Capital Reserve | | 0.08 | 0.08 |
| Revaluation Reserve | | | |
| As per last Balance Sheet | 10.06 | | 10.18 |
| Less: Transferred to Profit and Loss Account | <u>0.74</u> | 9.32 | <u>0.12</u> |
| | | | 10.06 |
| Securities Premium Account | | 48.68 | 48.68 |
| General Reserve | | | |
| As per last Balance Sheet | 1201.02 | | 1051.02 |
| Add: Transferred from Profit and Loss Account | <u>360.00</u> | 1561.02 | <u>150.00</u> |
| | | | 1201.02 |
| Surplus in Profit and Loss Account | | 304.20 | 233.82 |
| | | <u>1923.30</u> | <u>1493.66</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

| | Rupees in crore | |
|---|-----------------|--------------|
| | 2006 | 2005 |
| C Secured Loans | | |
| Amounts drawn against Cash and Export Credit Accounts with Banks | 51.27 | 41.24 |
| (Secured by hypothecation of tangible movable assets and receivables) | | |
| | <u>51.27</u> | <u>41.24</u> |

| | Rupees in crore | |
|--|-----------------|---------------|
| | 2006 | 2005 |
| D Unsecured Loans | | |
| Fixed Deposits* | 0.03 | 0.14 |
| Interest Accrued & due on Fixed Deposits* - Rs. 42,195 | 0.00 | 0.03 |
| Other Loans & Advances | | |
| Govt. of Maharashtra Sales Tax Loan | 0.01 | 0.02 |
| HDFC – Line of Credit | 0.05 | 0.08 |
| Maharashtra Govt. Sales Tax Deferral | 5.07 | 4.80 |
| Loans from Banks | <u>412.48</u> | <u>144.89</u> |
| | 417.61 | <u>149.79</u> |
| | 417.64 | <u>149.96</u> |
| <i>Notes:</i> | | |
| i. A sum of Rs.386.60 crore (Previous year Rs.141.55 crore) is repayable out of Unsecured Loans within the next 12 months. | | |
| ii. *There are no amounts due and outstanding to be credited to Investor Education & Protection Fund. | | |

SCHEDULES TO THE ACCOUNTS *contd.*

Rupees in crore

E Fixed Assets

| ASSETS | GROSS BLOCK AT COST/REVALUATION | | | DEPRECIATION | | NET BLOCK | |
|------------------------------------|---------------------------------|---------------|--------------|-------------------|-------------------|-------------------|-------------------|
| | As at 31.03.05 | Additions | Deletions | As at 31.03.06 | As at 31.03.06 | As at 31.03.06 | As at 31.03.05 |
| Freehold Land | 9.07 | 5.81 | – | 14.88 | – | 14.88 | 9.07 |
| Leasehold Land | 9.47 | 1.42 | – | 10.89 | 1.35 | 9.54 | 8.47 |
| Buildings & Flats | 182.91 | 90.40 | 2.97 | 270.34 | 43.21 | 227.13 | 147.30 |
| Plant & Machinery | 748.57 | 297.90 | 28.98 | 1017.49 | 254.33 | 763.16 | 546.52 |
| Furniture & Fixtures | 28.61 | 17.27 | 0.54 | 45.34 | 9.34 | 36.00 | 21.13 |
| Vehicles | 8.04 | 2.19 | 2.50 | 7.73 | 1.83 | 5.90 | 6.42 |
| Total | 986.67 | 414.99 | 34.99 | 1366.67 | 310.06 | 1056.61 | 738.91 |
| Previous Year | 740.79 | 247.52 | 1.64 | 986.67 | 247.76 | | |
| Capital Work-in-Progress (At Cost) | | | | | | 87.01 | 105.96 |
| Total | | | | | | 1143.62 | 844.87 |

Note: The gross value of Buildings & Flats includes the cost of shares in Co-operative Housing Societies.

Rupees in crore

| | 2006 | 2005 |
|---|-------------|------|
| F Investments | | |
| Long Term Investments | | |
| Government Securities | | |
| <i>Unquoted</i> | | |
| National Savings Certificates | 0.03 | 0.03 |
| Other Investments | | |
| Trade | | |
| <i>Unquoted</i> | | |
| The Saraswat Co-operative Bank Limited | | |
| 1,000 Equity Shares of Rs.10 each, fully paid - Rs. 10,000 | | |
| (Previous year - Rs. 10,000) | 0.00 | 0.00 |
| Other than Trade | | |
| <i>National Bank for Agriculture and Rural Development</i> | | |
| 2,000 (Previous year Nil) Capital Gains Bonds of Face Value | | |
| Rs.1,000 each, fully paid (2,000 bonds purchased during the year) | 2.00 | – |
| <i>National Housing Bank</i> | | |
| 1,000 (Previous year Nil) Capital Gains Bonds of Face Value | | |
| Rs.1,000 each, fully paid (1,000 bonds purchased during the year) | 1.00 | – |

SCHEDULES TO THE ACCOUNTS *contd.*

| | Rupees in crore | |
|---|-----------------|------|
| | 2006 | 2005 |
| F Investments – contd. | | |
| <i>Rural Electrification Corporation Limited</i> | | |
| 1,000 (Previous year Nil) Non-convertible Redeemable Taxable Bonds-Series V of Face Value Rs.1,000 each, fully paid (1,000 bonds purchased during the year) | 1.00 | – |
| Current Investments | | |
| Mutual Funds | | |
| <i>Alliance Capital Mutual Fund “Alliance Cash Manager” – Institutional Premium Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (13,34,82,735 Units purchased and redeemed during the year) | – | – |
| <i>ABN Amro Mutual Fund “Cash Fund” – Institutional Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (2,00,72,473 Units purchased and redeemed during the year) | – | – |
| <i>Birla Sun Life Mutual Fund “Birla Cash Plus” – Institutional Premium Daily Dividend Scheme</i> | | |
| 33,93,925 (Previous year Nil) Units (13,97,03,940 Units purchased and 13,63,10,015 Units redeemed during the year) | 3.40 | – |
| <i>Birla Sun Life Mutual Fund “Birla Sun Life Cash Manager” – Institutional Premium Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (50,11,412 Units purchased and redeemed during the year) | – | – |
| <i>Cholamandalam Mutual Fund “Chola Liquid” – Institutional Daily Dividend Scheme</i> | | |
| Nil (Previous year 79,88,918) Units (88,47,24,335 Units purchased and 89,27,13,253 Units redeemed during the year) | – | 8.00 |
| <i>Cholamandalam Mutual Fund “Chola Short Term Floating Rate” – Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (20,04,716 Units purchased and redeemed during the year) | – | – |
| <i>Deutsche Mutual Fund “Deutsche Insta Cash Plus” – Institutional Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (5,59,51,541 Units purchased and redeemed during the year) | – | – |
| <i>Grindlays Mutual Fund “Grindlays Cash Fund” – Institutional Premium Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (3,04,54,457 Units purchased and redeemed during the year) | – | – |
| <i>ING Vysya Mutual Fund “ING Vysya Liquid Fund” – Institutional Daily Dividend Scheme</i> | | |
| Nil (Previous year Nil) Units (2,50,12,649 Units purchased and redeemed during the year) | – | – |

