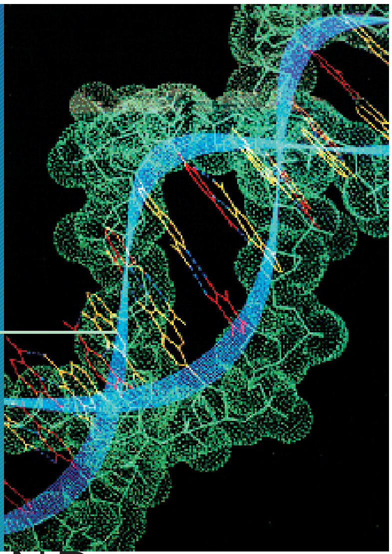
SUN
PHARMACEUTICAL
INDUSTRIES LTD.

ANNUAL REPORT 2005-2006



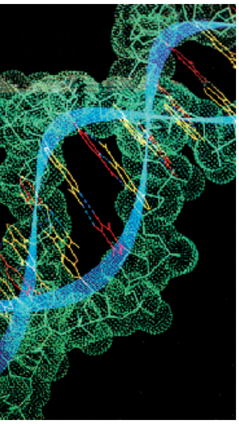
LOOKING BEYOND

LOOKING BEYOND

The covers depicts an artist's impression of a DNA as determined by neutron scattering.

Reaching beyond the apparent, to understand how it all works together, to take this learning to the next stage.

The Human Genome Project, a mammoth exercise in elucidation, has offered a complete DNA blueprint of thousands of genes that code for enzymes, hormones and structural proteins in the human body. The challenge now is to link this structure, to determine form and function; using precise tools such as neutron scattering. A precisely focused neutron beam can help pinpoint the atoms such as C, H, O, N, K and their 3D arrangement in a large molecular structure.



As a term, neutron scattering is a misnomer of sorts. The dictionary defines scattering as: to separate, to go in different directions, to disperse- a dissipation of effort. The encyclopedia hints at focus, concentration. It defines scattering as a physical process where some form of radiation is forced to shift or deviate from a straight path by non-uniformities it encounters in the medium through which it passes. Minuscule changes in energy levels on collision are then used to derive the kind of particle and its arrangement in space.

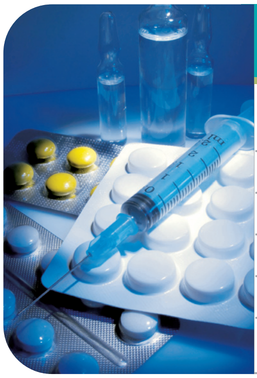
Using these data to piece the puzzle together. Data that can help create better medicines tomorrow. Or suggest totally new ways of treatment.

Insights such as these are the inspiration for the new research company, SPARC. With the same genetic make up and drive for growth. Taking research understanding beyond the obvious, to the next stage.

Summary

- Revenues for the year ending March 31,2006 up 36%.
- Formulations were 84% of the revenues, in line with our objective of being a formulations driven company.
- Domestic formulations, the sales of speciality prescription brands in India, at 55% of revenues, with 41% growth.
- International formulations were 29% of revenues, a growth of 37%.
- The export of speciality API was 11% of revenues, backed by increasing sales of APIs to regulated markets.
- Exports of branded prescription products (non-US markets) grew 54%, across 26 markets.
- US: Sales at Caraco for the year ending March 31,2006, up 29%, with increasing sales of its key product lines, and its first-ever para 4 win, Ultracet.
- Plans at an advanced stage to demerge innovative R&D projects into a separate company. This company will be listed.

(Rs. Mill)



Sales Breakup by type	Mar 06	Mar 05
Domestic Formulations	**9596**	**6799.8**
Domestic Bulk	**815**	**908.2**
Domestic Others	**3**	**8.3**
Export Formulations	**5036**	**3680.7**
Export Bulk	**1888**	**1344.7**
Export Others	**34**	**2.0**

All financial numbers are for the consolidated results unless otherwise mentioned specifically.

- 31 APIs were developed and scaled up. With this, in all, a total of 35 filings await approval, including filings in the areas of anticancers, steroids, hormones and peptides.
- At our Karkhadi site (the erstwhile Phlox Pharma), expansions completed to create a cephalosporins facility that is FDA compliant and can make both sterile and non-sterile API and dosage forms.

- A 170 acre site in Tiszavasvari, Hungary, acquired from Valeant Pharma in end 2005 for vertical integration in controlled substances. This 600KL manufacturing capacity, in one shot, doubles the API capacity at Sun Pharma.
- A site at Cranbury, NJ, USA, acquired to manufacture controlled substance dosage forms, bringing in state of the art manufacturing suites meeting international regulatory standards.
- A site at Bryan, Ohio, USA, acquired to make semi-solids, pastes and liquids, and work begun on capacity increases and streamlining operations.

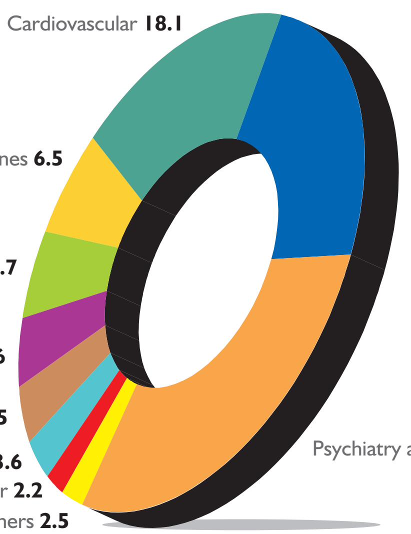
Divisionwise representative strength

Sun	263
Ortus	60
Azura LS	174
Arian	178
Azura CC	18
Avior	161
Symbiosis	95
Synergy	115
Sirius	93
Onco	66
Spectra	231
Inca	107
Solares	249
Radiant	82
Milmet	73
Avesta	72
Inst. Sales	22

Refers to the no. of reps. other than in divisions that directly have FLMs.

C-MARC Ranks	NOV 02 to FEB 03	MAR 04 to JUN 04	MAR 04 to JUN 05	NOV 05 to FEB 06
Psychiatrists	1	1	1	1
Neurologists	1	1	1	1
Cardiologists	3	1	1	1
Ophthalmologists	4	3	1	1
Diabetologists	3	4	2	1
Gastroenterologists	3	2	2	2
Orthopedics	6	4	3	2
Oncologists	6	8	3	4
Chest Physicians	4	4	5	5
Consultant Physicians	5	5	5	5
Gynaecologists	11	7	8	5

Therapy wise break-up (%)

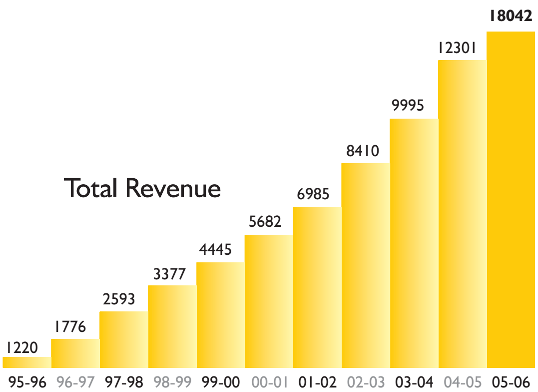


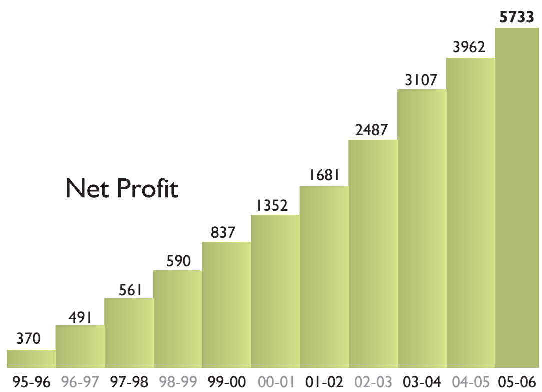
Core therapy areas continue to show double-digit growth

(Mar 2006 MAT data from IMS-ORG Retail Store Audit)

Company Performance

Domestic formulations, the sales of speciality prescription brands in India, were 55% of revenues, with 41% growth. This year, 32 products were brought to market, topping our product baskets across divisions. 11 of these products used difficult technologies or had complex drug delivery technology to make them more patient-friendly.





(Rs. in millions) Consolidated results from 2001-02 onwards.

Drug Delivery Systems

- XL/CR including gastric retention systems, multiparticulate systems
- Month/week long biodegradable depots
- Liposomal drug delivery
- Ophthalmic gels
- CR/ SR
- Mouth dissolving
- Dry Powdered Inhalers
- Metered dose inhalers
- Nasal sprays
- Peptide based Injectables
- HFA Inhalers
- Transdermal DDS

CMARC's speciality list

In core therapy areas where we are ranked at number 1 - psychiatry, neurology, cardiology, diabetology, ophthalmology, diabetology (a new addition to this list)- we continue to retain top rank with specialists and add market share in fairly competitive markets. In seven of the twelve therapy areas that we are present in, we rank among the top 3 companies. These rankings continue to endorse the advantage of focus on customers in specific therapy areas. Market share increase was also seen in therapy areas of relatively recent presence like gynecology and oncology. This increase in rankings is supported by strong execution on the ground, patient friendly products, and the introduction of products with technical complexity.

Research and Development

Looking Beyond : from product development to innovation

This year too, there was a continuation of early-stage outlicensing deals that involved Indian companies and the transfer of intellectual property. In recognition of the high quality skill base available in India, and flexibility to shift parts of large projects across continents as also reduce costs substantially, a large number of European and US companies set up R&D centers in India. This move, with the other emergent trend of buying existing API units or setting up greenfield API units in India, will offer companies from the regulated markets an opportunity to compete on the same cost base and access the same expertise. This also implies that the competition for talent is increasing as also the pressure on resources required to remain world-class.

Last year, in our report to you, we had highlighted about the addition of about 250,000 sq ft of research floor area across two high capability sites, SPARC or the Sun Pharma Advanced Research Center, in Baroda and in Mumbai. As more labs were commissioned, the number of labs has increased from 137 last year, to 161.

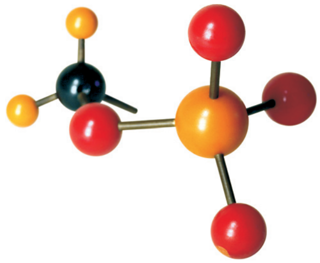
This year, a new state-of-the-art 25,000 sq ft bioequivalence center with a well established clinical pharmacology unit, equipped with 78 beds was set up at the R&D campus in Baroda. This has specially demarcated areas for clinical investigation, emergencies, sample processing, diagnostics, and archives as required as per GLP practices.

SPARC, Baroda

Our focus for the short term is on projects for India and the neighboring markets. This year, SPARC helped to bring to market 32 products in India, of which 11 were based on a delivery system advantage or complex development technology.

In addition, as we slowly ramp up in international markets, new filings were made in international markets to offer a pipeline that supports our current product basket. The number of active registrations stood at 463, with 730 products being marketed.

Some of these international filings are for complex delivery system based products, like the anticancer liposomal doxorubicin Lipodox, and Lupride, the one and three-month depot injectable used in cancer and fertility treatments.



As we roll out these products across select international markets, we stay prepared to take them to the US market over the next few years. We have several similar delivery-system based products in our development pipeline. We expect that registering these complex products across markets will help us differentiate our product offering and help build customer relationships.

Between Sun Pharma and Caraco, 44 products have been filed with the USFDA and are awaiting approval, building a strong pipeline that will drive our US business going ahead. A strong intellectual property cache has been built up, with 56 patents received, another 339 filed and awaiting approval.

Significant advances on filings for the API business were also made during the year, with 24 approvals and 35 filings awaiting approval for US and Europe. Some of these filings support our ANDA plans and will enable us to compete as an integrated company in the injectable /peptide/ steroid/ anticancer areas, in which we have identified several opportunities.

We have good progress to report on our innovation based projects. One new chemical entity or new molecule (NCE) has successfully completed Phase I and will enter Phase 2 over the next few months. Two NDDS projects will also enter phase 2 trials shortly. A decent pipeline of research projects is in place, and these projects will be transferred to the demerged research company, that is, Sun Pharma Advanced Research Company Ltd.

This year, on account of innovation-based projects going into trials, higher costs associated with complex ANDAs, and the sustained pace of new product introductions in India, the R&D spend was 11.7% of turnover.

The next step

Formulations development Lab, SPARC

Demerger of R&D

In a revolutionary step in the Indian Pharma industry, and in a step that does not have too many parallels worldwide, we recently announced the demerger of the innovative part of our R&D, pending regulatory and legal clearances. This move would effectively place the NCE and NDDS projects, resources, and the teams working on these, in a separate company. This company would be listed on the stock exchanges in India. The current shareholders of Sun Pharma would receive the same number of shares in the new company, of paid up value of Rs 1 each in the resulting company (as against paid up of Rs 5 each in Sun Pharma). We believe our projects in these areas have reached a stage where with the right attention and resource commitment, they can reach their potential. Innovation based projects have longer timeframes, require extensive funding and the style of working of the scientists too, tends to be more open ended, unlike the time bound approach for generics. The likelihood of these projects reaching market is also very different compared to the certainty associated with product development or process development-based projects. While we hive off these projects into a separate company with resources, funding and people, we expect to increase investments in projects for generic markets including India and the US.

Indian Markets

Looking Beyond : speciality therapy leadership

The Rs. 26,000 cr. market for prescription products in India is growing at 16%. As this market moves from a developing nation market where the larger therapy segments are those of antibiotics, tonics and vitamins to a more mature market , where lifestyle and chronic therapy areas are the larger segments (table 1) , it is likely that speciality areas will continue to grow at above market growth rates.

Table 1: **Top therapeutic areas globally (March 2006 MAT)**

1	Cholest/Trigly Reducers	6	Anti-Epileptics
2	Anti-ulcerants	7	Oral Antidiabetics
3	Antidepressants	8	Angiotensin Antagonists
4	Anti-Psychotics	9	Platelet Agg Inhibitors
5	Calcium Antagonists	10	Narcotic Analgesics

Speciality therapy areas continue to be the largest and fastest growing in the developed markets.

IMS Health

Improving socioeconomic demographics have had a direct impact on the market size, affordability, and awareness of chronic ailments in India as in other developing markets.

A change is likely in the current pricing control policy in the country. As per the draft policy, the parameters for inclusion from mass consumption or monopoly drugs may change to include drugs that are essential in nature such as chronic therapy area drugs. This move will also increase the number of drugs that are under price control from the current 74 to over 350. Such a move could be a major threat to the sector, as more than 50% of the market could then be under price control, though we believe it is unlikely this will be implemented as proposed.

In the Indian market, there has been increasing competitive interest in chronic therapy areas, from large Indian and multinational as well as regional companies. There have been some signs of growth from multinationals as they begin to introduce new products in India. For some multinational companies, the introduction of new products in India was fairly close to international launch, unlike their approach earlier, which in our view indicates a new seriousness from these companies. Increasing competition translates into higher promotional costs across the sector, and impacts margins. Smaller and regional companies that are not adequately covered by the IMS-ORG continued to make their presence felt, and some of these brands made inroads in larger markets too, particularly for acute therapy products. We continue to take the challenge posed by both these segments multinationals and smaller companies, seriously.

India Market data from IMS-ORG Retail Store Audit.

The year 2006 was the second year with the same intellectual property protection in India as in other world markets. In 2005, a new patent act was put in place to make India TRIPS compliant, with safeguards that protect patient interest and prevent evergreening on nonsubstantial grounds. In a country where healthcare costs are borne by the patient, and the public healthcare system is largely ineffective or inadequate, we believe it is in the country's best interests to create a patent system that complies with international requirements but does not exceed its brief. The recent stand taken by the government on data protection and the requirement that a patent apply to a new product- not to a crystalline form or a variation of an already existing product, is a step towards ensuring fair access for people.

With patent norms in India now similar to those globally, there is a concern that new products based on post-1995 research may not be available for introduction in the Indian market going ahead. We believe we have an adequate number of interesting new products lined up introduction for the next few years, based on pre-1995 patents. Since new chemical entity patents filed after 1995 would be the property of the patent holder or licensee, it is possible that going ahead, this pipeline would slowly dry out. However, we expect to use our standing with specialists to license-in products while we work to bring the products of our own research to market.

On the whole, speciality brands continued to witness higher than industry growth, although there were product-specific exceptions. Increasing awareness of treatments and the availability of medication, especially in the areas of mental health and neurology, have helped address some of the fears / stigma associated with treatment. During the course of the year, a number of news items that have received much attention have helped to highlight some of these psychiatric ailments and the dangers of leaving them undiagnosed and untreated.