SCHEDULES TO THE ACCOUNTS *contd.*

| | Rupees in crore | |
|--|-----------------|------|
| | 2006 | 2005 |
| F Investments – contd. | | |
| <i>JM Mutual Fund “JM Equity & Derivative Fund” – Growth Scheme</i> Nil (Previous year Nil) Units (19,30,111 Units purchased and redeemed during the year) | – | – |
| <i>JM Mutual Fund “Fixed Maturity Plan” – Dividend Scheme</i> Nil (Previous year Nil) Units (50,00,000 Units purchased and redeemed during the year) | – | – |
| <i>JM Mutual Fund “High Liquidity Fund” – Super Institutional Daily Dividend Scheme</i> Nil (Previous year 19,96,967) Units (3,52,64,439 Units purchased and 3,72,61,406 Units redeemed during the year) | – | 2.00 |
| <i>Kotak Mahindra Mutual Fund “K Liquid” – Institutional Premium Daily Dividend Scheme</i> 1,22,68,739 (Previous year 67,63,990) Units (70,19,91,825 Units purchased and 69,64,87,076 Units redeemed during the year) | 15.00 | 8.27 |
| <i>Principal Mutual Fund “Principal Cash Management Fund” – Institutional Plan Daily Dividend Scheme</i> Nil (Previous year Nil) Units (1,00,04,475 Units purchased and redeemed during the year) | – | – |
| <i>Principal Mutual Fund “Principal Cash Management Fund” – Institutional Premium Plan Daily Dividend Scheme</i> Nil (Previous year Nil) Units (4,25,15,530 Units purchased and redeemed during the year) | – | – |
| <i>Prudential ICICI Mutual Fund “Prudential ICICI Liquid Plan” – Institutional Plus Daily Dividend Scheme</i> Nil (Previous year Nil) Units (1,26,64,134 Units purchased and redeemed during the year) | – | – |
| <i>Reliance Mutual Fund “Fixed Maturity Scheme” – Monthly Plan-VII Series 2 Dividend Option</i> Nil (Previous year Nil) Units (2,50,00,000 Units purchased and redeemed during the year) | – | – |
| <i>Reliance Mutual Fund “Fixed Maturity Scheme” – Quarterly Plan-II Series 2 Dividend Option</i> Nil (Previous year Nil) Units (2,50,00,000 Units purchased and redeemed during the year) | – | – |
| <i>Reliance Mutual Fund “Treasury Plan” – Institutional Option Daily Dividend Scheme</i> Nil (Previous year Nil) Units (98,26,323 Units purchased and redeemed during the year) | – | – |
| <i>Sahara Mutual Fund “Sahara Liquid Fund” – Dividend Scheme</i> Nil (Previous year Nil) Units (3,90,90,550 Units purchased and redeemed during the year) | – | – |

SCHEDULES TO THE ACCOUNTS *contd.*

| | Rupees in crore | |
|---|-----------------|--------------|
| | 2006 | 2005 |
| F Investments – contd. | | |
| <i>Sahara Mutual Fund “Sahara Liquid Fund” – Variable Dividend Scheme</i> Nil (Previous year Nil) Units (97,916 Units purchased and redeemed during the year) | – | – |
| <i>Sundaram Mutual Fund “Sundaram Money Fund” – Super Institutional Daily Dividend Scheme</i> Nil (Previous year Nil) Units (8,17,27,488 Units purchased and redeemed during the year) | – | – |
| <i>Tata Mutual Fund “Liquid Super High Investment Fund” – Daily Dividend Scheme</i> Nil (Previous year Nil) Units (3,59,912 Units purchased and redeemed during the year) | – | – |
| <i>UTI Mutual Fund “UTI Liquid Cash Plan” – Institutional Daily Dividend Scheme</i> Nil (Previous year Nil) Units (3,01,031 Units purchased and redeemed during the year) | – | – |
| | <u>22.43</u> | <u>18.30</u> |
| Aggregate of Unquoted Investments at Book Value Rs.22.43 crore (Previous year Rs. 18.30 crore) | | |

| | Rupees in crore | |
|--|----------------------|---------------|
| | 2006 | 2005 |
| G Inventories | | |
| [As valued by the Management & certified by Cost Auditors. Schedule R–Note 1(iv)] | | |
| Raw Materials | 480.07 | 363.10 |
| Work-in-Process | 133.86 | 101.48 |
| Finished Goods | 343.07 | 281.10 |
| | <u>957.00</u> | <u>745.68</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

| | | Rupees in crore | |
|---|-------------|----------------------|---------------|
| | | 2006 | 2005 |
| (H) Sundry Debtors | | | |
| Unsecured | | | |
| Over Six Months | | | |
| Considered Good | 115.12 | | 79.92 |
| Considered Doubtful | <u>6.43</u> | | <u>0.18</u> |
| | 121.55 | | 80.10 |
| <i>Less: Provision for Doubtful Debts</i> | <u>6.43</u> | | <u>0.18</u> |
| | | 115.12 | 79.92 |
| Others | | | |
| Considered Good | | 760.84 | 507.40 |
| | | <u>875.96</u> | <u>587.32</u> |

| | | Rupees in crore | |
|---|--|---------------------|--------------|
| | | 2006 | 2005 |
| (I) Cash & Bank Balances | | | |
| Cash in hand | | 0.35 | 0.17 |
| Balances with Scheduled Banks in Current Accounts | | 44.10 | 11.02 |
| Fixed Deposits with Banks | | 0.03 | 0.01 |
| | | <u>44.48</u> | <u>11.20</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

Rupees in crore

| | 2006 | 2005 |
|---|---------------------|--------------|
| J Other Current Assets | | |
| Unsecured (Considered good, unless otherwise stated) | | |
| Interest accrued on Inter-corporate Loans, Government Securities & Deposits: | | |
| Considered Good | 0.15 | 0.68 |
| Considered Doubtful | <u>0.60</u> | <u>0.14</u> |
| | 0.75 | 0.82 |
| <i>Less:</i> Provision for Doubtful Interest | <u>0.60</u> | <u>0.14</u> |
| | 0.15 | 0.68 |
| Export Incentives Receivable | 12.62 | 12.33 |
| Rent and Lease Rentals Receivable | 0.58 | 0.50 |
| | <u>13.35</u> | <u>13.51</u> |