Pharmacokinetics Labs, SPARC, Baroda

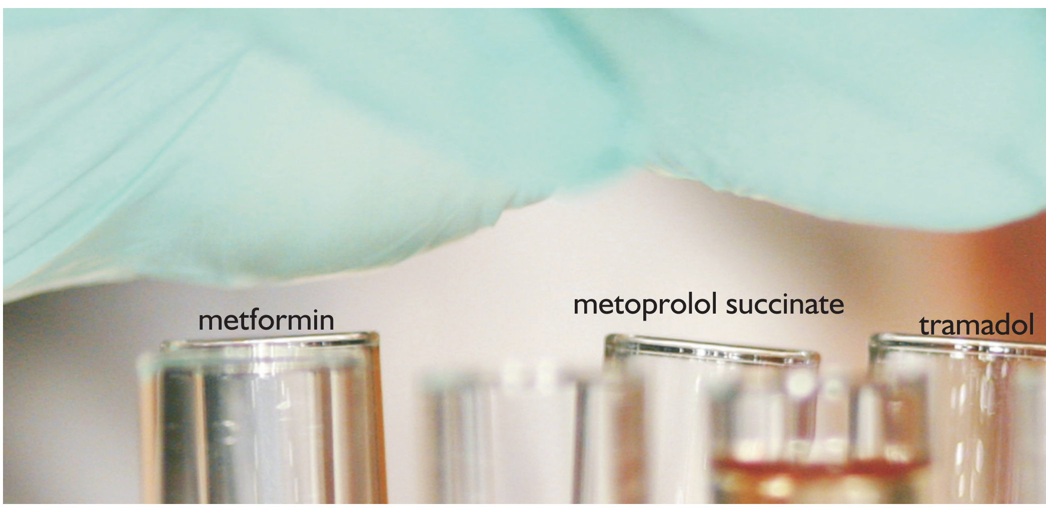
US Generics

Looking Beyond : leveraging the speed of product development

In our expectation, the $27 billion US generic market will continue to remain competitive, with pricing pressure/ cost containment, and increasing market size on account of the new Medicare Bill. The year witnessed tactics by larger pharma companies to limit the entry of generics for important products- tightly contested patent challenges, out of court settlements and the entry of authorized generics. We expect the competition for blockbuster molecules that will go off patent this year, to be quite intense. We believe an ability to compete with the right product mix across dosage forms, with vertical integration for some important products, will strengthen a company's ability to compete in the US generic market. This ability to source APIs in-house will also translate into a cost and time advantage. We believe that the rush of filings and the entry of new competitors, several of which are integrated into API, will translate into intense pricing pressure, as companies try to build market share.

Caraco closed the year ending 31 March 2006 with sales of $82.8 mill, growing at 29%, one of the few in the sector to show strong numbers despite continuing pricing pressure in key products.

Our US presence continues to be one of the fastest growing parts of our business, and one that we strengthened considerably in the past year by acquiring two more facilities in mainland USA.



US generics is a high priority market, and between Caraco and Sun Pharma, we reach this market with 21 products, with over 44 filings awaiting approval. This is an interesting mix of para 3 and para 4 filings , and offers a fair mix of dosage forms, across tablets, capsules and injectables. As we add complex technology based products such as depot formulations and targeted liposomal products, we expect to be able to sustain a profitable US business.

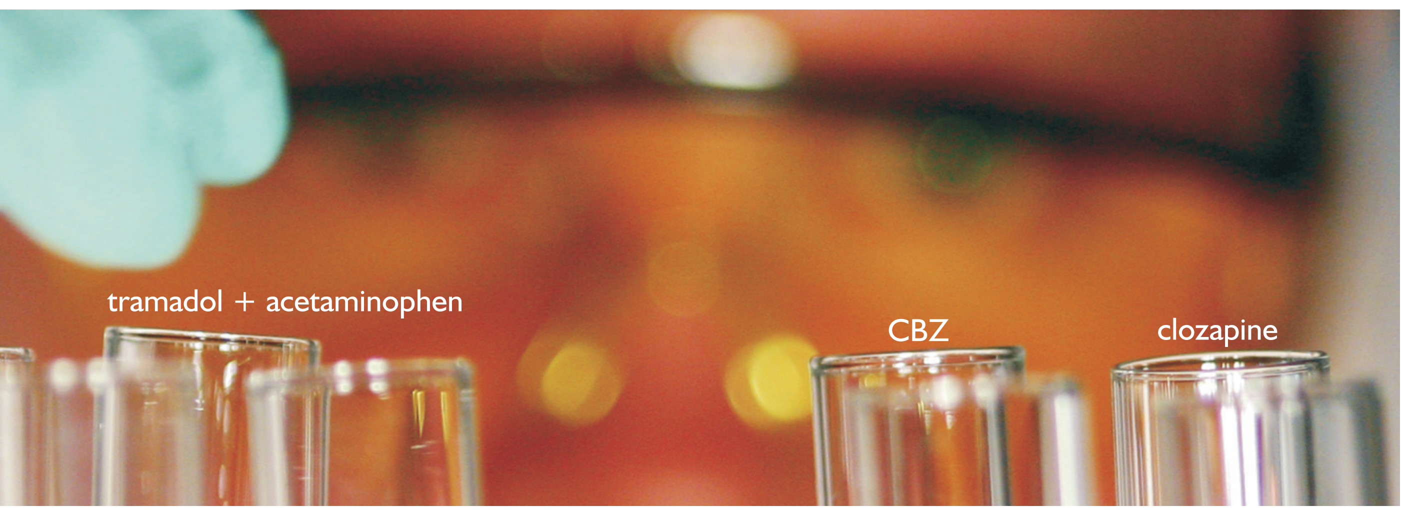
During the course of the year, 5 ANDA approvals were received between Sun Pharma and Caraco. Of special significance was the first para 4 approval received at Caraco for Ultracet, which was introduced in end-December after summary judgment and final FDA approval was received. We expect Ultracet to be a good opportunity for Caraco.

2005 was important for filings made from our Indian site, too. A dosage form-manufacturing site in India received approval for injectables and sprays, and we began to get product approvals from the USFDA, out of this site. The flexibility to manufacture in India or in the US, with the advantages of total integration helps us to compete with a better cost structure in the US generic space.

This year, we commenced on a series of acquisitions that would bring considerable strengths to our US strategy. Under the aegis of Sun Pharma Inc, a facility was purchased in Bryan, Ohio, to make creams, ointments and lotions. Another facility was acquired in Cranbury from Able Labs to make solid oral dosage forms for controlled substances such as codeine and morphine, a technically difficult and tightly regulated market, where we expect the margins to hold better. Our intention over the long term, is to source the API from our recently acquired plant in Hungary. We expect that this will remain a reasonably profitable business, largely on account of the stringent regulatory requirements and limited competition.

At these new sites, staffing and streamlining of operations with some capacity creation, has begun. New filings are actively being made, and we expect the pace of filings to increase going ahead.

With the completion of these acquisitions, we have begun to put into place parts of our long term growth strategy, with close to $450 mill waiting to be deployed for international acquisitions. We are looking for acquisition opportunities in the US that meet our criteria- a synergy with our business, an opportunity to effect a correction, and earn a decent return on our investment.



International Markets (Non US)

Looking Beyond : maximizing speciality registrations across markets

India comprises 1.5% of a $602 bill world market for pharmaceuticals. The world market for pharmaceuticals is growing at 7%, but emerging markets including China, Korea, India, Mexico, Russia and Turkey, have shown double-digit growth, outpacing global performance.

In 2005, North America, which accounts for 47% of global pharmaceutical sales, grew 5.2%. Latin America grew 18.5% to $24 billion, while Asia Pacific (outside of Japan) and Africa grew 11%. China grew 20.4% to $11.7 billion in 2005, the third consecutive year of 20%+ growth.

Across these markets, competition is fierce, from international companies as also from local companies. With harmonization of quality across markets, dossiers that are filed have to meet increasingly stringent quality standards. Stringent norms for filing, tightening trade and non-trade tariff barriers to protect local interests, even as governments open up market access are some of the characteristics of the markets that we operate in.

Many of these emerging markets are experiencing significant GDP growth which helps finance improvements in healthcare systems, increase patient access, and fuel double-digit growth.

(IMS health)

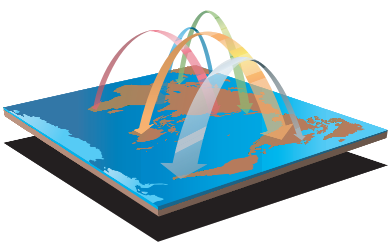
Dadra Formulations plant

For instance, in Vietnam, which is a $660mill market, bilateral trade agreements with WTO members were recently put into place allowing for market access, yet this is tempered by the government's stated objective of taking local production to 60% of the nation's requirements. In Belarus, a 5 year program of import substitution was recently announced, in order to take the share of the local industry for reimbursed products to over 50%.

The speciality products that we market in India have much larger markets in the developing world. For the last few years, as we continue to roll out our speciality products template across international markets, this market has been growing well in excess of 40% annually, with a business that is well distributed across continents and countries.

In 26 markets across South East Asia, Russia, China, the Middle East and Africa, we are increasingly recognized as an international company with technologically advanced high quality brands that can be prescribed with trust. As regulatory requirements become harmonized across these markets, and with dossiers of international quality, we have an ability to simultaneously file across markets. A well trained field force of 250, in addition to agent's representatives, helps promote our brands to specialist consultants in these markets. Some of our technically complex products like Lupride Depot and Lipodox, in addition to several products launched successfully in the Indian market, such as controlled release products, are being prepared for the international markets. We believe these differentiated products will help the company create an identity as a technically capable international company with a portfolio of speciality products.

While we make these investments in registration and marketing, we remain watchful of the resources that we commit to each market, taking into account both the likely potential and the current revenues from a market. In international markets too, we continue to apply the same conservatism and respect for consistent margin that drives the rest of our business.

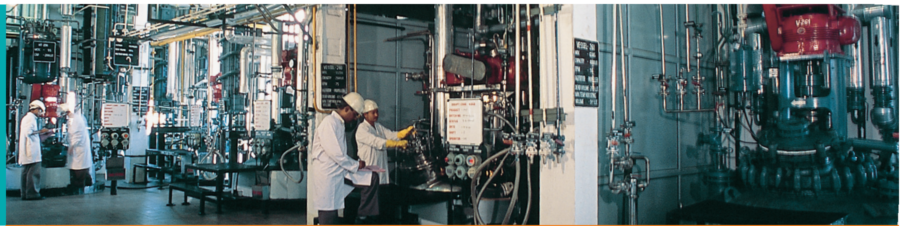


Europe

We are taking a slightly different approach for Europe, where we intend to partner. The acquisition this year, of an API manufacturing site in Hungary does not greatly change this strategy. Our 170-acre Hungary site is one of the few sites globally that is authorized to make APIs for controlled substances. As indicated above, we expect to, over time, integrate this plant into the site manufacturing controlled substance dosage forms at Cranbury and gain advantages competing as an integrated player.

All market data is from IMS-Health

API Markets



Looking Beyond : from vertical integration to a trusted partner

With several important products going off patent, increasing tonnage on the back of approvals from international markets, specially for complex products where the competition is not as high, API remains an interesting business opportunity. Additionally, this back-end support for our business offers cost and time advantages. The market for single entantiomer APIs was about $8.2 bill in 2004, and drugs with combined annual sales of $160 billion will come off patent by 2015. With governments the world over promoting the use of low cost generics, it is estimated that these sales will move to generic markets, implying a good scope for API supply. Reacting to intense competition from API manufacturers in India and China, a large number of international companies are moving production to these nations- buying units or setting up production bases in order to take advantage of lower costs. With this shift likely to continue going ahead, it is expected that API markets will continue to show margin pressure.

API manufacturing for Anticancers

Our speciality API list has grown from less than 5 products a decade ago, when we first entered this part of the business to over a hundred speciality products now.

A part of the USFDA approved Panoli API plant

We use some of this API internally, and sell most of it to large innovator or generic companies in the US and Europe. In addition to speciality API, in the recent past we have begun to add API for anticancers, peptides, steroids and hormones, all made in plants that meet international regulatory standards, and some of which hold international approvals.

Recent acquisitions have strengthened our ability to compete in interesting new API markets. One such opportunity is the controlled substance market, through our subsidiary's Hungarian plant. Another opportunity is in third generation cephalosporins with our plant in Baroda, an acquired site which has been recently upgraded.

As we continue to address opportunities in the regulated markets with complex products, we expect to continue being a good partner for companies that source API from us.

Manufacturing

Looking Beyond : building world-class from the start

The acquisitions last year significantly add to the manufacturing base. We now have 16 plants in all. Seven of these plants make API and nine make formulations. In addition to streamlining and corrections at the newly acquired plants over the last year, there was some capacity expansion at the existing plants too.

API Manufacturing

Of our 7 API plants, the plants in Ahmednagar and Panoli hold USFDA and European approvals. From these sites, 24 API filings have been approved and total of 35 filings await approval, some of these tap into interesting product opportunities, specially in the anticancer/ steroids/ hormones space where we believe we'd have a cost advantage

The Hungarian site, specialized to make controlled substances, is approved for Europe. With the receipt of requisite regulatory approvals, this plant is expected to be used to tap the US generic market.

Last year, we had shared about doubling the area of our plant at Panoli, which manufactures API for the regulated markets and holds several important DMF approvals. On an adjoining 6.2 acre area, a new plant has been built in addition to a new warehouse and utilities building; the new plant offers 81KL capacity with 18 reactors. Construction for a stand-alone plant, dedicated for sex hormones is ongoing and likely to be completed this quarter.

At Ahmednagar, a large plant has been planned for the next year, to make anticancers such as cisplatin, caboplatin,oxaliplatin, gemcitabine, imatinib, letrozole.

At Karkhadi (Phlox Pharma site), significant streamlining for API manufacture was carried out to make the plant approvable for sterile and non-sterile cephalosporins API that we intend to file out of this plant. This in addition to the new formulations plant that was put up to make sterile and non-sterile dosage forms to international regulatory standards.

An ability to scale up important API has greatly aided our business in India and the US. Over time, we have increased the number of projects that we handle as well as their complexity. For some of the APIs like irinotecan and budesonide, we would be amongst a handful of producers globally.

QC Labs, Dadra.

A manufacturing suite, Halol.
International in terms of infrastructure and systems.

Formulation Manufacturing

One formulation plant in India (the one in Halol) holds USFDA approval. On the US mainland, in addition to Caraco's plant in Detroit, we now have plants in Cranbery, NJ, and Bryan, Ohio.

Major developments took place at our Halol plant during the course of the year. This plant which earlier held USFDA approvals for tablets, received approvals for its injectables and nasal spray areas. In our last report we had detailed the addition of an injectable plant spread over 36,000 sq ft manufacturing floor area, with 9 integrated filling lines, which has been recently inspected and approved by the USFDA. With some ANDAs already approved, we hope to address some interesting opportunities in this area.

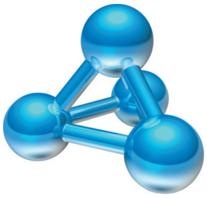
Our Halol plant's QC department was expanded to handle increasing loads and provide adequate record and documentation facility. In addition to Halol, which is approved for US, Europe and several other markets, we are preparing our Dadra site for submission for regulated markets this year.

At Jammu, a plant that we commissioned a few years ago to meet domestic market requirements, a dedicated facility was set up to manufacture dosage forms for sex hormones. Extra lines for granulation and packaging are also being put up.

At the Phlox Pharma site, a large dosage form plant meeting international regulatory requirements has been built to manufacture non-sterile forms such as tablets, capsules, dry syrups, as well as sterile dry powder injectables. This plant is currently under qualification, with manufacturing to begin shortly.

Considerable work has begun at the site in Hungary after we took over the plant in the second half last year. Some of the tablet manufacturing areas have been streamlined, and the product processing areas are being upgraded to make them compliant with cGMP requirements. Manufacturing areas are being upgraded and the production processes are being fine-tuned to control costs and the number of steps for some existing products that can be sold in regulated markets.

In the blending area, Silvassa Formulations plant



Caraco

Caraco's site, which is in Detroit, has areas for production, R&D and the corporate office. During 2006, approximately 10,000 sq ft of manufacturing space was added, taking the total to 80,000 sq ft. Caraco leased approx. 55,000 sq ft facility near its site for finished goods distribution, storage of inventory and office space. Another 7000 sq ft office space was leased for administrative, sales, marketing and accounting offices.

Caraco invested about $3.6 mill during 2006 as compared to $3.3 mill for the previous twelve-month period to upgrade its facilities. These facilities, it believes, are adequate for US current level of operations.

Bryan

Prior to our purchase, this facility ran on a single shift and produced one oral liquid, a few topical lotions and several semi-solids. This site is seeing extensive modification now and new equipment is being added to accommodate greater volumes and multiple shifts.

New equipment, that would allow handling of larger volumes, is either being shifted from the Cranbury site or purchased. The manufacturing section is being reconfigured to accommodate larger production vessels.

Cranbury

At this large site with special suites for the manufacture of controlled substances, along with extensive recruitment, work has begun on evaluating and revalidating products for development Once these products are launched subsequent to their approval, they are expected to make a significant addition to the company's US generic business.

SPARC, Mumbai - product development for the US market

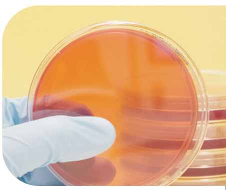
Quality

Looking Beyond : validated as world-class

In all, across plants, 13 international approvals have been received including those from the USFDA and UKMHRA.

At our Halol plant, over the years, regulatory approvals have been received from a number of agencies, such as the USFDA, UKMHRA, ANVISA, IMVIMA, South African MCC, to name a few. The USFDA approval last year of the injectable and spray areas points to the high level of quality compliance- at the time of writing, this is the only site in India with injectable approval. Our Dadra formulations plant is being prepared for submission to the USFDA this year.