Rupees in crore

| | 2006 | 2005 |
|---|----------------------|---------------|
| K Loans & Advances | | |
| Unsecured (Considered good, unless otherwise stated) | | |
| Advances recoverable in cash or in kind or for value to be received: | | |
| Considered Good | 124.65 | 124.86 |
| Considered Doubtful | <u>0.07</u> | <u>0.07</u> |
| | 124.72 | 124.93 |
| <i>Less:</i> Provision for Doubtful Advances | <u>0.07</u> | <u>0.07</u> |
| | 124.65 | 124.86 |
| Excise Advance Receivable | 12.08 | - |
| Balance with Central Excise Department | 63.18 | 40.58 |
| Dues from Staff | 3.07 | 3.08 |
| Sundry Deposits | 8.21 | 6.65 |
| Advance Tax & TDS | 183.09 | 212.45 |
| Sales Tax Receivable | 5.28 | 0.66 |
| Inter-corporate Loans: | | |
| Considered Good | 1.93 | 3.05 |
| Considered Doubtful | <u>1.25</u> | <u>0.12</u> |
| | 3.18 | 3.17 |
| <i>Less:</i> Provision for Doubtful Loans | <u>1.25</u> | <u>0.12</u> |
| | 1.93 | 3.05 |
| | <u>401.49</u> | <u>391.33</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

| | | Rupees in crore | |
|---|---------------|-----------------|---------------|
| | | 2006 | 2005 |
| L Current Liabilities & Provisions | | | |
| Liabilities | | | |
| Sundry Creditors [#] | 371.27 | | 238.68 |
| Trade Deposits from Customers | 20.33 | | 19.34 |
| Unclaimed Dividend* | 3.88 | | 3.90 |
| Advances Received | 44.88 | | 29.10 |
| Unclaimed Preference Share Capital | 0.01 | | 0.01 |
| Other Liabilities | <u>195.52</u> | | <u>203.43</u> |
| | | 635.89 | <u>494.46</u> |
| Provisions | | | |
| Leave Encashment | 6.05 | | 4.31 |
| Provision for Taxation | 89.00 | | 160.00 |
| Provision for Dividend | 155.46 | | 104.95 |
| Tax on Dividend | <u>21.80</u> | | <u>14.72</u> |
| | | 272.31 | <u>283.98</u> |
| | | 908.20 | <u>778.44</u> |

Notes: i. # Includes Rs.126.37 crore (Previous year Rs.121.52 crore) due to SSI units (as disclosed by the parties). Following are the SSI units having outstandings for more than 30 days: Aditi Pharmaceuticals Pvt. Ltd., Advanced Remedies Pvt. Ltd., Golden Cross Pharma Pvt. Ltd., Healing Cross Pharma Pvt. Ltd., Inhaled Technologies Pvt. Ltd., Intermed Labs Pvt. Ltd., Jay Precision Products India Pvt. Ltd., Jupiter Remedies Pvt. Ltd., Medex Specialities Pvt. Ltd., Medioral Laboratories Pvt. Ltd., Medispray Laboratories Pvt. Ltd., Meditab Specialities Pvt. Ltd., Medule Pharma Pvt. Ltd., Nebumed Pharma Pvt. Ltd., Novacare Drug Specialities Pvt. Ltd., Okasa Pvt. Ltd., Oncocare India Pvt. Ltd., Vilshom Engineers Pvt. Ltd., XAL Engineering (India) Pvt. Ltd.

ii. * There are no amounts due and outstanding to be credited to Investor Education & Protection Fund.

SCHEDULES TO THE ACCOUNTS *contd.*

| | Rupees in crore | |
|--|-----------------|--------------|
| | 2006 | 2005 |
| (M) Deferred Tax Liabilities | | |
| Deferred Tax Liabilities arising on account of: | | |
| Depreciation | 93.70 | 84.98 |
| Export Incentives | 4.25 | 3.96 |
| | <u>97.95</u> | <u>88.94</u> |

| | Rupees in crore | |
|--|-----------------|---------------|
| | 2006 | 2005 |
| (N) Other Income | | |
| Profit on sale of Investments (Net) | 0.04 | 62.57 |
| Profit on sale of Fixed Assets (Net) | - | 0.39 |
| Technical Know-how/Fees | 41.56 | 41.54 |
| Export Incentives | 42.38 | 31.72 |
| Dividend | 2.97 | 2.04 |
| Interest (includes tax deducted at source Rs.0.08 crore; Previous year Rs.0.05 crore) | 0.96 | 1.13 |
| Rent (includes tax deducted at source Rs.0.04 crore; Previous year Rs.0.05 crore) | 0.19 | 0.28 |
| Insurance Claims (Schedule R-Note 8) | 94.19 | 1.01 |
| Miscellaneous Income | 33.86 | 14.56 |
| | <u>216.15</u> | <u>155.24</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

| | | Rupees in crore | |
|--|----------------|-----------------------|-----------------------|
| | | 2006 | 2005 |
| ○ Material Cost | | | |
| Consumption of Raw & Packing Materials | | | |
| Opening Stock | 363.10 | | 253.23 |
| Add: Purchases | 1303.29 | | 1000.07 |
| | <u>1666.39</u> | | <u>1253.30</u> |
| Less: Closing Stock | <u>480.07</u> | | <u>363.10</u> |
| | | 1186.32 | 890.20 |
| Finished Goods Purchased | | 319.60 | 271.36 |
| Increase in Stock of | | | |
| Work-in-Process & Finished Goods | | | |
| Opening Stock | | | |
| Work-in-Process | 101.48 | | 82.35 |
| Finished Goods | 281.10 | | 233.36 |
| | <u>382.58</u> | | <u>315.71</u> |
| Less: Closing Stock | | | |
| Work-in-Process | 133.86 | | 101.48 |
| Finished Goods | 343.07 | | 281.10 |
| | <u>476.93</u> | | <u>382.58</u> |
| | | (94.35) | (66.87) |
| | | <u>1411.57</u> | <u>1094.69</u> |

| | | Rupees in crore | |
|------------------------------|--|----------------------|----------------------|
| | | 2006 | 2005 |
| ○ Employee Cost | | | |
| Salaries, Wages, Bonus, etc. | | 127.96 | 102.59 |
| Provident & other Funds | | 6.25 | 5.04 |
| Staff Gratuity | | 5.89 | 1.62 |
| Staff Welfare | | 8.92 | 6.38 |
| Leave Encashment | | 1.74 | 0.95 |
| | | <u>150.76</u> | <u>116.58</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

Rupees in crore

| | 2006 | 2005 |
|---|----------------------|---------------|
| Q Other Expenses | | |
| Stores & Spares | 58.19 | 38.20 |
| Power & Fuel | 63.08 | 37.29 |
| Rent | 4.98 | 4.12 |
| Rates & Taxes | 5.48 | 2.55 |
| Insurance | 5.63 | 5.89 |
| Repairs & Maintenance | | |
| Machinery | 11.04 | 8.41 |
| Buildings | 31.26 | 22.71 |
| Others | 14.44 | 10.49 |
| Printing & Stationery | 11.93 | 7.93 |
| Conveyance & Vehicle Expenses | 10.17 | 3.88 |
| Remuneration to Auditors (including service tax, where applicable) | | |
| Audit Fees | 0.27 | 0.18 |
| Tax Audit Fees | 0.02 | 0.04 |
| Cost Audit Fees | 0.02 | 0.02 |
| Other Services | 0.01 | – |
| Professional Fees | 46.41 | 39.38 |
| Telephone, Postage & Telegram | 13.08 | 10.73 |
| Selling Expenses | 42.71 | 67.48 |
| Freight & Forwarding | 22.77 | 12.58 |
| Travelling Expenses | 38.22 | 13.44 |
| Donations | 0.13 | 0.15 |
| Commission on Sales | 122.10 | 90.49 |
| Bank & Other Financial Charges | 4.65 | 4.03 |
| Directors' Sitting Fees | 0.04 | 0.03 |
| Miscellaneous Expenses | 55.61 | 31.12 |
| Loss on Sale/Discard of Assets | 9.43 | – |
| Bad Debts written off | 0.13 | 0.27 |
| Provision for Doubtful Debts & Advances | 7.82 | 0.27 |
| Exchange Loss (Net) | 10.58 | 5.95 |
| | <u>590.20</u> | <u>417.63</u> |

SCHEDULES TO THE ACCOUNTS *contd.*

R Notes to the Accounts

1. Significant Accounting Policies

i. Basis of Accounting

The financial statements are prepared under the historical cost convention in accordance with applicable mandatory accounting standards and relevant provisions of the Companies Act, 1956.

ii. Fixed Assets

Fixed Assets are stated at cost of acquisition (net of recoverable taxes) or construction or other amounts substituted for historical costs on revaluation less accumulated depreciation.

iii. Depreciation

- a. Plant and Machinery (other than office machinery) purchased from 1.11.1986 to 31.3.1993 on the Straight Line Method at rates prescribed under Schedule XIV of the Companies Act, 1956.
- b. All other assets added up to 31.3.1993 and on amounts added on revaluation of buildings, on the Written Down Value method at rates prescribed under Schedule XIV of the Companies Act, 1956.
- c. On all assets added from the year 1993-94, on the Straight Line Method at rates prescribed under Schedule XIV of the Companies Act, 1956.
- d. All individual items of fixed assets, where the actual cost does not exceed Rs. 5000 each have been written off entirely in the year of acquisition.
- e. Cost of leasehold land including premium is written off over the period of lease.

iv. Inventories

Raw materials are valued at lower of cost and net realisable value. However, these items are considered to be realisable at cost if the finished products in which they will be used, are expected to be sold at or above cost.

Work-in-process and finished goods are valued at lower of cost and net realisable value. Finished goods and work-in-process include costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of inventories is computed on weighted average basis.

v. Foreign Exchange Transactions

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of the transaction. Foreign currency monetary assets & liabilities and forward contracts are restated at year end exchange rates. Exchange differences relating to fixed assets are adjusted in the cost of the respective asset. Any other exchange difference is dealt with in the Profit and Loss Account.

In respect of forward contracts, the premium or discount on these contracts is recognised as income or expenditure over the period of the contract. Any profit or loss arising on cancellation or renewal of such contracts is recognised as income or expense for the year.

vi. Retirement Benefits

- a. The Company contributes to a Gratuity Fund, which has taken up a Group Policy with Life Insurance Corporation of India for future payments of gratuities to employees. The contributions are based on actuarial valuation.
- b. The Company provides for Leave Encashment Benefit on the basis of actuarial valuation.

SCHEDULES TO THE ACCOUNTS *contd.*

vii. Research and Development

Revenue expenditure on Research and Development is charged against profit of the year in which it is incurred. Capital expenditure on Research and Development is shown as addition to Fixed Assets.

viii. Expenditure on Regulatory Approvals

Expenditure incurred for obtaining regulatory approvals and registration of products for overseas markets is charged to revenue.

ix. Investments

Long term investments are stated at cost, less any provision for permanent diminution in value. Current investments are stated at lower of cost and fair value.

x. Revenue Recognition

Sales are inclusive of excise duty, but net of sales tax, returns and trade discounts. The Company recognises sales at the point of despatch of goods to the customers. Royalty, technical know-how/fees and licensing income are recognised as revenue, when earned, in accordance with the terms of the relevant agreements.

xi. Income Tax

Provision for tax for the year comprises current income tax determined to be payable in respect of taxable income and deferred tax, being the tax effect of timing difference, representing the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent period(s).

In cases where the tax assessments have been completed but the appeals are pending at various appeal fora, the tax payments have been set-off against the provisions in the Balance Sheet. Appropriate disclosures have been made towards contingent liabilities, if any.

xii. Impairment of Assets

At each Balance Sheet date, the Company assesses whether there is any indication that any asset, may be impaired. If any such indication exists, the carrying value of such assets is reduced to its estimated recoverable amount and the amount of such impairment loss is charged to the Profit and Loss Account. If, at the Balance Sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

2. The previous year's figures have been recast/regrouped wherever necessary in order to conform to current year's presentation.
3. Estimated amount of contracts remaining to be executed on Capital Account and not provided for (net of advances) Rs.137.31 crore (Previous year Rs.119.28 crore).
4. **Contingent Liabilities**
 - i. Guarantees given by banks on behalf of the Company Rs.25.05 crore (Previous year Rs.17.85 crore).
 - ii. Letters of credit Rs.31.02 crore (Previous year Rs.43.63 crore).
 - iii. Technical know-how/fees Rs.21.51 crore (Previous year Rs.4.70 crore) pending completion of certain obligations.