These approvals point to an accomplished quality team, which contributes to a product right from the process development stage, and a team that regularly updates its skills to ensure that the latest standards are complied with.



In addition to a central quality team that holds overall responsibility, at each site there are dedicated teams that have the responsibility for the quality function on site.

The central quality team works closely with other partners such as vendors, suppliers of material, packaging and machinery to ensure that quality standards are met. All quality policies are duly detailed and upgraded periodically. Ongoing training programs ensure that these policies are understood across the manufacturing chain. A quick response system that updates quality procedures in line with changing regulatory requirements is in place.

API

All transactions are carried out in conformity with patent laws applicable in the user country. Responsibility with respect to third party's patent rights in a specific country lies exclusively with the buyer.

Alendronate Sodium
Amifostine trihydrate
Budesonide
Bupropion HCL
Carbamazepine
Carboplatin
Carvedilol
Cisplatin
Citalopram Hydrobromide
Clomipramine HCl
Clonazepam
Desloratidine
Desmopressin Monoacetate
Divalproex Sodium
Dobutamine HCl
Dothiepin HCl
Eptifibatide

Escitalopram HBr
Esomeprazole Magnesium
Flurbiprofen
R(-) Flurbiprofen
S(-) Flurbiprofen
Flurbiprofen Sodium
Fluticasone Propionate
Fluvoxamine Maleate
Gabapentine
Glimepride
Isradipine
Lercanidipine HCL
Letrozole
Losartan Potassium
Loteprednol Etabonate
Magnesium Valproate

Meloxicam
Mesalazine (5 ASA)
Metamizol Magnesium
Metformin HCl
Methylphenidate HCl
Metoprolol Succinate
Metoprolol Tartrate
Mirtazapine
Modafinil
Mometasone Furoate
Naltrexone HCL
Octreotide
Olanzapine
Ondansetron Base
Ondansetron HCl Dihydrate
Oxaliplatin
Oxcarbazepine
Oxethazine

Pamidronate Disodium
Paroxetine HCL
Pentoxifylline
Pioglitazone
Piroxicam Betacyclodextrin
Riluzole
Rivastigmine Tartrate
Ropinirole
Sertraline HCL
Sodium Valproate
Sumatriptan Succinate
Tizanidine HCl
Topiramate
Tramadol HCl
Valproic Acid
Venlafaxine HCL
Zolpidem Hemitartrate
Ziprasidone HCL

New products

Symbiosis

Levipil — *Chilhhood Epilepsy*
Pramipex — *Parkinsons Disease*

Sun Oncology

Lupride Depot 3 months — *Prostrate cancer, endometriosis*
Imalek — *Cancer*

Sun

Etoshine fast disintegrating — *Pain*
Budez CR — *Inflammatory bowel disease*
Thymoliv — *Immunomodulator*
Mesacol Suppositories — *Ulcerative colitis*
Cartishine — *Arthritis treatment*

Spectra

Maxtib — *Management of Surgical or Natural Menopause Prevention of Post-menopausal Osteoporosis*

Sirius

Galamer — *Mild-to-Moderate Dementia of the Alzheimer's type*
Maxgalin — *Neuralgia*

Milmet

Milflox Eye Drop — *Bacterial conjunctivitis*
Brimolol — *Glaucoma*
Ketlur plus — *Ophthalmic antiinflamatory*

Avesta

Careprost — *Glaucoma*
Hyvisc Eye drops
Ketlur plus — *Pain, infection*

Inca

Ulozet — *Anti-Depressant, Stress incontinence in Women, Pain due to Diabetic Neuropathy*
Cernos Gel — *Low testosterone production*
Lupride Depot 7.5mg/1month — *Endometriosis*

Synergy

Duzela — *Anti-Depressant, Stress incontinence in Women, Pain due to Diabetic Neuropathy*
Syncapone 50 — *Parkinsons Disease*
Syndopa MD range — *Parkinsons Disease*

Solares

Dulane — *Anti-Depressant, Stress incontinence in Women, Pain due to Diabetic Neuropathy*
Sompraz IV — *Acid peptic disease*
Terlyz — *Acute esophageal variceal bleeding*
Panlipase — *Enzyme replenisher in medical conditions where the pancreas is not functioning properly*

Arian

Prolomet XL — *Antihypertensive*

Ortus

Ostospray — *Osteoporosis*

Azura

Gemer Forte — *Oral antidiabetic*

Avior

Volibo — *Antidiabetic*

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Fourteenth Annual Report and Audited Accounts for the year ended 31st March, 2006.

(Rs. Million except Book Value)

Financial Result	Year ended 31st March, 2006	Year ended 31st March, 2005
Total Income	18060	12468
Profit after Tax	4613	3057
Dividend on Preference Shares	1	1
Dividend on Equity Shares - Final	1023	696
Corporate Dividend Tax	144	99
Transfer to various Reserves	2137	1641
Rate of dividend on equity shares	110%	75%
Book value per equity share (Rs. 5 paid up)	79	60

110%

Dividend

Your Directors are pleased to recommend a preference share dividend of 6% p.a. on paid up amount of outstanding preference shares which are still not redeemed, and equity dividend at the rate of 110% (previous year 75%) for the year ended 31st March, 2006 on the equity share capital.

Voluntary Delisting of your Company's Equity Shares from the Calcutta Stock Exchange

Your Company's shares have been delisted voluntarily from the Calcutta Stock Exchange, Kolkata. Your Company's equity and preference shares continue to remain listed on Bombay Stock Exchange Limited(BSE) and The National Stock Exchange of India Limited(NSE).

Management Discussion and Analysis

The management discussion and analysis of the operations of your company is provided in a separate section on page one, and forms a part of this report.

Demerger of Innovative Research & Development Unit of the Company

Your Company has undertaken demerger of its unit of Innovative Research & Development activities and New Drug Delivery systems effective from 1st April,2006, which is presently pending before the Honourable High Court of Gujarat for its approval.

Human Resources

Over the years ,we've grown to a company with over 5000 people, 16 plants (including associate companies) across 3 continents. The consistent growth we've shown year after year is a pointer to the remarkable team at Sun Pharma- their productivity, potential and capability to deliver. Your Company recognizes the importance of this resource and the need to keep it prepared and ready for new opportunities and challenges. In house, external programs and on the job training are used to upgrade technical, marketing, management and related skill levels. The work environment and opportunities help attract and retain talent.

Your Directors recognize the team's valuable contribution and place on record their appreciation for Team Sun Pharma.

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is available at the registered office of your Company. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all shareholders of the Company and others entitled thereto excluding the aforesaid information. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary/Compliance Officer at the Corporate office or Registered office address of the Company.

Information on Conservation of Energy, Technology Absorption, Foreign Exchange Earning and Outgo.

The additional information relating to energy conservation, technology absorption, foreign exchange earning and outgo, pursuant to Section 217(1)(e) of the Companies Act 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in Annexure and forms part of this Report.

Internal Control Systems and their Adequacy

Your Company has adequate internal controls for its business processes across departments to ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, protection of resources and assets and accurate reporting of financial transactions. Your Company also has a system of internal audit conducted by an independent firm of Chartered Accountants so as to cover various areas of operations on continuous basis. The summarized Internal Audit Observations/Reports are reviewed by the Audit Committee on a regular basis. The finance and accounts functions of your Company are well staffed with qualified and experienced members.

Corporate Governance

Report on Corporate Governance and Certificate dated 26th July, 2006 of the auditors of your Company regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges, are enclosed.

Consolidated Accounts

In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of your Company and its subsidiaries is annexed to this Report.

Finance

The banks in consortium continue to offer their highest rating to your Company enabling it to source funds from banks at attractive rate of interest. CRISIL continued to reaffirm their highest rating of "P1+", for your Company's Short Term Borrowing Program throughout the year.

Your Company does not offer any Fixed Deposit scheme.

Issue of Shares on Part Conversion of FCCB

During the year ended 31st March,2006 , your Company received notices from Foreign Currency Convertible Bond (FCCB) holders for exercising the conversion option in respect of 3500 FCCBs of US $ 1000 each out of 350,000 (Three Hundred and Fifty Thousand) FCCBs. Accordingly, your Company allotted during the year ended 31st March,2006, 216,007 equity shares of Rs. 5 each to these bondholders at the conversion price of Rs. 729.30 per share.

CSR

Your company has defined health and education as areas of priority with a local emphasis. It has been periodically assisting organizations, schools and hospitals near its plants.

Donations in cash and medicines have been made to several hospitals in Vapi and Silvassa. Lab equipment have been donated to a local pharmacy college, and a primary school supported with expenses. A mobile van has been arranged for an NGO that tours villages in South Gujarat with educational aids. Schools near the plants in Ahmednagar and Panoli have been assisted with infrastructural support every year, for the last few years.

Your company has also contributed to relief events and camps during calamities such as the floods in Gujarat and Maharashtra. Donations of select medicines which could be used in an acute therapy setting, were handed over to the authorities at the time of the massive quake in Jammu.

Our idea here is to identify problems on a local level, and step in with local resources and a practical approach to resolve issues in education and healthcare.

Directors

Shri Hasmukh S. Shah and Shri Keki M Mistry retire by rotation and being eligible offer themselves for reappointment.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;

that the Directors have selected appropriate accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and on the profit of the Company for the year under review;

that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and,

that the Directors have prepared the annual accounts for the financial year ended 31st March, 2006 on a 'going concern' basis.

Auditors

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

Acknowledgements

Your Directors wish to thank all stakeholders and business partners-your Company's bankers, financial institutions, medical profession and business associates for their continued support and valuable co-operation. The Directors also wish to express their gratitude to investors for the faith that they continue to repose in the Company.

For and on behalf of the Board of Directors

Mumbai,
26th[h] July,2006

Dilip S. Shanghvi
Chairman & Managing Director

SUN PHARMACEUTICAL INDUSTRIES LTD.

FINANCIAL HIGHLIGHTS

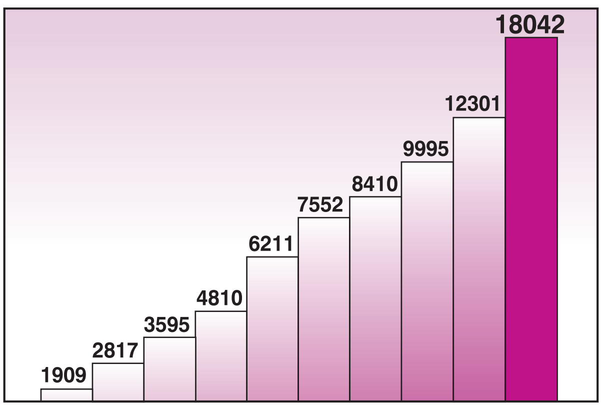
(Rs in Million)

Particulars	STANDALONE 1996-97	1997-98	1998-99	1999-00	2000-01	CONSOLIDATED 2001-02	2002-03	2003-04	2004-05	2005-06
Total Income	1909	2817	3595	4810	6211	7552	8410	9995	12301	**18042**
Net Profit	491	561	590	837	1352	1681	2487	3157	3962	**5733**
Gross Block	973	1371	2020	2442	2766	3491	4837	6642	8299	**12756**
Net Worth	1695	2177	3093	3647	4654	5424	5764	8159	11307	**15902**
R&D Expenses	70	112	98	201	250	336	966	1268	1427	**2015**
Capital	45	35	45	102	71	197	363	598	418	**481**
Revenue	25	77	53	99	179	139	603	670	1009	**1534**
% of Sales	4.13	4.21	2.75	4.20	4.09	4.52	11.62	12.90	12.04	**12.31**
Exports	309	507	894	1137	1181	1364	2604	3864	5027	**6958**
Debt Equity ratio	0.11	0.18	0.21	0.13	0.08	0.00	0.23	0.51	1.61	**1.18**
Current ratio	4.32	4.21	4.04	4.00	3.78	3.37	3.44	3.27	7.33	**7.55**

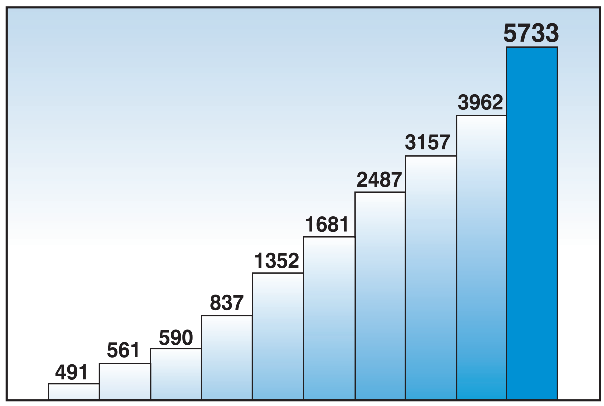
The Company has started preparing Consolidated Financial Statements from Financial Year 2001-02 onwards.

(Rs in Million)

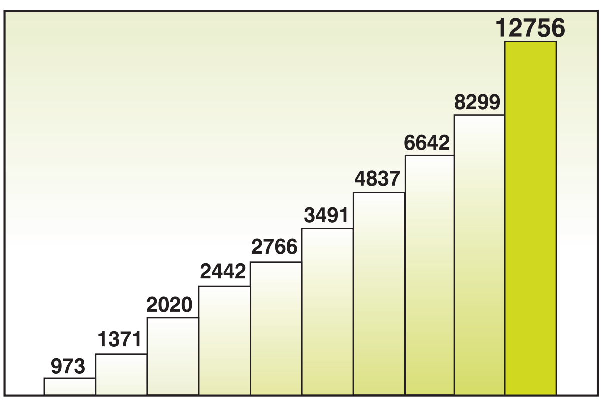
Total Income



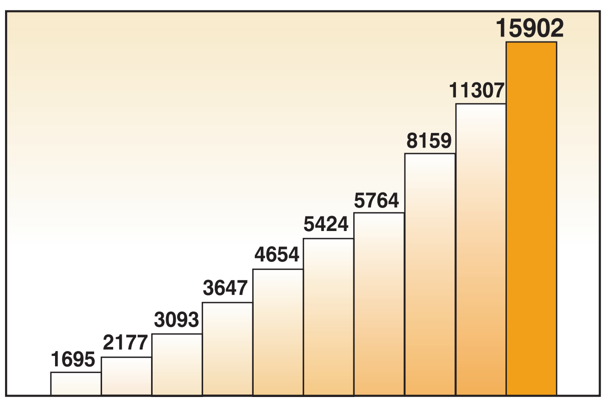
Net Profit



Gross Block



Net Worth



a cognito design

SUN PHARMACEUTICAL INDUSTRIES LTD.

Acme Plaza, Andheri Kurla Road, Andheri East, Mumbai 400 059. Fax: 022-28212010 Email: corpcomm@sunpharma.com

BOARD OF DIRECTORS

Mr. Dilip S. Shanghvi
Chairman & Managing Director

Mr. Sudhir V. Valia
Wholetime Director

Mr. Sailesh T. Desai
Wholetime Director

Mr. S. Mohanchand Dadha
Director

Mr. Hasmukh S. Shah
Director

Mr. Keki M. Mistry
Director

Mr. Ashwin Dani
Director

COMPANY SECRETARY

Mr. Kamlesh H. Shah

AUDITORS

DELOITTE HASKINS & SELLS
Chartered Accountants
Mumbai.

BANKERS

Bank of Baroda
State Bank of India
Standard Chartered Bank
ICICI Bank Ltd
Bank of Nova Scotia
Kotak Mahindra Bank Ltd.

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Pvt. Ltd,
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West),
MUMBAI – 400 078.
Tel: 25963838
Fax 25946969
Email: sunpharma@intimespectrum.com

Additional Collection Centre
201, Daver House,
197/199 Dr. D.N. Road,
MUMBAI – 400 001
Tel: 22694127

OFFICES

REGISTERED

Sun Pharma Advanced Research Centre (SPARC),
Vadodara – 390 020.

CORPORATE

Acme Plaza, Andheri Kurla Road, Andheri (East),
Mumbai – 400 059.

RESEARCH CENTRES

Sun Pharma Advanced Research Centre (SPARC),
Akota Road, Vadodara – 390 020

F.P.27,Part Survey No.27, C.S.No.1050, T.P.S.
Village Tandalja, District Vadodara - 390 020

17-B, Mahal Industrial Estate, Mahakali Caves Road,
Andheri (East), MUMBAI – 400 059.

PLANT

Plot No.214 & 20 Govt. Industrial Area,
Phase-II, Piparia, Silvassa – 396 230.

Halol-Baroda Highway, Halol,Gujarat-390350

Plot No.25, GIDC, Phase-IV,
Panoli – 395 116.

A-7 & A-8, MIDC Ind. Area,
Ahmednagar – 414 111.

Plot No.4708, GIDC,
Ankaleshwar – 393 002.

Sathammai Village, Karunkuzi Post,
Maduranthakam T.K., Kanchipuram District,
Tamilnadu - 603 303.

Plot No.223, Span Industrial Complex,
Dadra - 396 191 (U.T)

Plot No.817/A, Karkhadi, Taluka:Padra,
Distt.Vadodara-391 450.