SCHEDULES TO THE ACCOUNTS *contd.*

- iv. Claims against the Company not acknowledged as debts:
 - a. Income Tax Rs.83.30 crore (Previous year Rs.13.47 crore).

Of the above, Rs.14.95 crore (Previous year Rs.3.27 crore) represents claims where the matters have been decided in the Company's favour and the Income Tax Department has filed further appeals before the Income Tax Appellate Tribunal/High Court. The balance represents claims where the Company has filed appeals and expects to succeed, based on decisions in earlier assessment years.
 - b. Sales Tax Rs.0.17 crore (Previous year Rs.0.17 crore).
 - c. Excise Duty/Service Tax Rs.8.63 crore (Previous year Rs.4.45 crore).

Of the above, Rs.5.29 crore (Previous year Nil) represents claims where, based on decisions in earlier years, the Company is of the opinion that the demand is not sustainable.
 - d. Others Rs.1.70 crore (Previous year Rs.0.31 crore).
5. The Government of India has served demand notices in March 1995 and May 1995 on the Company in respect of six bulk drugs, claiming that an amount of Rs.5.46 crore along with interest due thereon is payable into the DPEA under the Drugs (Prices Control) Order, 1979 on account of alleged unintended benefit enjoyed by the Company. The Company has filed its replies to the notices and has contended that no amount is payable into the DPEA under the Drugs (Prices Control) Order, 1979.
6. The Government of India (NPPA) has served show cause notices on the Company on account of overcharging in respect of Salbutamol, Theophylline, Ciprofloxacin, Cloxacillin, Norfloxacin, Cefadroxil, Trimethoprim and Sulphamethoxazole formulations under the Drugs (Prices Control) Order, 1995. The aggregate demand of the show cause notices received upto July 2003 amounted to Rs.360.75 crore.

In response to the writ petition filed by the Company against the aforesaid show cause notices, the Hon'ble High Court of Bombay had upheld the Company's contentions and held that the drugs Norfloxacin, Ciprofloxacin, Theophylline, Salbutamol and Cloxacillin cannot be included under price control and consequently had quashed the above show cause notices. The Government of India had filed an appeal in the Supreme Court of India. The Hon'ble Supreme Court of India by its order dated 1st August 2003 laid down the principles for interpretation of the Drug Policy and has remanded the matter to the Hon'ble High Court of Bombay where the petitions are now pending. The Hon'ble Supreme Court of India had also given liberty to the NPPA to recover 50% of the allegedly overcharged amount. In addition, the Company's writ petition has also challenged the wrongful withholding by the Government of the exemption to Salbutamol manufactured by the Company on the grounds of Research and Development. The said challenge is pending in the Hon'ble High Court of Bombay, which has granted interlocutory orders regarding the same.

With regard to the other drugs in the show cause notices, the Company has also pointed out to the Government that it does not manufacture formulations of Cloxacillin and Cefadroxil and has also pointed out that the Company is following the notified prices in respect of formulations of Trimethoprim and Sulphamethoxazole.

In response to a notice issued to the Company by the drug authorities, the Company challenged the same before the Hon'ble High Court of Allahabad which granted interlocutory orders in favour of the Company.

Subsequent to the orders of the Hon'ble Supreme Court of India, the NPPA had demanded 50% of the amount mentioned in the original notices. The Company had replied to the demand pointing out that the same were not payable in view of the order of the Hon'ble High Court of Allahabad.

SCHEDULES TO THE ACCOUNTS *contd.*

Ultimately by its judgement and order dated 3rd March 2004, the Hon'ble High Court of Allahabad has ruled that the prices fixed in respect of the said drugs were illegal and void. The Government of India had filed an appeal in the Supreme Court of India against this Order. The Hon'ble Supreme Court of India in its interim order directed the Government not to take any coercive steps or launch any prosecution against the Company for recovery of money till the appeal is finally decided. The Company has received legal advice that the demand notices of the government are not sustainable.

7. The net difference in foreign exchange debited to the Profit and Loss Account is Rs.10.58 crore (Previous year Rs.5.95 crore).
8. Insurance claim includes Rs.92.42 crore being the amount settled by various insurance companies during the year against insurance claims relating to losses on account of floods. These claims were mainly under Declared Value Policies in respect of damage to finished goods at the Company's Bhiwandi godown caused by the floods in July 2005. The total cost of the said finished goods cannot be precisely determined in view of the impact of common and unallocable expenses. Consequently, the full amount of claims received has been accounted as other income.

9. Expenditure on Research & Development

| | Rupees in crore | |
|--|-----------------|-------|
| | 2006 | 2005 |
| Capital Expenditure | 34.92 | 9.18 |
| Revenue Expenditure charged to Profit and Loss Account | 120.48 | 89.20 |
| | 155.40 | 98.38 |

Of the above, capital expenditure of Rs.20.97 crore and revenue expenditure of Rs.54.41 crore are eligible for weighted deduction under Section 35(2AB) of the Income Tax Act, 1961. The eligible revenue expenditure includes Employee Cost Rs.10.99 crore, Raw Materials & Consumables Rs.9.57 crore, Clinical Trials & Research Grants Rs.18.80 crore and other expenditure Rs.15.05 crore.

SCHEDULES TO THE ACCOUNTS *contd.*

10. Capacities and Actual Production

| Class of Goods | Unit | Installed Capacity | | Actual Production | |
|------------------------------|-----------|--------------------|---------|-------------------|---------|
| | | 2006 | 2005 | 2006 | 2005 |
| Bulk Drugs (including Malts) | Tonne | 1598.0 | 1519.0 | 1054.3 | 881.6 |
| Tablets & Capsules | Million | 12296.0 | 9468.0 | 11167.8 | 8640.5 |
| Liquids | Kilolitre | 1404.0 | 1440.0 | 6711.0 | 5832.4 |
| Creams | Tonne | 616.0 | 216.0 | 541.4 | 467.3 |
| Aerosols/Inhalation Devices | Thousand | 53580.0 | 45780.0 | 43018.4 | 40732.2 |
| Injections/Sterile Solutions | Kilolitre | 1071.0 | 610.0 | 1296.3 | 802.7 |
| Others | | – | – | 3.4 | 2.3 |

Notes: i. The installed capacity is as certified by the management and not verified by the auditors, this being a technical matter.

ii. Actual production includes production at loan licensee locations.

iii. Actual production includes production of goods captively consumed.

11. Purchases of each class of Finished Goods

Rupees in crore

| Class of Goods | Unit | 2006 | | 2005 | |
|------------------------------|-----------|--------|--------|--------|--------|
| | | Qty. | Value | Qty. | Value |
| Bulk Drugs (including Malts) | Tonne | 696.9 | 61.53 | 752.7 | 53.11 |
| Tablets & Capsules | Million | 1552.3 | 168.39 | 1443.1 | 148.65 |
| Liquids | Kilolitre | 2286.5 | 42.64 | 1447.0 | 30.17 |
| Creams | Tonne | 265.7 | 9.90 | 51.7 | 3.78 |
| Aerosols/Inhalation Devices | Thousand | 2679.0 | 8.27 | 2490.2 | 9.78 |
| Injections/Sterile Solutions | Kilolitre | 990.4 | 26.42 | 975.5 | 22.34 |
| Others | | – | 2.45 | – | 3.53 |
| | | | 319.60 | | 271.36 |

SCHEDULES TO THE ACCOUNTS *contd.*

12. Sales of each class of Finished Goods

Rupees in crore

| Class of Goods | Unit | 2006 | | 2005 | |
|------------------------------|-----------|---------|----------------|---------|----------------|
| | | Qty. | Value | Qty. | Value |
| Bulk Drugs (including Malts) | Tonne | 1432.4 | 530.32 | 1349.3 | 323.62 |
| Tablets & Capsules | Million | 11425.3 | 1735.35 | 10549.0 | 1390.80 |
| Liquids | Kilolitre | 8421.1 | 167.18 | 7540.1 | 127.90 |
| Creams | Tonne | 669.9 | 46.08 | 592.5 | 37.51 |
| Aerosols/Inhalation Devices | Thousand | 43100.2 | 295.55 | 40157.0 | 248.46 |
| Injections/Sterile Solutions | Kilolitre | 1910.3 | 229.03 | 1830.7 | 181.92 |
| Others | | – | 16.17 | – | 17.42 |
| | | | 3019.68 | | 2327.63 |

13. Closing Stock of each class of Finished Goods

Rupees in crore

| Class of Goods | Unit | 2006 | | 2005 | |
|------------------------------|-----------|--------|---------------|--------|---------------|
| | | Qty. | Value | Qty. | Value |
| Bulk Drugs (including Malts) | Tonne | 131.4 | 88.22 | 201.9 | 81.05 |
| Tablets & Capsules | Million | 2431.6 | 170.29 | 1550.4 | 137.64 |
| Liquids | Kilolitre | 1381.7 | 21.44 | 1016.4 | 16.10 |
| Creams | Tonne | 176.7 | 6.12 | 54.2 | 3.12 |
| Aerosols/Inhalation Devices | Thousand | 5225.7 | 25.12 | 4320.8 | 22.22 |
| Injections/Sterile Solutions | Kilolitre | 531.5 | 29.87 | 221.6 | 19.42 |
| Others | | – | 2.01 | – | 1.55 |
| | | | 343.07 | | 281.10 |

Note: The Closing Stock stated above is after adjustments for stocks damaged by floods as well as adjustments for in-transit breakage, obsolete/date-expired stocks, physician samples and also for captive consumption in case of bulk drugs.

SCHEDULES TO THE ACCOUNTS *contd.*

14. Consumption of Raw and Packing Materials

Rupees in crore

| Class of Goods | 2006 | | 2005 | |
|---|----------------|------------|--------|-----|
| | Value | % | Value | % |
| Purchased indigenously | 772.49 | 61 | 612.50 | 63 |
| Imported by the Company | 499.82 | 39 | 356.33 | 37 |
| | 1272.31 | 100 | 968.83 | 100 |
| <i>Less: Recoverable duties</i> (included in the above cost) | 85.99 | | 78.63 | |
| Total consumption (Net of Cenvat) | 1186.32 | | 890.20 | |

Note: Figures as certified by the management.

15. Break-up of Materials Consumed

Rupees in crore

| Class of Goods | Unit | 2006 | | 2005 | |
|---|---------|---------|----------------|--------|--------|
| | | Qty. | Value | Qty. | Value |
| Purchased Bulk Drugs | Tonne | 2296.6 | 569.71 | 1659.9 | 413.17 |
| Solvents | Tonne | 15663.4 | 80.64 | 9061.8 | 47.26 |
| Capsules | Million | 1676.1 | 15.23 | 1449.4 | 12.41 |
| Packing Materials | | | 274.26 | | 237.93 |
| Others (None of which individually accounts for more than 10% of the total consumption) | | | 332.47 | | 258.06 |
| | | | 1272.31 | | 968.83 |
| <i>Less: Recoverable duties</i> (included in the above cost) | | | 85.99 | | 78.63 |
| Total consumption (Net of Cenvat) | | | 1186.32 | | 890.20 |

Note: Figures as certified by the management.

16. Value of Imports on C.I.F. basis

Rupees in crore

| | 2006 | 2005 |
|---------------------------------|--------|--------|
| Raw Materials/Packing Materials | 462.41 | 352.94 |
| Components & Spare Parts | 6.00 | 5.07 |
| Capital Goods | 106.55 | 89.73 |

SCHEDULES TO THE ACCOUNTS *contd.*

17. Expenditure in Foreign Currency

Rupees in crore

| | 2006 | 2005 |
|--|--------------|-------|
| Legal and Professional charges | 13.19 | 14.91 |
| Other matters – Commission, Travelling, etc. | 67.28 | 66.84 |

18. Earnings in Foreign Exchange

Rupees in crore

| | 2006 | 2005 |
|-------------------------|----------------|---------|
| F.O.B. Value of Exports | 1513.64 | 1053.21 |
| Technical Know-how/Fees | 41.56 | 41.54 |
| Others | 10.43 | 3.20 |

19. Foreign Exchange derivatives and exposures outstanding at the year end

| Nature of Instrument | 2006 | |
|----------------------------------|--|---|
| | Amount (equivalent US\$ million) | Amount (equivalent Rupees in crore) |
| Forward contracts | 44.35 | 198.82 |
| Foreign currency options | 12.00 | 53.79 |
| Currency swaps | 34.08 | 152.78 |
| Open foreign exchange exposures: | | |
| Receivables | 100.67 | 450.90 |
| Payables | 12.83 | 57.52 |
| Loans | 48.91 | 219.26 |

The Company uses derivative instruments for hedging and/or reducing interest costs.

SCHEDULES TO THE ACCOUNTS *contd.*

20. Managerial Remuneration

Managerial Remuneration under Section 198 of the Companies Act, 1956 paid or provided for during the year to the Chairman & Managing Director and the Joint Managing Directors:

| | Rupees in crore | |
|---|-----------------|-------|
| | 2006 | 2005 |
| i. Salary and Allowances | 0.91 | 0.91 |
| ii. Commission | 21.50 | 15.00 |
| iii. Company's contribution to Provident Fund | 0.07 | 0.07 |
| iv. Approximate monetary value of other perquisites or benefits | 0.06 | 0.12 |
| | 22.54 | 16.10 |

Note: The above figures exclude provision for leave encashment and contribution to the approved Group Gratuity Fund which are actuarially determined on an overall basis.