AUDITORS' REPORT TO THE MEMBERS OF SUN PHARMACEUTICAL INDUSTRIES LIMITED

1. We have audited the attached Balance Sheet of Sun Pharmaceutical Industries Limited (the Company) as at March 31, 2006, and also the Profit and Loss Account and the Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   (v) on the basis of written representations received from directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006

      (b) in the case of the profit and loss account, of the profit for the year ended on that date; and

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

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

N. P. Sarda
Partner
Membership No. 9544

Mumbai, June 7, 2006

ANNEXURE TO THE AUDITORS' REPORT

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

1. In our opinion and according to the information and explanations given to us, the nature of the Company's business / activities during year is such that clauses xiii, xviii and xx of paragraph 4 of the Companies (Auditors' Report) Order, 2003, are not applicable to the Company.

2. In respect of its fixed assets:

   (i) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

   (ii) As explained to us, some of the fixed assets of the Company have been physically verified during the year by the management in accordance with a phased programme of verification designed to cover all assets over a period three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. The discrepancies noticed on such verification were not material and have been adequately dealt with in the books of accounts.

   (iii) Although some of the fixed assets have been disposed off during the year, in our opinion and according to the information and explanations given to us, the ability of the company to continue as a going concern is not affected.

3. In respect of its inventories:

   (i) As explained to us, inventories (excluding stocks with third parties) were physically verified by the management at reasonable intervals during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. In our opinion the frequency of verification is reasonable.

   (ii) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

   (iii) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

4. In respect of loans, secured or unsecured, granted by the Company to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956, according to the information and explanations given to us:

   (i) The Company has granted unsecured loans to six parties. At the year end the outstanding balances of such loans granted aggregated to Rs. 2,907.46 Million from four parties and the maximum amounts involved during the year was Rs. 6,815.95 Million from six parties.

   (ii) The rate of interest, wherever applicable and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.

   (iii) The receipt and payment of principal amounts and interest have during the year been as per stipulation.

   (iv) There is no overdue amount in excess of Rs. 1 lakh in respect of loans granted to Companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

   (v) The Company has not taken any loan, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956, hence clauses (e), (f) & (g) are not applicable.

5. In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the company and nature of its business with regard to purchase of inventory and fixed assets and for sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal control systems.

6. In respect of contracts or arrangements entered in the register maintained in pursuance of section 301 of the Companies Act, 1956, to the best of our knowledge and belief and according to the information and explanations given to us:

   (i) The particulars of contract or arrangements referred to in Section 301 that needed to be entered into the register, maintained under the said section have been so entered.

   (ii) Where each such transaction (excluding loans reported under paragraph 4 above) is in excess of Rs. 5 lakhs in respect of any party, the transactions have been made at prices which are *prima facie* reasonable having regard to prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regards to the specialized nature of some of the transactions of the company.

7. In our opinion and according to the information and explanations given to us the Company has not accepted any deposits within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. No Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.

8. In our opinion, the internal audit functions carried out during the year by the firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.

9. We have broadly reviewed the books of accounts and records maintained by the Company relating to manufacture of formulation and bulk drug products pursuant to the Order made by the Central Government for maintenance of cost records under section 209 (1)(d) of the Companies Act, 1956 and are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete. To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records for any other product of the Company.

10. According to the information and explanations given to us in respect of statutory dues:

   (i) The Company has been regular in depositing undisputed statutory dues, including, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, cess and other material statutory dues with the appropriate authorities during the year. There were no undisputed dues that were outstanding as at March 31, 2006 for a period of more than six months from the date they became payable.

   (ii) According to the information and explanations given to us, the details of disputed sales tax, income tax, custom duty and excise duty, which have not been deposited as at March 31, 2006 on account of any dispute, are as under:

Statute & Nature of Dues	Financial Year to which the matter pertains	Forum where dispute is pending	Amount Rs. Millions
The Central Excise Act			
Excise Duty, Interest & Penalty	1998-99, 2002-03, 2004-05, 2005-06	Commissioner	1.8
	1998-99, 2001-02, 2002-03, 2004-05	Tribunal	6.9
Customs Act, 1962			
Custom Duty, Penalty Interest	2000-01	Appeal to be filed at High Court	9.4
Sales Tax Act			
Sales Tax, Interest & Penalty	2000-01,2001-02	Dy. Commissioner	13.0
	2001-02,1994-95,1998-99	Asst. Commissioner	5.2
	2000-01, 2001-02, 1999-00, 2002-03	Joint.Commissioner	6.1
	1988-89 to 1991-92, 1999-00, 1997-98, 1998-99, 2000-01, 1999-00, 1997-98	Tribunal	6.4
	1999-00, 1981-82 to 1985-86	High Court	1.1
	1993-94 to 1998-99	Assessing officer	10.8
Income Tax Act			
Income tax, Interest	1995-96, 1997-98, 1998-99, 1988-89 to 7.12.1998, 1999-00, 2000-01 & 2001-02	Tribunal	62.0
	2000-01, 2002-03 & 2003-04	Commissioner	127.8
Employee State Insurance Act.			
Contribution	Upto 1996	Appellate authority	0.2
Drug Price Control Order			
DPEA & interest	1981-1987	DPLRC	14.0

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

11. In our opinion and according to information and explanations given to us, the company does not have any accumulated losses as at the end of the year. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

12. In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of dues to financial institutions and banks or debenture holders.

13. In our opinion, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

14. Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares and other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.

15. In our opinion and according to the information and explanation given to us, the terms and conditions of the guarantees given by the Company for loan taken by others from banks and financial institutions, are not prima facie prejudicial to the interests of the Company.

16. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, *prima facie*, applied by the Company during the year for the purposes for which the loans were obtained other than temporary deployment pending application.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the funds raised on short term basis have, *prima facie*, not been used during the year for long term investment.

18. According to the information and explanations given to us there were no outstanding amounts in respect of unsecured debentures. Pursuant to the business acquisition of M J Pharmaceuticals Limited ('M J Pharma') by the Company on March 31, 2005, unsecured debentures issued by the erstwhile M J Pharma that were outstanding at the beginning of the year have been fully repaid as at the year end. No securities had been created by the Company on such unsecured debentures.

19. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the year.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

N. P. Sarda
Partner
Membership No. 9544

Mumbai, June 7, 2006

SUN PHARMACEUTICAL INDUSTRIES LTD.

BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedules	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million	As at 31st March, 2005 Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	**942.7**		941.6	
Share Capital Suspense	1A	–		0.1	
Reserves and Surplus	2	**13706.7**	**14649.4**	10112.8	11054.5
Loan Funds					
Secured Loans	3	**182.3**		139.2	
Unsecured Loans	4	**17275.9**	**17458.2**	18007.3	18146.5
Deferred Tax Liability (Net)	5		**1044.4**		853.0
TOTAL			**33152.0**		30054.0
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	**7442.6**		6120.5	
Less: Depreciation / Amortisation / Impairment and Lease Terminal Adjustment		**2080.7**		1729.0	
Net Block		**5361.9**		4391.5	
Capital Work-in-Progress (including advances on capital account)		**308.0**	**5669.9**	479.4	4870.9
Investments	7		**7796.2**		9852.4
Current Assets, Loans and Advances					
Inventories	8	**2634.1**		1866.2	
Sundry Debtors	9	**2564.7**		2349.7	
Cash and Bank Balances	10	**12308.2**		8900.3	
Other Current Assets	11	**175.5**		45.0	
Loans and Advances	12	**4890.2**		4384.1	
		22572.7		17545.3	
Less: Current Liabilities and Provisions	13				
Current Liabilities		**1661.8**		1370.1	
Provisions		**1225.0**		844.5	
		2886.8		2214.6	
Net Current Assets			**19685.9**		15330.7
TOTAL			**33152.0**		30054.0
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	21				

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

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 07th June, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Vadodara, 06th June, 2006

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

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

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

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 07th June, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Vadodara, 06th June, 2006

SUN PHARMACEUTICAL INDUSTRIES LTD.

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

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

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

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

Notes:

1. The above Cash Flow Statement has been prepared under the "Indirect Method" set out in AS-3, issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outgo.
3. The above cash flow statement for previous year excludes assets (other than cash and cash equivalents) / liabilities acquired on amalgamation of Baizley Finvest Limited, Dhaval Finvest Limited and Manish Finvest Limited.
4. Cash and cash equivalents includes Rs. 7.3 Million (Previous Year Rs. 6.2 Million), which are not available for use by the Company (Refer Schedule 10 in the accounts).

As per our report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. SARDA
Partner

Mumbai, 07th June, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Vadodara, 06th June, 2006

SCHEDULES TO THE FINANCIAL STATEMENTS

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

Notes:

Of the above :

1) 161,630,010 Equity shares were allotted as fully paid Bonus Shares by capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve Account.

2) 413,633; 208,000; 477,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 and 4274 Euqity Shares of Rs. 5 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd, M.J.Pharmaceuticals Ltd and Phlox Pharmaceuticals Limited. respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.

3) 187,177,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. Out of this, 46,896 (Previous Year 224,698) Preference shares were redeemed at par and Nil (Previous Year 140,261,922) Preference shares have been bought back during the year.

4) 216,007 (Previous Year Nil) Equity Shares of Rs. 5 each were allotted to the holders of Zero Coupon Foreign Currency Convertible Bond on exercise of conversion option.

SCHEDULE 1A : SHARE CAPITAL SUSPENSE

Nil (Previous Year 29,713) equity shares of Rs.5 each fully paid up, to be issued pursuant to the scheme of Amalgamation of Phlox Pharmaceuticals Limited with the Company.	—	0.1

SCHEDULES TO THE FINANCIAL STATEMENTS

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

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

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

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

SCHEDULE 6 : FIXED ASSETS

Rs in Million

Particulars	Gross Block (At Cost)					Depreciation / Amortisation					Impairment of Assets	Net Block	
	As At 1.4.05	Additions on Amalgamation	Additions 05-06	Deletions 05-06	**As at 31.03.06**	As at 1.4.05	Additions on Amalgamation	For year 05-06	Written back/ Deleted 05-06	**As at 31.03.06**		**As at 31.03.06**	As at 31.03.05
A. OWNED ASSETS													
I. TANGIBLE ASSETS													
Freehold Land	23.9	—	—	—	**23.9**	—	—	—	—	—	—	**23.9**	23.9
Leasehold Land	20.0	—	7.4	—	**27.4**	4.8	—	0.2	—	**5.0**	—	**22.4**	15.2
Buildings	1,582.4	—	295.5	—	**1,877.9**	196.2	—	42.0	—	**238.2**	—	**1,639.7**	1,386.2
Plant and Machinery	3,814.3	—	1,006.2	7.3	**4,813.2**	1,228.0	—	316.0	0.6	**1,543.4**	—	**3,269.8**	2,586.3
Vehicles	68.2	—	27.2	2.3	**93.1**	23.7	—	7.4	1.2	**29.9**	—	**63.2**	44.5
Furniture and Fixtures	137.8	—	25.4	—	**163.2**	42.5	—	11.0	—	**53.5**	—	**109.7**	95.3
Sub -Total	5,646.6	—	1,361.7	9.6	**6,998.7**	1,495.2	—	376.6	1.8	**1,870.0**	—	**5,128.7**	4,151.4
II. INTANGIBLE ASSETS													
Trademarks,Designs and Other Intangible Assets	409.7	—	34.2	—	**443.9**	180.0	—	30.7	—	**210.7**	—	**233.2**	229.7
Sub -Total	409.7	—	34.2	—	**443.9**	180.0	—	30.7	—	**210.7**	—	**233.2**	229.7
SUBTOTAL-A	**6,056.3**	—	**1,395.9**	**9.6**	**7,442.6**	**1,675.2**	—	**407.3**	**1.8**	**2,080.7**	—	**5,361.9**	**4,381.1**
B. LEASED ASSETS													
Assets Given On Lease	64.2	—	—	64.2	—	29.8	—	—	29.8	—	—		
Lease Terminal Adjustment	—	—	—	—	—	24.0	—	—	24.0	—	—		
SUBTOTAL-B	**64.2**	—	—	**64.2**	—	**53.8**	—	—	**53.8**	—	—	—	**10.4**
TOTAL A+B	**6,120.5**	—	**1,395.9**	**73.8**	**7,442.6**	**1,729.0**	—	**407.3**	**55.6**	**2,080.7**	—	**5,361.9**	
Previous Year	5,100.8	1.1	1.091.4	72.8	**6,120.5**	1,428.9	—	328.3	30.7	1,726.5	**2.5**		**4,391.5**
Capital Work-in-Progress (including advances on capital account)												**308.0**	479.4
												5,669.9	4,870.9

NOTES :

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

	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million	As at 31st March, 2005 Rs in Million
SCHEDULE 7 : INVESTMENTS				
(I) LONG TERM INVESTMENTS (At Cost)				
A) Government Securities				
National Savings Certificates Rs. 70,000 (Previous Year Rs. 70,000) (Deposited with Government Authorities)		**0.1**		0.1
B) Trade Investments				
Unquoted				
In Equity Shares				
Enviro Infrastructure Co. Ltd. 100,000 (Previous Year 100,000) Shares of Rs.10/- each fully paid up.		**1.0**		1.0

SCHEDULES TO THE FINANCIAL STATEMENTS

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

SCHEDULES TO THE FINANCIAL STATEMENTS

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

SCHEDULES TO THE FINANCIAL STATEMENTS

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

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

SCHEDULE 8 : INVENTORIES

	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million	As at 31st March, 2005 Rs in Million
Consumables Stores		**71.4**		34.4
Stock in Trade				
Raw Materials	**950.5**		829.7	
Packing Materials	**115.9**		78.1	
Finished Goods	**587.5**		434.3	
Work-in-Progress	**908.8**	**2562.7**	489.7	1831.8
		2634.1		1866.2

SUN PHARMACEUTICAL INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

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

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

SCHEDULES TO THE FINANCIAL STATEMENTS

	As at 31st March, 2006 Rs in Million	As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million	As at 31st March, 2005 Rs in Million
SCHEDULE 13 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
Due to Small Scale Industrial Undertakings	—		—	
Others	**769.6**		642.3	
Advance from Customers	**36.4**		189.0	
Security Deposits	**18.3**		26.8	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	**7.4**		6.2	
Other Liabilities	**797.0**		482.1	
Interest accrued but not due on Loans	**33.1**	**1661.8**	23.7	1370.1
Provisions				
Provision for Fringe Benefit Tax (Net of Advance Tax Rs. 8.7 Million)	—		—	
Proposed Dividend - Equity Shares	**1023.0**		695.7	
- Preference Shares	**0.8**		0.8	
	1023.8		696.5	
Corporate Dividend Tax	**143.6**		97.7	
Provision for Earned Leave	**57.6**	**1225.0**	50.3	844.5
		2886.8		2214.6

	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million	Year ended 31st March, 2005 Rs in Million
SCHEDULE 14 : OTHER OPERATING INCOME				
Share of Profit from Partnership Firm		**3887.0**		2078.5
Lease Rental and Hire Charges-TDS Rs.0.5 Million (Previous Year Rs.0.5 Million)	**12.0**		13.0	
Add: Lease Equalisation Account	**0.1**	**12.1**	1.8	14.8
		3899.1		2093.3
SCHEDULE 15 : OTHER INCOME				
Interest from Banks & Other Advances / Deposits TDS Rs.49.0 Million (Previous Year Rs. 20.4 Million) (Refer note 6 of Schedule 21)		**830.7**		104.8
Profit on Sale of Fixed Assets		**0.2**		1.6
Profit on Sale of Current Investments		**109.3**		68.5
Sundry Balances Written Back (Net)		—		58.2
Insurance Claims		**4.0**		6.0
Miscellaneous Income-TDS Rs. 0.3 Million (Previous Year Rs. 1.7 Million)		**299.9**		179.5
		1244.1		418.6
SCHEDULE 16 : COST OF MATERIALS / GOODS				
Inventories at the beginning of the year		**1831.8**		1613.9
Purchases during the year		**9039.9**		5782.3
Inventories at the end of the year		**(2562.7)**		(1831.8)
		8309.0		5564.4

SUN PHARMACEUTICAL INDUSTRIES LTD.

SCHEDULES TO THE FINANCIAL STATEMENTS

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

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

SCHEDULES TO THE FINANCIAL STATEMENTS

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

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

SCHEDULE 21 : NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

I Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis and comply with the Accounting Standards referred to in Section 211(3C) of The Companies Act, 1956.

II Use of estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known / materialsed.

III Fixed Assets and Depreciation / Amortisation

Fixed Assets including intangible assets are stated at historical cost (net of cenvat credit) less accumulated depreciation/ amortisation thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to The Companies Act, 1956. Intangible assets consisting of trademarks, designs, technical knowhow, non-compete fees and other intangible assets are amortised on Straight Line Method from the date they are available for use, over the useful lives of the assets (10/20 years), as estimated by the Management. Leasehold land is amortised over the period of lease.

IV Leases

Assets acquired on finance lease prior to April 1, 2001, are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equalisation accounts have been created for the assets given on lease, wherever required.

V Revenue Recognition

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods. Export sales are recognised on the basis of Bill of lading / Airway bill. Sales includes Sales tax, interest on delayed payments and sales as consignee made on behalf of consignor; and are stated net of returns.

VI Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and fair value. Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

VII Inventories

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost (absorption costing) and net realisable value, on a FIFO basis/specific identification method.

VIII Research and Development

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

IX Foreign Currency Transactions

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

X Taxes on Income

Provision for taxation comprises of Current Tax,Deferred Tax and Fringe Benefit Tax. Current Tax provision has been made on the basis of reliefs and deductions available under the Income Tax Act, 1961. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantially enacted at the Balance Sheet date.

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

XI Terminal Benefits

(a) The Company's contribution in respect of provident fund is charged to Profit and Loss Account each year.

(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy is charged to Profit and Loss Account each year. The contribution for Group Gratuity Policy is based on values as actuarially determined and demanded by LIC at the year end.

(c) Liability for accumulated earned leave of employees is ascertained and provided for as per Company Rules.

XII Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

XIII Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent liability is disclosed for (1) Possible obligations which will be confirmed only by future events not wholly within the control of the company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation can not be made. Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

XIV Impairment of Assets

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

		As at 31st March, 2006 Rs in Million	As at 31st March, 2005 Rs in Million
2	**CONTINGENT LIABILITIES NOT PROVIDED FOR**		
	Guarantees Given by the bankers on behalf of the Company	**91.7**	46.9
	Letters of Credit for Imports	**328.5**	225.7
	Liabilities Disputed - Appeals filed with respect to :		
	Sales Tax	**42.6**	20.8
	Excise Duty	**8.7**	29.9
	Income Tax	**190.6**	212.9
	ESIC Contribution	**0.2**	0.2
	Drug Price Equalisation Account [DPEA] on account of demand towards unintended benefit , including interest there on, enjoyed by the Company .	**14.0**	13.0
	Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme	**9.4**	17.2
	Claims against the Company not acknowledged as debts	**1.1**	0.4
3	**Estimated amount of contracts remaining to be executed on capital account [net of advances].**	**131.0**	103.3
4	**REMUNERATION TO DIRECTORS**		
	Managerial Remuneration U/s 198 of The Companies Act, 1956		
	Salaries and Allowances	**18.2**	9.7
	Contribution to Provident and Superannuation Funds	**1.8**	1.9
	Perquisites and Benefits	**0.1**	0.1
	Commission	**2.7**	2.3
	Total	**22.8**	14.0

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

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
Computation of net profit U/s 198 read with Section 309(5) of The Companies Act, 1956.and calculation of commission payable to directors				
Profit Before Taxation		**4886.8**		3234.8
Add : Depreciation as per Accounts	**407.3**		328.3	
Loss on Sale of Fixed Assets	**0.7**		8.3	
Managerial Remuneration	**22.8**		14.0	
Directors Sitting Fees	**0.3**		0.3	
Sundry Balances Written Off / Bad Debts Written off	**35.1**		—	
Provision for doubtful debt / Advances	**5.1**	**471.3**	19.0	369.9
Less : Depreciation as per Section 350 of Companies Act 1956	**407.0**		328.3	
Profit on Sale of Fixed Assets	**0.2**		1.6	
Profit on Sale of Investments	**109.3**		68.5	
Sundry Balances Written Back	**13.6**		58.6	
		530.1		457.0
Net Profit		**4828.0**		3147.7
Salaries, Perquisites and Commission @ 1% of the above		**48.3**		31.5
5 RESEARCH AND DEVELOPMENT EXPENDITURE				
Revenue		**1134.4**		741.4
Capital		**480.5**		418.4
6 INTEREST INCOME ON LOANS /DEPOSITS RS. 831.2 MILLION IS NET OF INTEREST EXPENSES AS UNDER:				
Fixed Loans		**98.6**		73.8
Others		**13.7**		40.9
		112.3		114.7

7 INFORMATION RELATING TO CONSUMPTION OF MATERIALS

	Quantity	**Value**	Quantity	Value
Raw Materials and Packing Materials				
Raw Materials- (In '000 KGs)	**15151.0**	**3844.6**	13420.0	2127.2
Raw Materials-(In Kilo Litres)	**28897.0**		28785.8	
Packing/Other Materials	*	**205.5**	*	137.2
Total		**4050.1**		2264.4

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

Imported and Indigenous	**%**	**Value**	%	Value
Raw Materials and Packing Materials				
Imported	**42.96**	**1740.0**	32.08	726.5
Indigenous	**57.04**	**2310.1**	67.92	1537.9
Total	**100.00**	**4050.1**	100.00	2264.4
Stores and Spares				
Imported	**1.17**	**1.4**	1.00	0.7
Indigenous	**98.83**	**114.2**	99.00	69.3
Total	**100.00**	**115.6**	100.00	70.0

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

	As at 31st March, 2006	As at 31st March, 2005
8 INFORMATION RELATING TO LICENSED CAPACITY AND PRODUCTION		
Tablets/Capsules/Parenterals/Ointments (No.s in Million)		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity*	**4981.0**	3070.0
Actual Production (including loan licence)	**1100.3**	1137.2
Bulk Drugs/Chemicals		
Licensed Capacity	**Not Applicable**	Not Applicable
Installed Capacity* (In Kilo Litres)	**838.6**	674.4
Actual Production (including loan licence) (In '000 Kgs)	**2167.5**	1773.8
(*as certified by the Management)		

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

	Turnover*		Purchase of Goods		Opening Stock		Closing Stock	
	Quantity	Value Rs.	Quantity	Value Rs.	Quantity	Value Rs.	Quantity	Value Rs.
Formulations (Qty Million)								
2005-06	**3153.4**	**9582.9**	**2006.3**	**4818.0**	**178.6**	**261.8**	**131.7**	**232.4**
2004-05	2816.8	7144.9	1614.8	3242.2	241.2	220.8	178.6	261.8
Bulk Drugs/Chemicals (Qty in '000 Kgs)								
2005-06	**2129.1**	**3926.6**	**0.5**	**0.2**	**115.0**	**172.5**	**153.9**	**355.1**
2004-05	1758.9	3278.7	0.4	10.3	99.7	279.1	115.0	172.5
Others								
2005-06		**20.6**		**12.9**		—		—
2004-05		19.9		19.0		—		—
Total								
2005-06		**13530.1**		**4831.1**		**434.3**		**587.5**
2004-05		10443.5		3271.5		499.9		434.3

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

10 INCOME/EXPENDITURE IN FOREIGN CURRENCY

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

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

11 The net exchange gain of Rs 217.3 Million (Previous Year gain of Rs.225.7 Million) is included in the net profit for the year.

12 Based on the information available with the company, there are no dues to sundry creditors being small scale industrial undertaking in excess of 30 days.

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

(i) Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure 'A' annexed.

(ii) Accounting Standard (AS-20) on Earnings Per Share

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

(iii) Accounting Standard (AS-17) on Segment Reporting

(a) Primary Segment

The Company has identified "Pharmaceuticals" as the only primary reportable segment.

(b) Secondary Segment (by Geographical Segment)

India	**9721.5**	7569.4
Outside India	**3808.6**	2874.1
Total Sales	**13530.1**	10443.5

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

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

	As at 31st March, 2006			As at 31st March, 2005		
		Rs in Million	Rs in Million		Rs in Million	Rs in Million
14 Investment Purchased and Sold during the Year						
Mutual Fund Units (Units of Face Value of Rs. 10/- Each)	**Units**	**Purchase Value**	**Sales Value**	Units	Purchase Value	Sales Value
In Liquid Scheme	**In Nos**	**Rs in Million**	**Rs in Million**	In Nos	Rs in Million	Rs in Million
Alliance Capital	**24,837,129.7**	**277.0**	**277.2**	—	—	—
Birla Sun Life Mutual Fund	—	—	—	6,395,686.9	110.0	110.1
Chola Mutual Fund	**7,233,011.5**	**100.0**	**100.0**	40,117,905.5	528.0	528.6
Deutsche Mutual fund	—	—	—	14,970,089.9	150.0	150.5
DSP Merril Lynch Mutual Fund	—	—	—	3,229,669.7	50.0	50.1
IL & FS Mutual Fund	—	—	—	35,774,114.9	425.0	426.8
ING Savings Trust Mutual Fund	—	—	—	2,965,994.9	40.0	40.0
JM Mutual Fund	**20,161,105.6**	**220.0**	**220.2**	4,419,965.7	48.0	48.0
Kotak Mahindra Mutual Fund	**119,975,290.1**	**1,607.0**	**1,609.1**	251,089,080.7	3,290.5	3,296.1
Principal Mutual Fund	**443,572,661.0**	**4,703.5**	**4,710.1**	327,161,849.8	3,379.4	3,384.5
Prudential ICICI Mutual Fund	**407,172,690.8**	**5,840.1**	**5,847.9**	109,598,243.4	1,770.0	1,774.5
Reliance Mutual Fund	—	—	—	9,957,878.2	100.0	100.2
Sahara Mutual Fund	**4,934,157.0**	**68.0**	**68.1**	—	—	—
Standard Chartered Mutual Fund	**163,078,603.4**	**1,680.0**	**1,681.3**	—	—	—
Tata Mutual Fund	—	—	—	7,720,771.2	90.0	90.2
UTI Mutual fund	**70,332,785.0**	**1,422.0**	**1,423.1**	—	—	—
In FMP Schemes						
JM Mutual Fund	—	—	—	6,000,000.0	60.0	60.7
Principal Mutual Fund	—	—	—	20,000,000.0	200.0	202.3

15 Balances with Other Banks held in: Name of the Bank/Institution	**Balance as on 31-03-06**	**Maximum Balance 2005-06 (Rs. in Million)**	Balance as on 31-03-05	Maximum Balance 2004-05 (Rs. in Million)
JP Morgan Chase Bank N. A-Sinapore	—	**881.7**	0.7	12,377.8
JP Morgan Chase Bank N. A-Florida (Rs. 15296)	**0.0**	**1,603.2**	1,576.9	12,250.6
UBS AG Wealth Management-London	—	**225.3**	—	4,503.8
Credit Agricole (Suisse) S. A. Private Bank	**1,414.9**	**1,414.9**	—	—
Vietnam Export Import Bank,Hochiminch Branch, Vietnam	**1.0**	**7.4**	—	—
Standard Chartered, Shanghai Branch, China	**1.0**	**4.3**	—	—
Moscow Bank, Moscow Branch,Moscow	**8.7**	**15.7**	—	—
Belvnesheconom Bank, Minsk Branch, Belarus	**0.1**	**2.0**	—	—
Tsesna Bank, Almaty Branch, Kazakhstan	**0.5**	**3.2**	—	—
Ukreixm Bank, Kyiv Branch, Ukraine	**0.5**	**1.2**	—	—
Deusche Bank AG London	**1,116.0**	**1,116.0**	—	—
Total	**2,542.7**		1,577.6	

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

16 Loans / Advances due from Subsidiaries	(Rs. in Million)		(Rs. in Million)	
Subsidiary company	**Balance as on 31-03-06**	**Maximum Balance 2005-06**	Balance as on 31-03-05	Maximum Balance 2004-05
Loans				
Sun Pharma Global Inc. BVI Dubai	**2,896.2**	**4,959.2**	2,925.6	2,925.6
Sun Pharmaceutical (Bangladesh) Ltd.	—	—	4.6	4.6
Sun Pharma De Mexico S.A. DE C.V.	—	—	3.5	3.5
Sun Pharmaceutical Industries inc. USA	—	**1,396.3**	164.3	164.3
Sun Pharmaceutical Peru SA	**0.1**	**1.3**	—	—
Sun Farmaceutica LTDA Brazil	**10.5**	**10.5**	—	—
Sun Pharmaceutical UK Limited	**0.7**	**0.7**	—	—
ICN Hungary Ltd	—	**448.0**	—	—
Advances				
Share Application Money to Sun Pharma De Mexico S.A. DE C.V.	**60.0**	**60.0**	—	—
Total	**2,967.5**		3,098.0	

17 Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on their agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the managements best estimates of useful lives of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obsolescence, market demand for products, competition and their expected future benefits to the company.

18 Adjustment to Capital Reserve represents Rs. 8.2 Million paid by the Company in April-2005 for acquisition of Equity Shares of erstwhile Phlox Pharmaceuticals Limited which has amalgamated with the Company in earlier year and Rs. 0.1 Million being transferred from Share Capital Suspense Account as the relevant shares were not required to be issued by the company as they were cancelled off against the investment held by the Company in erstwhile Phlox Pharmaceuticals Limited pursuant to amalgamation with the Company.

19 As per the terms of the issue, the holders of Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 aggregating to US $ 350 Million have an option to convert FCCBs into Equity Share at an initial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1, from December 26, 2004 to November 16,2009. The conversion price will be subject to certain adjustment. Further, under certain conditions the company has an option for early redemption in whole but not in part, at any time on or after November 26,2007. Unless previously converted, redeemed or purchased and canceled, the company will redeem these bonds at 125.594 per cent of the principal amount on November 26,2009. In view of likely conversion into Equity Shares, premium on redemption of FCCB has not been provided in this accounts.

As at the year end Rs. 157.53 Million (US$ 3.5 Million) worth of FCCB's were converted into 216,007 equity shares, upon conversion optionby the FCCB holders.

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

21 The Board of Directors of the Company at their meeting held on 9th Feb. 2006 decided to demerge and transfer its Innovative Research & Development business (including New Drug Delivery Systems) to Sun Pharma Advanced Research Company Ltd. (SPARC), so as to aid in focusing on manufacturing, including Reverse Research and Development activities by the Company and Innovative Research & Development activity by SPARC. The said demerger/ transfer is effective from 1st April, 2006 subject to necessary regulatory approvals.

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

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

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

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

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

Currency	**Amount Million**	**Buy/Sell**	**Cross Currency**
US Dollar	75.0	Buy	Rupees
US Dollar	2.5	Sell	Rupees

B Principal only Swaps to hedge against fluctuations in exchange rate changes :

No. of Contracts	2
Notional Principal	$ 40.3 Millions

C Currency Swaps (other than forward exchange contracts stated above) to hedge against fluctuations in changes in exchange rate and interest rate changes :

No. of Contracts	1
Notional Principal	JPY 2166 Millions

D The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

a Amounts receivable in foreign currency on account of the following :

	Amount in Millions	
Exports of Goods & Services	Rs.1674.0	$37.5
	Rs.37.7	$0.7
Loans Receivable	Rs.2906.7	$65.1
Advances Given (GBP 9025)	Rs. 0.7	GBP 0.0
Interest Receivable	Rs.129.1	$2.9

b Amounts payable in foreign currency on account of the following :

Interest Payable	Rs.32.5	$0.7
Loans Payable	Rs.15,467.8	$346.5

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

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

ANNEXURE 'A' TO NOTES ON ACCOUNT

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

Rs in Million

Particulars	Subsidaries		Associates		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/06	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05
Purchases of goods / DEPB	**21.5**	13.9	**4,896.3**	3,251.9	—	—	—	—	**2.7**	—	**4,920.5**	3,265.8
Caraco Pharmaceutical Laboratories Ltd	21.5	13.9	—	—	—	—	—	—	—	—	21.5	13.9
Sun Pharmaceutical Industries	—	—	4,896.3	3251.9	—	—	—	—	—	—	4,896.3	3,251.9
Others (Previous Year Rs.38,300)	—	—	—	—	—	—	—	—	2.7	—	2.7	—
Sale of goods / DEPB	**1,264.3**	768.0	**614.0**	752.2	—	—	—	—	—	3.2	**1,878.3**	1,523.4
Caraco Pharmaceutical Laboratories Ltd	1,250.0	761.8	—	—	—	—	—	—	—	—	1,250.0	761.8
Sun Pharmaceutical Industries	—	—	614.0	752.2	—	—	—	—	—	—	614.0	752.2
Others	14.3	6.2	—	—	—	—	—	—	—	3.2	14.3	9.4
Sale of Fixed Assets / Lease Assets	**0.1**	—	**7.5**	—	—	—	—	—	—	—	**7.6**	—
Caraco Pharmaceutical Laboratories Ltd	0.1	—	—	—	—	—	—	—	—	—	0.1	—
Sun Pharmaceutical Industries	—	—	7.5	—	—	—	—	—	—	—	7.5	—
Receiving of Service												
Services	—	51.7	—	—	—	—	—	—	—	—	—	51.7
Sun Pharma Global Inc - BVI	—	51.7	—	—	—	—	—	—	—	—	—	51.7
Reimbursement of Expenses	**1.9**	17.4	—	—	—	—	—	—	—	—	**1.9**	17.4
Caraco Pharmaceutical Laboratories Ltd	—	17.4	—	—	—	—	—	—	—	—	—	17.4
Sun Pharma De Mexico S.A. DE C.V.	1.2	—	—	—	—	—	—	—	—	—	1.2	—
Sun Farmaceutica Ltda - Brazil	0.7	—	—	—	—	—	—	—	—	—	0.7	—
Rendering of Service												
Services	—	17.3	—	—	—	—	—	—	**0.4**	0.2	**0.4**	17.5
Caraco Pharmaceutical Laboratories Ltd	—	16.1	—	—	—	—	—	—	—	—	—	16.1
Sun Petrochemical Pvt Ltd	—	1.2	—	—	—	—	—	—	0.4	0.2	0.4	1.4
Reimbursement of Expenses	**0.3**	—	—	—	—	—	—	—	**0.1**	—	**0.4**	—
Sun Pharmaceutical (Bangladesh) Ltd	0.3	—	—	—	—	—	—	—	—	—	0.3	—
Sun Petrochemical Pvt Ltd	—	—	—	—	—	—	—	—	0.1	—	0.1	—
Lease Rent received	**0.2**	1.5	—	—	—	—	—	—	—	—	**0.2**	1.5
Caraco Pharmaceutical Laboratories Ltd	0.2	1.5	—	—	—	—	—	—	—	—	0.2	1.5
Finance (including loans and equity contributions in cash or in kind)												
Capital Contribution / (Withdrawal)	**0.5**	0.2	**(4,192.3)**	(2,411.4)	—	—	—	—	—	—	**(4,191.8)**	(2,411.2)
Sun Pharmaceutical Industries	—	—	(4,192.3)	(2,411.4)	—	—	—	—	—	—	(4,192.3)	(2,411.4)
Sun Pharmaceutical Industries - Inc , USA	—	0.2	—	—	—	—	—	—	—	—	—	0.2
Sun Pharma Advanced Research Company Ltd	0.5	—	—	—	—	—	—	—	—	—	0.5	—
Investments Purchase	**2,456.0**	2,034.0	**125.0**	—	—	—	—	—	—	—	2,581.0	2,034.0
Sun Farmaceutica Ltda - Brazil	—	5.2	—	—	—	—	—	—	—	—	—	5.2
Sun Pharma De Mexico S.A. DE C.V.	—	3.3	—	—	—	—	—	—	—	—	—	3.3
Sun Pharma Exports	—	—	125.0	—	—	—	—	—	—	—	125.0	—
Sun Pharma Global Inc - BVI	2,456.0	2,025.5	—	—	—	—	—	—	—	—	2,456.0	2,025.5
Others	0.1	—	—	—	—	—	—	—	—	—	0.1	—
Investments Sold	—	2,092.7	—	—	—	—	—	—	—	—	—	2,092.7
Sun Pharma Global Inc - BVI	—	2,092.7	—	—	—	—	—	—	—	—	—	2,092.7
Loans given	**3,452.3**	3,098.0	—	—	—	—	—	—	—	—	**3,452.3**	3,098.0
Sun Pharma Global Inc - BVI	1,705.3	2,925.6	—	—	—	—	—	—	—	—	1,705.3	2,925.6
Sun Pharmaceutical Industries - Inc	1,230.9	164.3	—	—	—	—	—	—	—	—	1,230.9	164.3
Sun Pharma De Mexico S.A. DE C.V.	57.0	3.5	—	—	—	—	—	—	—	—	57.0	3.5
Sun Farmaceutica Ltda - Brazil	10.4	—	—	—	—	—	—	—	—	—	10.4	—
ICN Hungary Company Ltd	448.0	—	—	—	—	—	—	—	—	—	448.0	—
Sun Pharmaceutical (Bangladesh) Ltd	—	4.6	—	—	—	—	—	—	—	—	—	4.6
Others	0.7	—	—	—	—	—	—	—	—	—	0.7	—
Guarantees and Collaterals												
Bank Guarantee	—	68.1	—	—	—	—	—	—	—	—	—	68.1