21. Computation of Net Profit under Section 349 of the Companies Act, 1956

| | Rupees in crore | |
|---|-----------------|---------------|
| | | 2006 |
| Profit before Tax as per Profit & Loss Account | | 709.84 |
| <i>Add:</i> Managerial Remuneration | 22.54 | |
| Directors' Sitting Fees | 0.04 | |
| Provision for Doubtful Debts & Advances | 7.82 | |
| | | 30.40 |
| | | 740.24 |
| <i>Less:</i> Profit on Sale of Investments | | 0.04 |
| Net Profit under Section 349 of the Companies Act, 1956 | | 740.20 |
| Managerial remuneration permissible – maximum | | 74.02 |

22. Related Party Disclosures

Related party disclosures, as required by AS-18, "Related Party Disclosures", of the Institute of Chartered Accountants of India are given below:

- i. The related parties are as under:
 - a. Three trusts, namely – Cipla Public Charitable Trust, Chest Research Foundation and Hamied Foundation.
 - b. Key management personnel, namely – Dr. Y.K. Hamied, Mr. M.K. Hamied & Mr. Amar Lulla.
- ii. Donations given to Cipla Public Charitable Trust Rs.0.05 crore (Previous year Rs.0.08 crore), rent paid to Hamied Foundation Rs.0.56 crore (Previous year Rs.0.56 crore) and Research & Clinical Trial expenses paid to Chest Research Foundation Rs.0.68 crore (Previous year Nil).
- iii. Refer Note 20 for details of managerial remuneration.

SCHEDULES TO THE ACCOUNTS *contd.*

23. Segment Information

- i. Information about primary business segments:
The Company is exclusively in the pharmaceutical business segment.
- ii. Information about secondary business segments:

Rupees in crore

| | India | | Outside India | | Total | |
|--------------------------------------|----------------|---------|----------------|---------|----------------|---------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Gross revenue by geographical market | 1676.66 | 1321.99 | 1555.20 | 1094.75 | 3231.86 | 2416.74 |
| Less: Excise duty | 122.27 | 146.37 | – | – | 122.27 | 146.37 |
| Net revenue by geographical market | 1554.39 | 1175.62 | 1555.20 | 1094.75 | 3109.59 | 2270.37 |
| Carrying amount of segment assets | 2518.94 | 1857.43 | 714.66 | 509.43 | 3233.61 | 2366.85 |
| Capital expenditure | 485.46 | 344.82 | – | – | 485.46 | 344.82 |

- Notes: a. The Segment Revenue in geographical segments considered for disclosure are as follows:
- Revenue within India includes sales to customers located within India and earnings in India.
 - Revenue outside India includes sales to customers located outside India and earnings outside India.
- b. Segment Revenue comprises:

Rupees in crore

| | 2006 | 2005 |
|--|----------------|---------|
| • Sales (Net of Excise Duty) | 2897.41 | 2181.26 |
| • Other income excluding interest, dividend and profit on sale of investments & fixed assets | 212.18 | 89.11 |
| | 3109.59 | 2270.37 |

- c. Segment Revenue and Assets include the respective amounts identifiable to each of the segment.

24. Basic and Diluted Earning per Share has been calculated by dividing net profit after tax for the year by 29,98,70,233 equity shares of nominal value of Rs.2 each, outstanding as on 31st March 2006.

As per our report of even date

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159

Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
Partner
Membership No. 41883

Y.K. Hamied
Chairman & Managing Director

M.K. Hamied
Amar Lulla
Joint Managing Directors

M.K. Gurjar
V.C. Kotwal
H.R. Manchanda
S.A.A. Pinto
M.R. Raghavan
Ramesh Shroff
Directors

Mital Sanghvi
Company Secretary

Mumbai, 21st July 2006

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.

State Code

Balance Sheet Date
Date Month Year

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

Public Issue

Rights Issue

Bonus Issue

Private Placements

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

Sources of Funds
Total Liabilities

Total Assets

Paid-up Capital

Reserves and Surplus

Secured Loans

Unsecured Loans

Deferred Tax Liabilities

Application of Funds
Net Fixed Assets

Investments

Net Current Assets

Misc. Expenditure

Accumulated Losses

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

Gross Turnover

Total Expenditure

Profit/(Loss) before Tax

Profit/(Loss) after Tax

Earning Per Share (in Rs.)

Dividend Rate (%)

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

Item Code No. (ITC Code)

Product Description C I P R O F L O X A C I N

Item Code No. (ITC Code)

Product Description A M O X Y C I L L I N

Item Code No. (ITC Code)

Product Description A M L O D I P I N E

CASH FLOW STATEMENT

Rupees in crore

| For the year ended 31st March 2006 | 2006 | 2005 |
|--|---------------------|-----------|
| (A) Cash Flow from Operating Activities | | |
| Net profit before tax | 709.84 | 514.61 |
| Adjustments for: | | |
| Depreciation | 80.18 | 55.05 |
| Interest expense | 11.42 | 7.63 |
| Unrealised foreign exchange (gains)/losses | (4.12) | 4.71 |
| Provision for doubtful debts & advances | 7.82 | 0.27 |
| Interest income | (0.96) | (1.13) |
| Dividend income | (2.97) | (2.04) |
| Profit on sale of investments | (0.04) | (62.57) |
| (Profit)/loss on sale/discard of fixed assets | 9.43 | (0.39) |
| Brokerage income | (0.05) | – |
| | 100.71 | 1.53 |
| Operating profit before working capital changes | 810.55 | 516.14 |
| Adjustments for: | | |
| Increase in trade payables and other liabilities | 145.44 | 120.30 |
| Increase in inventories | (211.32) | (176.74) |
| Increase in trade and other receivables | (332.68) | (147.56) |
| | (398.56) | (204.00) |
| Cash generated from operations | 411.99 | 312.14 |
| Direct taxes paid | (134.83) | (112.14) |
| Net cash from operating activities | (A) 277.16 | 200.00 |
| (B) Cash Flow from Investing Activities | | |
| Purchase of fixed assets/Capital work-in-progress | (396.03) | (297.47) |
| Sale of fixed assets | 6.91 | 1.38 |
| Purchase of investments | (2539.14) | (1637.64) |
| Sale of investments | 2535.05 | 1862.28 |
| Interest income | 0.96 | 1.13 |
| Dividend income | 2.97 | 2.04 |
| Brokerage income | 0.05 | – |
| Short term deposits refunded | – | 2.00 |
| Net cash used in investing activities | (B) (389.23) | (66.28) |