ANNEXURE 'A' TO NOTES ON ACCOUNT

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

Rs in Million

Particulars	Subsidaries		Associates		Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/06	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05
Interest Income	**155.4**	19.9	**28.3**	1.1	—	—	—	—	—	—	**183.7**	21.0
Caraco Pharmaceutical Laboratories Ltd	—	0.5	—	—	—	—	—	—	—	—	—	0.5
Sun Pharmaceutical Industries	—	—	1.1	—	—	—	—	—	—	—	1.1	—
Sun Pharma Exports	—	—	27.2	—	—	—	—	—	—	—	27.2	—
Sun Pharma Global Inc - BVI	129.1	18.3	—	—	—	—	—	—	—	—	129.1	18.3
Sun Pharmaceutical Industries Inc , USA	20.2	—	—	—	—	—	—	—	—	—	20.2	—
Others	6.1	1.1	—	1.1	—	—	—	—	—	—	6.1	2.2
Rent Income	—	—	**1.2**	1.2	—	—	—	—	**0.2**	0.1	**1.4**	1.3
Sun Pharmaceutical Industries	—	—	1.2	1.2	—	—	—	—	—	—	1.2	1.2
Others	—	—	—	—	—	—	—	—	0.2	0.1	0.2	0.1
Director's Remuneration	—	—	—	—	**20.1**	11.7	—	—	—	—	**20.1**	11.7
Remuneration (Partner's) Received	—	—	**608.2**	332.0	—	—	—	—	—	—	**608.2**	332.0
Sun Pharmaceutical Industries	—	—	608.2	332.0	—	—	—	—	—	—	608.2	332.0
Rent Paid	—	—	—	—	—	—	0.3	0.3	—	—	0.3	0.3
Share of profit from Partnership Firm	—	—	**3,278.8**	1,746.5	—	—	—	—	—	—	**3,278.8**	1,746.5
Sun Pharmaceutical Industries	—	—	3,278.8	1746.5	—	—	—	—	—	—	3,278.8	1,746.5
Outstanding receivables, net of Payables as on 31/03/2006	**655.4**	381.3	—	—	—	—	—	—	—	—	**655.4**	381.3
Maximum amount outstanding during the year												
Caraco Pharmaceutical Laboratories Ltd	655.4	381.3	—	—	—	—	—	—	—	—	655.4	381.3

Note :

Names of related parties and description of relationship

1. Subsidaries	Sun Pharma Global Inc. BVI. Milmet Pharma Ltd. (Upto October 25,2005) Sun Pharmaceutical (Bangladesh) Ltd. Sun Pharma De Mexico S.A. DE C.V. Sun Farmaceutica Ltda - Brazil Sun Pharmaceutical Industries Inc , USA. Sun Pharma Advanced Research Company Ltd. Sun Pharmaceuticals UK Ltd. ICN Hungary Ltd. Caraco Pharmaceutical Laboratories Ltd - U.S.A Universal Enterprise Pvt. Ltd. Zao "Sun Pharma Industries Limited" Sun Pharmaceutical Peru S.A..C. SPIL De Mexico. S.A. DE C.V.	
2. Associates	Sun Pharma Exports Sun Pharmaceutical Industries	
3. Key Management Personnel	Mr. Dilip S. Shanghvi Mr. Sudhir V. Valia Mr. Sailesh T. Desai	
4. Relatives of Key Management Personnel	Mrs. Vibha Shanghvi Mrs. Kumud Shanghvi Mrs. Meera Desai Mrs. Nirmala Desai	Wife of Chairman Mother of Chairman Wife of Wholetime Director Mother of Wholetime Director
5. Enterprise under significant Influence of Key Management Personnel or their relatives	Sun Petrochemical Pvt Ltd. Sun Speciality Chemicals Pvt Ltd. Navjivan Rasayan (Gujarat) Pvt Ltd.	

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

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

II Capital Raised during the year (Rs in Million)

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

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

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

IV Performance of the Company (Rs in Million)

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

* Basic after considering pro-rata dividend (including corporate dividend tax) on preference shares.

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

Item Code No. (ITC Code)	Product Description
30049038	Pantaprazole Sodium
30049065	Metformin Hydrochloride
30033900	Losartan Potassium

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

KAMLESH H. SHAH
Company Secretary

Vadodara, 06th June, 2006

SAILESH T. DESAI
Wholetime Director

Vadodara, 06th June, 2006

ANNEXURE (1) TO DIRECTORS' REPORT

CONSERVATION OF ENERGY

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

B. Consumption per unit of production

It is not feasible to maintain product category-wise energy consumption data, since we manufacture a large range of formulations and bulk drugs having different energy requirements.

C. Energy conservation measures

1 Improvisation and continuous monitoring of Power Factor and replacement of weak capacitors by conducting periodical checking of capacitors. We have been able to maintain the Power Factor near to unity (above 0.99) and thereby availing the rebate in electricity charges.

2 Alternative energy sources like Gas & steam have been used in place of electricity for heating of De-mineralized water, fluid bed dryers for producing hot air systems for coating department and for making starch paste and for drying of Bulk Drugs in tray dryers.

3 Provision of storage tanks with electricity Heaters to utilise the same instead of steam, on weekly off / Holiday.

4 Providing air handling unit with variable frequency drives, so that the system runs at variable speed, and thereby saving in consumption of electricity.

5 Installation of isolating valve in main airline for preventing air loss.

6 Gas based electricity generatation sets have been set up at bulk drug plants, resulting in significant savings in electricity cost.

7 The Company has endeavored to optimise the use of energy resources and taken adequate steps to avoid wastage & use latest production technology & equipments.

TECHNOLOGY ABSORPTION

A. Research and Development

1. Specific areas in which R&D is carried out by the Company

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

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

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

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

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

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

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

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

3. Future plan of action

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

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

B. Technology Absorption, Adaptation and Innovation

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

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

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

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

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

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

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

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

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

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

SUN PHARMACEUTICAL INDUSTRIES LTD.

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

	Name of Subsidiary	Zao Sun Pharma Industries Ltd. Russia	Sun Pharma Global Inc. BVI	Sun Pharmaceutical (Bangladesh) Ltd	Caraco Pharmaceutical Laboratories Ltd.	Sun Farmaceutica Ltda Brazil	Sun Pharma De Mexico, S.A.DE C.V.	Sun Pharmaceutical Industries Inc.	Sun Pharma Advanced Research Company Ltd	Sun Pharmaceuticals UK Ltd	Sun Pharmaceutical Peru S.A.C.	SPIL De Mexico. S.A. DE C.V.	ICN Hungary Company Limited*
1	The financial year of the Subsidiary Company ended on	31/12/2005	31/03/2006	31/03/2006	31/03/2006	31/03/2006	31/12/2005	31/03/2006	31/03/2006	31/03/2006	31/03/2006	31/12/2005	31/03/2006
2	Shares in the Subsidiary held by the Holding Company as at the above date A) Number of Shares	1000 Shares of Rubles 20 each fully paid-up	500000 Shares of US$ 1 each fully paid-up	434469 Ordinary Shares of Takas 100 each fully paid-up	8382666 fully paid Common Shares of No Par Value	336538 Quota of Capital Stock of Real (R$)1 each	750 Common Shares of No Face Value	5000 Fully Paid Up Common Stock of US$ 1 par Value	500000 Equity Shares of Re 1/- each fully paid up	100 Ordinary Shares of £ 10 each fully paid up	149 Ordinary Shares of Soles 10/- each fully paid up	100 Nominative and free shares of $500 Mexican Pesos each fully paid up	6955132 'A' Share of HUF 3 each 1966000 'E' Shares of HUF 3000 each 36500 'F' Shares of HUF 3000 each
	B) Extent of Holding	100%	100%	72.41%	31.73%	99.57%	75%	100%	100%	100%	99.33%	100%	99.99%
3	Net aggregate amount of Profit/ (Loss) of the Subsidiary Company so far as they concern the members of the Holding Company and -												
	A) Not dealt with in the Holding Company's accounts for the year ended 31st March, 2006												
	(i) For the Subsidiary's financial year ended as aforesaid	Rubles Nil	US$ 43423180	Taka (31901384)	US$ (3306900)	NIL	Mexican Pesos (6707728)	US$ (1301356)	Rs. (33224)	£ (1440)	NIL	NIL	HUF (855594775)
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	Rubles (93295)	US$ 43030599	Taka (14612769)	US$ (4469855)	NIL	Mexican Pesos 1167332	US$ 81796	NIL	NIL	NIL	NIL	NIL
	B) Dealt with in Holding Company's accounts for the year ended 31st March, 2006												
	(i) For the Subsidiary's financial year ended as aforesaid	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
	(ii) For the Previous financial years of the Subsidiary, since it became Holding Company's Subsidiary	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
4	A) Change in the interest of the Holding Company between the end of the last financial year of the Subsidiary and 31st March, 2006	NIL	Acquisition of 550000 0% optionally fully convertible debentures of US $100 each fully paid	NIL	Extent of Holding down by 0.07% on account of issuance of stock option by subsidiary.	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
	B) Material changes occurred between end of the financial year of the Subsidiary and 31st March, 2006	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL

*Subsidary of a wholly owned subsidiary, Sun Pharma Global Inc. Bvi.

For and on behalf of the board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

KAMLESH H. SHAH
Company Secretary

Vadodara, 06th June, 2006

CORPORATE GOVERNANCE

In compliance with Clause 49 of the Listing Agreement with Stock Exchanges, the Company submits the report on the matters mentioned in the said Clause and lists the practices followed by the Company.

1. Company's Philosophy on Code of Corporate Governance

Sun Pharmaceutical Industries Limited's philosophy on Corporate Governance envisages working towards high levels of transparency, accountability, consistent value systems, delegation across all facets of its operations leading to sharply focussed and operationally efficient growth. The Company tries to work by these principles in all its interactions with stakeholders, including shareholders, employees, customers, suppliers and statutory authorities.

Sun Pharmaceutical Industries Limited is committed to learn and adopt the best practices of Corporate Governance.

2. Board of Directors

The present strength of the Board of Directors of your Company is seven Directors.

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter Executive Director	Mr. Dilip S. Shanghvi (Chairman and Managing Director)
Non-Promoter Executive Directors	Mr. Sudhir V. Valia (Whole-time Director) Mr. Sailesh T. Desai (Whole-time Director)
Non Executive Independent Directors	Mr. S. Mohanchand Dadha Mr. Hasmukh S. Shah Mr. Keki M. Mistry Mr. Ashwin S. Dani

Number of Board Meetings held and the dates on which held: 8 Board meetings were held during the year, as against the minimum requirement of 4 meetings. The dates on which the meetings were held are as follows: 4th April, 2005, 27th April, 2005, 27th July, 2005, 18th August, 2005, 30th September, 2005, 28th October, 2005, 30th January, 2006 and 9th February, 2006.

Attendance of each Director at the Board meetings, last Annual General Meeting (AGM), and number of other Directorship and Chairmanship/Membership of Committee of each Director, is as follows:

Name of the Director	Attendance Particulars for the year ended 31st March, 2006		* No. of other directorships and committee memberships/ chairmanships as of 31st March, 2006		
	Board Meetings	Last AGM held on 30th September, 2005	Other Directorships	Committee Memberships	Committee Chairmanships
Mr. Dilip S. Shanghvi	8	Yes	1	—	—
Mr. Sudhir V. Valia	8	Yes	3	—	—
Mr. Sailesh T. Desai	7	Yes	3	—	—
Mr. S. Mohanchand Dadha	7	Yes	1	—	—
Mr. Hasmukh S. Shah	7	Yes	9	2	1
Mr. Keki M. Mistry	6	Yes	11	6	1
Mr. Ashwin S. Dani	6	No	6	2	2

* The above list does not include Directorships, Committee Memberships and Committee Chairmanships in Private, Foreign and Section 25 Companies.

Note: The Committee Memberships and Chairmanships in other Companies include Memberships and Chairmanships of Audit and Shareholders'/ Investors Grievance Committee only.

Brief information on Directors proposed for reappointment:

The brief resume, experience and other details of the Directors, viz. Mr. Hasmukh S. Shah and Mr. Keki M. Mistry who retire by rotation at the ensuing Annual General Meeting, and are proposed to be reappointed is given as under:

(a) Mr. Hasmukh S. Shah (71), is a Director of the Company since 22nd March, 2001. Mr. Shah is a B.A Economics (Hons) and M.A in Sociology with 1st Rank in the University. Mr. Shah has over four decades of experience in senior management positions. He is the Chairman of Shaily Engineering Plastics Ltd., Gujarat Gas Co. Ltd. and Oswal Multimedia KID Ltd. Mr. Shah is also a Director in the following Companies : Dinesh Remedies Ltd., Supreme Petrochem Ltd., ATUL Ltd., Deepak Nitrite Ltd., Cosmo Films Ltd. and Micro Inks Ltd.

Shri Shah is a former Chairman of Indian Petrochemicals Corporation Limited and Gujarat Industrial Investment Corporation and has held senior positions in Government of India including Joint Secretary to the Prime Minister.

He also serves as the Chairman of Shareholders'/ Investors' Grievance Committee of Micro Inks Ltd. and member of Audit Committees of Micro Inks Ltd. and Dinesh Remedies Ltd.

(b) Mr. Keki Minoo Mistry (51) joined the Board on 28th August, 2002. At present, he is the Managing Director of Housing Development Finance Corporation Limited (HDFC). He joined HDFC in October, 1981. Prior to joining HDFC, Mr. Mistry worked in the Indian Hotels Co. Ltd as Accounts Officer.

Mr. Mistry is a Fellow Member of the Institute of Chartered Accountants of India and a Member of the Michigan Association of Certified Public Accountants, USA.

He has rich experience in Finance and worked as a consultant to the Commonwealth Development Corporation in Bangkok, Thailand, Mauritius, Caribbean Islands & Jamaica, Asian Development Bank and Mauritius Housing Company.

Presently, he is the Chairman of Gruh Finance Ltd and Intelnet Global Services Pvt. Ltd.and is on the Board of Housing Development Finance Corporation Ltd., HDFC Developers Ltd., HDFC Bank Ltd., HDFC Trustee Company Ltd., HDFC Standard Life Insurance Company Ltd., HDFC Chubb General Insurance Company Ltd., Infrastructure Leasing & Financial Services Ltd., Mahindra Holidays & Resorts India Ltd., The Great Eastern Shipping Company Ltd., NexGen Publishing Ltd. and India Value Fund Advisors Pvt. Ltd.

He serves as the member of Shareholders'/ Investors' Grievance Committee of Housing Development Finance Corporation Ltd., member of Audit Committees of HDFCStandard Life Insurance Company Ltd., HDFC Trustee Company Ltd., Gruh Finance Ltd.,Infrastructure Leasing & Financial Services Ltd. and The Great Eastern Shipping Company Ltd. He also serves as the Chairman of Audit Committee of HDFC Chubb General Insurance Company Ltd.