CASH FLOW STATEMENT *contd.*

Rupees in crore

| | 2006 | 2005 |
|--|------------------------------|-----------------|
| C Cash Flow from Financing Activities | | |
| Proceeds from long term & other borrowings | 421.51 | 155.49 |
| Repayment of long term & other borrowings | (145.07) | (174.91) |
| Interest expense | (11.42) | (7.63) |
| Dividend paid | (104.95) | (89.96) |
| Tax on dividend | (14.72) | (11.76) |
| Net cash from/(used in) financing activities | (C) 145.35 | (128.77) |
| Net increase in cash and cash equivalents | (A) + (B) + (C) 33.28 | 4.95 |
| Cash and Cash Equivalents at the beginning of the year | 11.20 | 6.25 |
| Cash and Cash Equivalents at the end of the year | 44.48 | 11.20 |

Note: Cash and Cash Equivalents represent cash & bank balances and fixed deposits with banks.

As per our report of even date

For R.S. Bharucha & Co.,
Chartered Accountants

A.S. Mistry
Partner
Membership No. 7159

Mumbai, 21st July 2006

For R.G.N. Price & Co.,
Chartered Accountants

R. Rangarajan
Partner
Membership No. 41883

Y.K. Hamied
Chairman & Managing Director

M.K. Hamied
Amar Lulla
Joint Managing Directors

M.K. Gurjar
V.C. Kotwal
H.R. Manchanda
S.A.A. Pinto
M.R. Raghavan
Ramesh Shroff
Directors

Mital Sanghvi
Company Secretary

Mumbai, 21st July 2006

CIPLA LTD.

Regd. Office: Mumbai Central, Mumbai-400 008

ATTENDANCE SLIP

PLEASE COMPLETE THIS ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL.

Folio No.: _____ DP ID No.: _____ Client ID No.: _____

Name/s: _____
(1st name)

(Joint Holder)

I/We record my/our presence at the Seventieth Annual General Meeting of the Company at Amar Gian Grover Auditorium on Tuesday, 5th September 2006.

Signature(s) of the Shareholder(s)/Proxy: _____

Note: Only Shareholders of the Company or their Proxies whose names are registered with the Company will be allowed to attend the meeting.



CIPLA LTD.

Regd. Office: Mumbai Central, Mumbai-400 008

FORM OF PROXY

Folio No.: _____ DP ID No.: _____ Client ID No.: _____ No. of Shares held _____

I/We, _____

of _____

being a member/members of CIPLA LIMITED, hereby appoint _____

of _____ or failing him

of _____ or failing him

of _____

as my/our proxy to vote for me/us and on my/our behalf at the Seventieth Annual General Meeting of the Company to be held on Tuesday, 5th September 2006 at 3.00 p.m. and at any adjournment thereof.

Signed this _____ day of _____ 2006.

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. This form, duly completed and signed across the stamp, should reach the Registered Office of the Company not less than 48 hours before the meeting.

Affix
15 p.
Revenue
Stamp

Signature(s) of the
Shareholder(s)



TEN-YEAR HIGHLIGHTS

Rupees in crore

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---------------------------|----------------|---------|---------|---------|---------|---------|--------|--------|--------|--------|
| Sales & Other Income | 3235.83 | 2482.87 | 2090.99 | 1599.00 | 1428.87 | 1085.62 | 791.39 | 645.15 | 541.02 | 477.94 |
| Profit before Tax | 709.84 | 514.61 | 404.09 | 312.49 | 309.36 | 237.57 | 172.66 | 154.45 | 134.97 | 102.75 |
| Profit after Tax | 607.64 | 409.61 | 306.69 | 247.74 | 235.11 | 179.07 | 133.06 | 114.95 | 101.97 | 70.75 |
| Dividend | 155.46 | 104.96 | 89.96 | 59.97 | 41.98 | 26.99 | 17.79 | 14.99 | 11.00 | 7.00 |
| Tax on Dividend | 21.80 | 14.95 | 11.53 | 7.68 | - | 2.75 | 1.96 | 1.65 | 1.10 | 0.70 |
| Retained Earnings | 430.38 | 289.70 | 194.11* | 180.09 | 165.65* | 149.33 | 113.31 | 98.31 | 89.87 | 63.05 |
| Gross Block | 1453.68 | 1092.63 | 796.80 | 545.82 | 420.57 | 287.86 | 246.08 | 216.49 | 183.76 | 159.61 |
| Net Block | 1143.62 | 844.87 | 603.57 | 399.88 | 299.43 | 187.18 | 161.74 | 144.89 | 122.49 | 106.67 |
| Investments | 22.43 | 18.30 | 180.37 | 126.59 | 143.70 | 222.93 | 195.00 | 140.41 | 72.82 | 30.54 |
| Net Current Assets | 1384.08 | 970.60 | 756.64 | 694.48 | 520.46 | 338.37 | 238.05 | 210.36 | 187.18 | 158.70 |
| Miscellaneous Expenditure | - | - | - | 0.10 | 0.17 | 0.23 | 0.30 | 0.36 | 0.43 | 0.50 |
| Total Assets | 2550.13 | 1833.77 | 1540.58 | 1221.05 | 963.76 | 748.71 | 595.09 | 496.02 | 382.92 | 296.41 |
| Share Capital | 59.97 | 59.97 | 59.97 | 59.97 | 59.97 | 59.97 | 59.97 | 19.99 | 19.99 | 19.99 |
| Reserves | 1923.30 | 1493.66 | 1204.08 | 1010.10 | 830.17 | 664.69 | 515.55 | 442.42 | 344.34 | 254.72 |
| Net Worth | 1983.27 | 1553.63 | 1264.05 | 1070.07 | 890.14 | 724.66 | 575.52 | 462.41 | 364.33 | 274.71 |
| Borrowings | 468.91 | 191.20 | 210.58 | 94.78 | 33.88 | 24.05 | 19.57 | 33.61 | 18.59 | 21.70 |
| Deferred Tax Liabilities | 97.95 | 88.94 | 65.95 | 56.20 | 39.74 | - | - | - | - | - |
| Total Liabilities | 2550.13 | 1833.77 | 1540.58 | 1221.05 | 963.76 | 748.71 | 595.09 | 496.02 | 382.92 | 296.41 |

* After adjustments of earlier years

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