3. Code of Conduct

The Board of Directors have laid down a code of conduct for all Board members and senior management of the Company. All the Directors and senior management personnel have affirmed compliance with the code of conduct as approved and adopted by the Board of Directors and a declaration to this effect has been annexed to the Corporate Governance Report. The code of conduct has been posted on the website of the Company www.sunpharma.com.

4. Audit Committee

The Board of the Company has constituted an Audit Committee, which comprises of three independent non-executive Directors viz. Mr. Keki M. Mistry, Mr. S. Mohanchand Dadha and Mr. Hasmukh S. Shah. Mr. Keki M. Mistry is the Chairman of the Committee. The constitution of Audit Committee also meets with the requirements under Section 292A of the Companies Act, 1956. Mr.Kamlesh H. Shah the Company Secretary of the Company is the Secretary of the Audit Committee.

The Audit Committee is responsible for overseeing the Company's financial reporting process, reviewing the quarterly/ half yearly/ annual financial statements, reviewing with the management the financial statements and adequacy of internal audit function, recommending the appointment/ re-appointment of statutory auditors and fixation of audit fees, reviewing the significant internal audit findings/ related party transactions, reviewing the Management Discussion and Analysis of financial condition and result of operations and also statutory compliance issues. The Committee acts as a link between the management, external and internal auditors and the Board of Directors of the Company.

The Committee has discussed with the external auditors their audit methodology, audit planning and significant observations/ suggestions made by them.

In addition, the Committee has discharged such other role/ function as envisaged under Clause 49 of the Listing Agreement of the Stock Exchange and the provisions of Section 292A of the Companies Act, 1956.

Five Audit Committee Meetings were held during the year ended 31st March, 2006. The dates on which Meetings were held are as follows: 27th April, 2005, 27th July, 2005, 18th August, 2005, 28th October, 2005 and 30th January, 2006. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Audit Committee Meetings attended
Mr. Keki M. Mistry	5
Mr. S. Mohanchand Dadha	4
Mr. Hasmukh S. Shah	4

5. Remuneration Committee

The Company has not formed any Remuneration Committee of Directors. The Whole-time Directors' remuneration is approved by the Board within the overall limit fixed by the shareholders at their meetings. The payment of remuneration by way of commission to the participating Non- Executive Directors (NEDs) of the Company is within the total overall maximum limit of half percent of net profits as worked under the provisions of sections 349 & 350 of the Companies Act, 1956. This will be in addition to the sitting fees of Rs.5,000/- per meeting payable to the Non Executive Directors. The actual commission payable to the Non- Executive Directors of our Company severally and collectively is decided by the Board of Directors of the Company within the overall limit fixed as above by the Members of the Company.

Details of remuneration paid to all the Directors for the year:

The details of the remuneration paid/payable to the Directors during the year 2005-2006 are given below:

(Amount in Rs.)

Directors	Salary #	Perquisites *	Commission	Sitting Fees	Total
Mr. Dilip S. Shanghvi	76,50,000	8,14,978	—	—	84,64,978
Mr. Sudhir V. Valia	76,50,000	8,17,210	—	—	84,67,210
Mr. Sailesh T. Desai	29,34,200	2,83,560	—	—	32,17,760
Mr. S. Mohanchand Dadha	—	—	6,65,000	80,000	7,45,000
Mr. Hasmukh S. Shah	—	—	6,65,000	80,000	7,45,000
Mr. Keki M. Mistry	—	—	6,65,000	55,000	7,20,000
Mr. Ashwin S. Dani	—	—	6,65,000	30,000	6,95,000

Salary includes bonus and Special Allowance.

* Perquisites include House Rent Allowance, Leave Travel Assistance, Medical Reimbursement, contribution to Provident Fund and such other perquisites, the monetary value of which are determined in accordance with the Income Tax Rules, 1962.

Besides this, all the Whole-time Directors are also entitled to encashment of leave and Gratuity at the end of tenure, as per the rules of the Company.

Notes: -

a) The Agreement with each of the Executive Directors is for a period of 5 years. Either party to the agreement is entitled to terminate the Agreement by giving to the other party 30 days notice in writing.

b) Your Company presently does not have a scheme for grant of stock options either to the Executive Directors or employees.

Details of Equity Shares held by Non-Executive Directors

Director	No. of Shares
Mr. S. Mohanchand Dadha	28,428
Mr. Hasmukh S. Shah	Nil
Mr. Keki M. Mistry	Nil
Mr. Ashwin S. Dani	Nil

6. Shareholders'/Investors' Grievance Committee

The Board of the Company had constituted a Shareholders'/Investors' Grievance Committee, comprising of Mr. S. Mohanchand Dadha, Mr.Dilip S. Shanghvi, Mr. Sudhir V. Valia with Mr. Hasmukh S. Shah as the Chairman. The Committee, inter alia, approves issue of duplicate certificates and oversees and reviews all matters connected with the transfer of securities. The Committee looks into shareholders' complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends, etc. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to M/s. Intime Spectrum Registry Ltd, and/or the Company Secretary of the Company.

The Board has designated severally, Mr.Kamlesh H. Shah, Company Secretary and Mr.Ashok I. Bhuta, D.G.M (Legal & Secretarial) as Compliance Officers.

Six Shareholders'/Investors' Grievance Committee Meetings were held during the year ended 31st March, 2006. The dates on which Meetings were held are as follows: 4th April, 2005, 27th April, 2005, 27th July, 2005, 18th August, 2005, 28th October, 2005 and 30th January, 2006. The attendance of each Member of the Committee is given below:

Name of the Director	No. of Shareholders'/Investors' Grievance Committee Meetings attended
Mr. Hasmukh Shah	5
Mr. Sudhir V. Valia	6
Mr. Dilip Shanghvi	6
Mr. S. Mohanchand Dadha	5

The total numbers of complaints were received and resolved to the satisfaction of shareholders during the year under review, were 166.

7. Share Allotment Committee

The Zero coupon Foreign Currency Convertible Bonds (FCCB) due 2009 for US$ 350 Million issued and allotted during Nov./ Dec, 2004 are convertible into equity shares of the Company at the option of the Bondholders at any time on or after 26th December, 2004 and prior to the close of business (at the place the Bond is deposited for conversion) on 16th November, 2009. Therefore in order to enable the Company to issue and allot equity shares on surrender of bonds for conversion as and when required, a Committee of Directors (Allotment) was constituted with effect from April 1, 2005 with powers to issue and allot equity shares arising out of such conversion of FCCBs. The Committee *inter alia* shall have the power to decide all matters relating to issue and allotment of equity shares of Rs.5/- each of the Company to the extent to which bondholder exercise their option for conversion of FCCBs in to equity shares, to fix the record date, if any, required, to credit the equity shares so allotted through NSDL/CDSL/Other Depository to the concerned beneficiary account, to obtain approval of RBI for such issue and allotment under FEMA, as may be applicable, to file Listing application with the listed stock exchanges in India and if required abroad and to perform any of all the acts, deeds, things and matters as may be required in connection with such issue and allotment of equity shares.

The Committee comprises of Mr. Dilip S. Shanghvi, Mr. Sailesh T. Desai and Mr. Sudhir V. Valia as the Chairman. Mr.Kamlesh Shah, Company Secretary & Compliance Officer shall act as the Secretary & Compliance Officer of the Committee and Mr.Ashok I. Bhuta, DGM (Legal & Secretarial) & Compliance Officer shall act as the Compliance Officer of the Committee.

One Share Allotment Committee meeting was held during the year on 31st March, 2006. The attendance of each Member of the Committee is given below :

Name of the Director	Attendance at the Share Allotment Committee Meeting held on 31st March, 2006
Mr. Sudhir V. Valia	Yes
Mr. Dilip S. Shanghvi	No
Mr. Sailesh T. Desai	Yes

8. Subsidiary Companies

The Company does not have a material non-listed Indian subsidiary whose turnover or net worth (i.e paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding Company and its subsidiaries in the immediately preceding accounting year.

The financial statements including investments made by the unlisted subsidiary Companies were placed before and reviewed by the Audit Committee of the Company.

Copies of the Minutes of the Board Meetings of the subsidiary Companies were placed at the Board Meetings of the Company held subsequent to the date of new Clause 49 coming into force i.e with effect from 1st January, 2006.

9. General Body Meetings

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

Year	Meeting	Location	Date	Time
2002-03	AGM	Marigold, Hotel Taj Residency, Akota Gardens Vadodara - 390 020.	30/09/2003	10.30 A.M,
2004-05	EGM	All India Plastic Manufacturers Association Auditorium, AIPMA House, 2nd Floor, A-52, Road No. 1, Opp. Hotel Tunga, MIDC, Andheri (E), Mumbai – 400 093	06/05/2004	10.30 A.M
2004-05	EGM	Vishal Hall, Hotel Highway Inn, Andheri-Kurla Road, Near Andheri Railway Station, Opp. Andheri Gymkhana, Andheri (E), Mumbai – 400 069.	31/07/2004	10.30 A.M
2003-04	AGM	Marigold, Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/12/2004	10.30 A.M
2004-05	EGM	Conference Hall, 8th Floor, Hotel The Mirador, Next to Samarpan Complex, Opp. Solitaire Corporate Park, New Link Road, Chakala, Andheri (E), Mumbai – 400 099	08/02/2005	11.00 A.M
2003-04	Twelfth Adjourned AGM	Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/09/2005	11.00 A.M
2004-05	AGM	Hotel Taj Residency, Akota Gardens, Vadodara - 390 020.	30/09/2005	11.15 A.M

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

10. Disclosures

- No transaction of a material nature has been entered into by the Company with Directors or Management and their relatives, etc. that may have a potential conflict with the interests of the Company. The Register of contracts containing transactions, in which directors are interested, is placed before the Board of Directors regularly. The transaction with the related parties are disclosed in the Annexure A attached to the Annual Accounts.

- There were no instances of non-compliance by the Company on any matters related to the capital markets or penalties/ strictures imposed on the Company by the Stock Exchange or SEBI or any statutory authority during the last 3 financial years.
- In the preparation of the financial statements, the Company has followed the Accounting Standards issued by ICAI.
- The Company has laid down procedures to inform Board members about the risk assessment and its minimization which are periodically reviewed to ensure that risk control is exercised by the management effectively.
- During the year under review, the Company has not raised funds through any public, rights or preferential issue.
- Adoption/ Non Adoption of the Non- mandatory requirements :

  (i) The Company has not fixed a period of nine years as the tenure of Independent Directors on the Board of the Company.

  (ii) The Company has not formed a remuneration committee of its Board of Directors.

  (iii) The Company does not send half-yearly financial results to the household of each shareholder as the same are published in the newspapers and also posted on the website of the Company.

  (iv) The auditors have given an unqualified opinion for the year ended 31st March, 2006.

  (v) The Company's Board comprise of perfect mix of Executive and Non Executive Independent Directors who are Company Executives and Professionals having in depth knowledge of pharmaceutical industry and/ or expertise in their area of specialisation.

  (vi) The Company's Board of Directors endeavour to keep themselves updated with changes in global economy and legislation. They attend various workshops and seminars to keep themselves abreast with the changes in business environment.

  (vii) At present the Company does not have a mechanism for evaluating its Non-Executive Directors by peer group.

  (viii) The Company has not adopted whistle blower policy. However the Company has not denied access to any employee to approach the management on any issue. The Company has adopted a Code of Conduct for its Board of Directors and senior management which meets the requirements of the Whistle Blower Policy.

11. Means of Communication

- **Website**: The Company's website www.sunpharma.com contains a separate dedicated section 'Financials' where shareholders information is available. Full Annual Report is also available on the website in a user friendly and downloadable form. Apart from this official news releases, detailed presentations made to media, analysts etc. are also displayed on the Company's website.
- **Financial Results:** The annual, half-yearly and quarterly results are regularly posted by the Company on its website www.sunpharma.com. These are also submitted to the Stock Exchanges in accordance with the Listing Agreement and published in leading newspapers like 'The Economic Times', 'Business Standard' and Gujarati Edition of 'Financial Express'.
- **Annual Report:** Annual Report containing inter alia Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report, International Accountants' Report and other important information is circulated to Members and others entitled thereto. The Management's Discussion and Analysis (MD&A) Report forms part of the Annual Report.
- **SEBI EDIFAR:** Annual Report, Quarterly Results, Shareholding Pattern etc. of the Company are also posted on the SEBI EDIFAR website www.sebiedifar.nic.in.

12. General Shareholder Information

12.1 Annual General Meeting:

- Date and Time	:	20th September , 2006 at 10.30 A.M..
- Venue	:	Chandarva Hall, Welcom Hotel, R. C. Dutt Road, Vadodara – 390 007, Gujarat.
12.2 Financial Calendar (tentative)	:	Results for quarter ending 30th September 2006 – Last week of October 2006.
	:	Results for quarter ending 31st December 2006 – Last week of January 2007.
	:	Audited Results for year ended 31st March 2007 – 2nd week of May 2007.
12.3 Details of Book Closure For Equity & Preference Shareholders	:	From 8th September, 2006 to 13th September, 2006 (both days inclusive).
12.4 Dividend Payment Date	:	On or after 20th September, 2006.
12.5 (i) Listing of Equity Shares on Stock Exchanges	:	At Bombay Stock Exchange Ltd., Mumbai (BSE) and The National Stock Exchange of India Ltd. (NSE). The Company's Equity Shares have been delisted from the Calcutta Stock Exchange Association Ltd. (CSE), Kolkata vide its letter No.CSEA/ LD/ 2006 dated 25th July, 2006 under Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003.
(ii) Listing of Preference Shares on Stock Exchanges	:	At Bombay Stock Exchange Ltd., Mumbai (BSE) and the National Stock Exchange of India Ltd. (NSE).
(iii) Listing of Foreign Currency Convertible Bonds	:	At Singapore Exchange Securities Trading Limited, Singapore.
(iv) Payment of Listing Fee	:	Listing Fees for the year ended 2005-06 have been paid to Bombay Stock Exchange Ltd., Mumbai and The National Stock Exchange of India Ltd, where the Company's Equity and Preference Shares are continued to be listed.

12.6 Stock Code:

Equity Shares

a) Trading Symbol Bombay Stock Exchange Ltd., Mumbai (Demat Segment)	:	SUN PHARMA 524715
Trading Symbol National Stock Exchange (Demat Segment)	:	SUNPHARMA
(b) Demat ISIN Numbers in NSDL and CDSL for Equity Shares of Rs.5/- each	:	ISIN No. INE044A01028

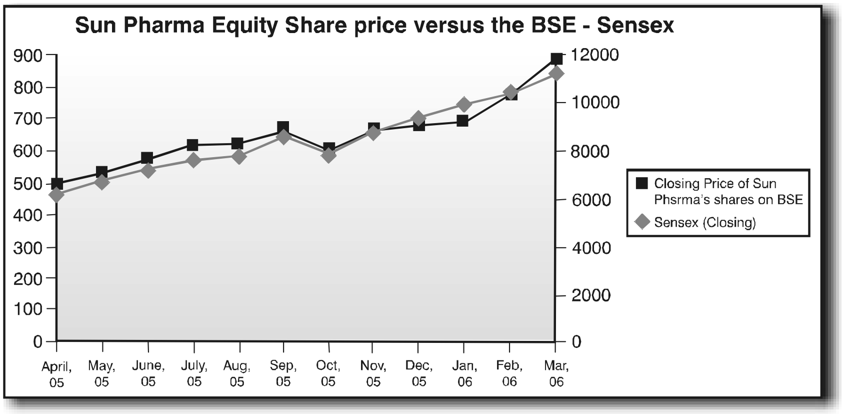
Preference Shares

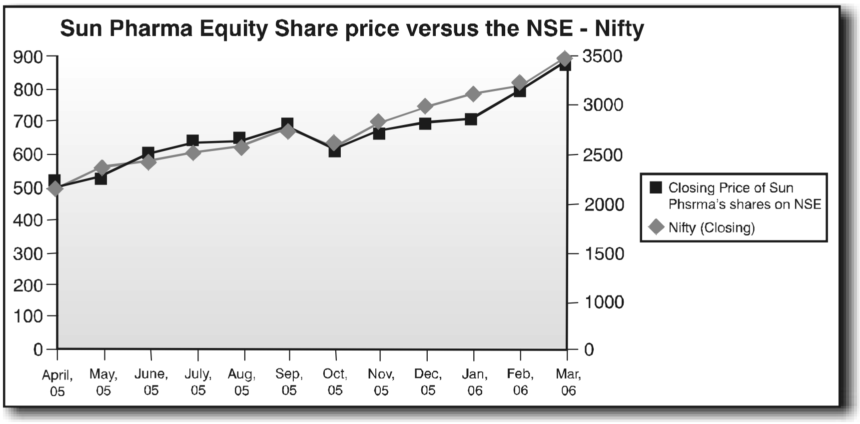
(a) Trading Symbol Bombay Stock Exchange Ltd., Mumbai (Demat Segment)	:	SUNPHARMA 700079
Trading Symbol National Stock Exchange (Demat Segment)	:	SUNPHARMA
b) Demat ISIN Numbers in NSDL and CDSL for Preference Shares	:	ISIN No. INE044A04014

12.7 Stock Market Data

Equity Shares:

	Bombay Stock Exchange Ltd., Mumbai (BSE) (in Rs.)		National Stock Exchange(NSE) (in Rs.)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
April 2005	523.40	449.00	525.80	374.90
May 2005	559.25	483.25	568.00	462.15
June 2005	590.00	522.50	600.00	525.00
July 2005	685.00	575.05	686.55	575.00
August 2005	645.00	595.05	644.70	595.05
September 2005	687.00	622.50	688.00	628.00
October 2005	668.00	552.50	669.95	552.05
November 2005	763.00	596.30	693.40	590.00
December 2005	718.00	658.00	724.70	636.30
January 2006	699.50	655.00	699.00	635.00
February 2006	826.00	697.00	825.95	695.00
March 2006	921.00	750.00	935.00	704.00





Preference Shares:

	Bombay Stock Exchange Ltd., Mumbai (BSE) (in Rs.)		# National Stock Exchange(NSE) (in Rs.)	
	Month's High Price	**Month's Low Price**	**Month's High Price**	**Month's Low Price**
April 2005	2.44	1.20	—	—
May 2005	1.80	1.23	—	—
June 2005	1.90	1.55	—	—
July 2005	1.40	1.00	—	—
August 2005	2.68	1.12	—	—
September 2005	3.14	1.90	—	—
October 2005	3.50	1.61	—	—
November 2005	3.60	1.73	—	—
December 2005	2.70	1.67	—	—
January 2006	3.50	2.00	—	—
February 2006	2.99	1.71	—	—
March 2006	3.24	1.71	—	—

During the year, the Company's Preference Shares were not traded on the National Stock Exchange of India Limited.

12.8 Share price performance in comparison to broad-based indices – BSE Sensex and NSE Nifty.

Share price performance relative to BSE Sensex based on share price on 31st March, 2006.

PERIOD	**% Change in**		
	SUN PHARMA SHARE PRICE	**BSE SENSEX**	**SUNPHARMA RELATIVE TO SENSEX**
Year-on-Year	83.79%	73.73%	10.06%
2 Years	166.63%	101.77%	64.86%
3 Years	540.59%	269.99%	270.60%
5 Years	540.35%	212.95%	327.40%

Share price performance relative to Nifty based on share price on 31st March, 2006.

PERIOD	**% Change in**		
	SUN PHARMA SHARE PRICE	**NIFTY**	**SUN PHARMA RELATIVE TO NIFTY**
Year-on-Year	84.26%	67.15%	17.11%
2 Years	163.87%	92.03%	71.84%
3 Years	533.42%	247.84%	285.58%
5 Years	532.66%	196.33%	336.33%

12.9 Registrars & Transfer Agent

(Share transfer and communication regarding share certificates, dividends and change of address)

Mr. N. Mahadevan Iyer, Intime Spectrum Registry Ltd.,
C-13, Pannalal Silk Mills Compound, L.B.S. Marg,
Bhandup (West), Mumbai – 400 078.
E-Mail: sunpharma@intimespectrum.com

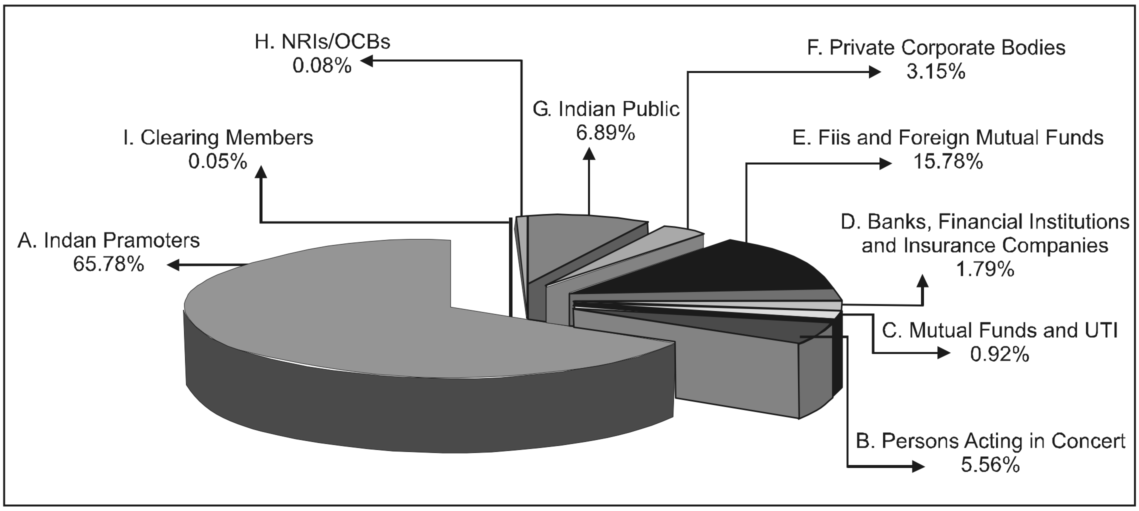
12.10 Share Transfer System

Presently, the share transfers which are received in physical form are processed and transferred by Registrar and Share Transfer Agents and the share certificates are returned within a period of 15 to 16 days from the date of receipt, subject to the documents being valid and complete in all respects and confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories i.e. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) expeditiously.

12.11 Distribution of Shareholding as on March 31, 2006

No. of Equity Shares held	Folios		Shares	
	Numbers	% to total holders	Numbers	% to total shares
Upto 005000	30057	89.09	4134510	2.23
5001 - 10000	2919	8.65	3631617	1.96
10001 – 20000	321	0.95	907298	0.49
20001 - 30000	97	0.29	507725	0.27
30001 - 40000	46	0.14	328954	0.18
40001 - 50000	29	0.09	268521	0.14
50001 - 100000	73	0.21	1059482	0.57
100001 and above	197	0.58	174893530	94.16
Total	33739	100.00	185731637	100.00

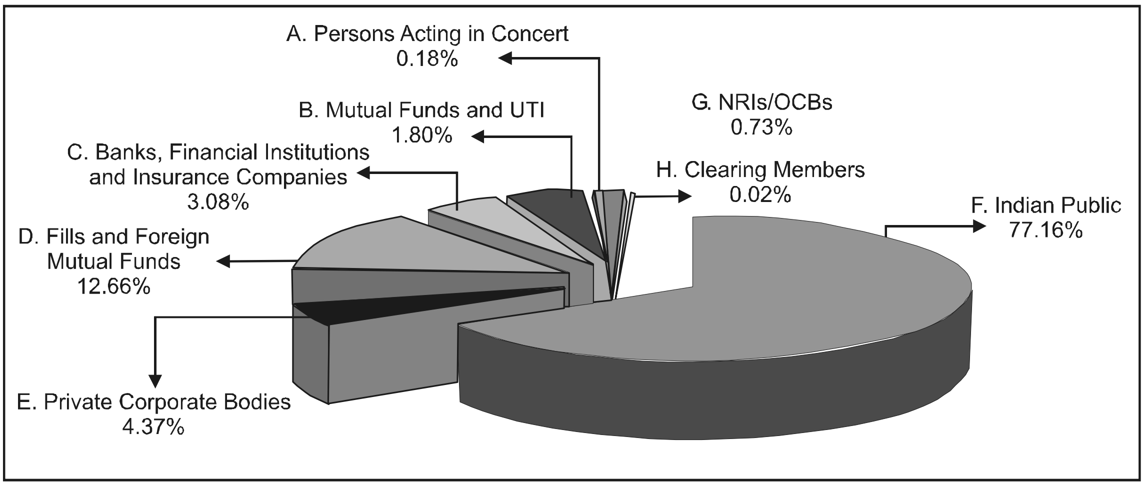
12.12 (a) Shareholding Pattern as on 31st March, 2006 of Equity Shares as per Clause 35 of the Listing Agreement.



A. Indian Promoters	[65.78%]	12,21,77,389
B. Persons Acting in Concert	[5.56%]	1,03,14,888
C. Mutual Funds and UTI	[0.92%]	17,11,290
D. Banks, Financial Institutions and Insurance Companies	[1.79%]	33,25,203
E. FIIs and Foreign Mutual Funds	[15.78%]	2,92,99,968
F. Private Corporate Bodies	[3.15%]	58,43,411
G. Indian Public	[6.89%]	1,27,99,441
H. NRIs / OCBs	[0.08%]	1,53,438
I. Clearing Members	[0.05%]	1,06,609

Total No. of Equity Shares = 18,57,31,637

12.12 (b) Shareholding Pattern as on 31st March, 2006 of Preference Shares.



A. Persons Acting in Concert	[0.18%]	24,688
B. Mutual Funds and UTI	[1.80%]	2,52,620
C. Banks, Financial Institutions and Insurance Companies	[3.08%]	4,30,240
D. FIIs and Foreign Mutual Funds	[12.66%]	17,70,590
E. Private Corporate Bodies	[4.37%]	6,11,234
F. Indian Public	[77.16%]	1,07,89,524
G. NRIs / OCBs	[0.73%]	1,01,583
H. Clearing Members	[0.02%]	3,055

Total No. of Preference Shares = 1,39,83,534

12.13 Dematerialisation of Shares

About 98.34 % of the Equity shares and 75.69 % of the outstanding Preference Shares have been de-materialised up to 31st March, 2006. Trading in Shares of the Company is permitted only in de-materialised form w.e.f. 29th November, 1999 as per notification issued by the Securities and Exchange Board of India (SEBI).

The Equity Shares allotted pursuant to conversion of Foreign Currency Convertible Bonds (FCCBs) during the year were issued in de-materialised form. However, the same were credited to the Demat Account of the allottees in April, 2006.

Liquidity:

Your Company's equity shares are fairly liquid and are actively traded on Bombay Stock Exchange Ltd., Mumbai (BSE) and National Stock Exchange (NSE). Relevant data for the average daily turnover for the financial year 2005-2006 is given below:

	BSE	NSE	BSE + NSE
In no. of share (in Thousands)	41.69	110.05	151.74
In value terms (Rs. Millions)	27.47	73.08	100.55

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

The Company had during Nov./Dec.2004 issued 350,000 (Three Hundred and Fifty Thousand) Foreign Currency Convertible Bonds (FCCBs) of US$1,000 each aggregating to US $ 350,000,000 (Three Hundred and Fifty Million), which are convertible at the option of the bondholder at a conversion price of Rs.729.30 per share of Rs. 5/- each at the fixed rate of exchange on conversion of Rs.45.01=US$1. The bonds carry a zero coupon rate and if not converted, are to be redeemed after 5 years on November 26, 2009 or in case of certain defined earlier redemptions at an accelerated premium of 4.61%p.a. with half yearly rests. The Company subject to satisfaction of certain conditions, has an option to redeem the bonds at any time on or after November 26,2007 and prior to November 16,2009. During the year out of 350,000 (Three Hundred and Fifty Thousand) FCCBs, 3,500 (Three Thousand Five Hundred) FCCBs have been converted into Equity Shares of Rs. 5/- each of the Company and as on date 8,947 FCCBs have been converted into Equity Shares of Rs. 5/- each of the Company.

12.15 Plant locations

1. Plot No.214 & 20, Govt. Industrial Area, Phase-II, Piparia, Silvassa - 396 230.
2. Plot No.223, Span Industrial Complex, Near R.T.O. Check Post, Dadra- 396 191 (U.T)
3. Plot No.25, GIDC, Phase- IV, Panoli – 395 116.
4. A-7 & A-8, MIDC Industrial Area, Ahmednagar – 414 111.
5. Plot No. 4708, GIDC, Ankleshwar – 393 002.
6. Sathammai Village, Karunkuzhi Post, Madurnthakam T. K. Kanchipuram Dist. Tamilnadu – 603 303.
7. Halol-Baroda Highway, Halol, Gujarat – 389350.
8. Plot No. 817/A, Karkhadi – 391 450, Taluka: Padra, Distt. Vadodara.

12.16 Investor Correspondence	**For Shares held in Physical Form**
(a) For transfer/dematerialisation of Shares, payment of dividend on Shares, and any other query relating to the shares of the Company	Mr. N. Mahadevan Iyer, Intime Spectrum Registry Ltd., C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078. E-Mail: sunpharma@intimespectrum.com Tel: 022-25963838, Fax : 022- 25946969 **For Shares held in Demat Form** To the Depository Participant.
(b) Any query on Annual Report	Mr.Kamlesh H. Shah/Mr. Ashok I. Bhuta/Ms. Mira Desai, Acme Plaza, Andheri Kurla Road, Andheri (East), Mumbai – 400 059. kamlesh.shah@sunpharma.com ashok.bhuta@sunpharma.com mira.desai@sunpharma.com corpcomm@sunpharma.com Tel: 66969696(9)

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & *Managing Director*

SUDHIR V. VALIA
Whole-time Director

SAILESH T. DESAI
Whole-time Director

Mumbai,
Date: 26th July , 2006

ANNEXURE TO CORPORATE GOVERNANCE FOR THE YEAR ENDED 31ST MARCH, 2006
DECLARATION OF COMPLIANCE WITH CODE OF CONDUCT

I, Dilip S. Shanghvi, Chairman & Managing Director of Sun Pharmaceutical Industries Limited ('the Company') hereby declare that, to the best of my information, all the Board Members and senior management personnel of the Company have affirmed their compliance and undertaken to continue to comply with the Code of Conduct laid down by the Board of Directors of the Company for Board Members and senior management.

For Sun Pharmaceutical Industries Limited

Dilip S. Shanghvi
Chairman & Managing Director

Date : 26th July, 2006

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To The Members of Sun Pharmaceutical Industries Limited.

We have examined the compliance of conditions of Corporate Governance by Sun Pharmaceutical Industries Limited, for the year ended on March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, July 26, 2006

Membership No. 9544

Auditors' Report to the Board of Directors of Sun Pharmaceutical Industries Limited Group

1. We have audited the attached consolidated Balance Sheet of Sun Pharmaceutical Industries Limited Group, as at March 31, 2006, the consolidated Profit and Loss Account and also the consolidated Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Sun Pharmaceutical Industries Limited management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. a. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (net) of Rs. 1,044.6 Million as at March 31, 2006, total revenues of Rs. 3,333.8 Million and net cash inflows amounting to Rs. 87.1 Million for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Group, and our opinion is based solely on the reports of other auditors.

   b. As stated in Note B.1 of Schedule 21, the consolidated financial statements includes the financial statements of subsidiaries, which we did not audit, whose financial statements reflect the Groups share of assets (net) of Rs. 52.6 Million as at March 31, 2006, total revenues of Rs. 91.8 Million and net cash inflows amounting to Rs. 1.1 million. The said unaudited financial statements are prepared on the basis of audited financial statements for the year ended December 31, 2005 and the unaudited financial statements for the quarter ended March 31, 2005 and March 31, 2006, provided by the management of those subsidiaries. We have relied upon the unaudited financial statements as provided by the management of those subsidiaries for the purpose of our examination of consolidated financial statements.

4. We report that the consolidated financial statements have been prepared by the Sun Pharmaceutical Industries Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

   (i) Subject to paragraph 3 (b) above, based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Sun Pharmaceutical Industries Limited Group as at March 31, 2006

(b) in the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and

(c) in the case of the Consolidated Cash Flow statement, of the cash flows for the year ended on that date.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, July 26, 2006

Membership No.9544

SUN
PHARMACEUTICAL
INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedules	As at 31st March, 2006		As at 31st March, 2005	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	942.7		941.6	
Share Capital Suspense	1A	—		0.1	
Reserves and Surplus	2	14958.9	15901.6	10365.7	11307.4
Minority Interest			331.6		161.1
Loan Funds					
Secured Loans	3	356.3		216.7	
Unsecured Loans	4	18389.0	18745.3	18013.6	18230.3
Deferred Tax Liability (Net)	5		1052.7		896.0
Total			36031.2		30594.8
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	6	12341.8		7806.3	
Less: Depreciation / Amortisation / Impairment and Lease Terminal Adjustment		3779.0		2087.1	
Net Block		8562.8		5719.2	
Capital Work-in-Progress (including advances on capital account)		414.4	8977.2	493.4	6212.6
Goodwill on Consolidation (Refer Note B.6 of Schedule 21)			506.9		1537.6
Investments	7		3541.2		6484.8
Current Assets, Loans and Advances					
Inventories	8	5117.4		3172.9	
Sundry Debtors	9	3608.9		2510.6	
Cash and Bank Balances	10	15322.8		11808.9	
Other Current Assets	11	234.1		62.2	
Loans and Advances	12	2237.2		1391.7	
		26520.4		18946.3	
Less: Current Liabilities and Provisions	13				
Current Liabilities		2278.9		1741.2	
Provisions		1235.6		845.3	
		3514.5		2586.5	
Net Current Assets			23005.9		16359.8
Total			36031.2		30594.8
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	21				

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

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, July 26, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, July 26, 2006

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedules	Year ended 31st March, 2006 Rs in Million	Rs in Million	Year ended 31st March, 2005 Rs in Million	Rs in Million
INCOME					
Income from Operations					
Gross Sales		**17371.5**		12743.7	
Less : Excise Duty		**1003.3**		890.9	
Net Sales		**16368.2**		11852.8	
Other Operating Income	**14**	**12.1**		14.8	
		16380.3		11867.6	
Other Income	**15**	**1662.0**	**18042.3**	433.2	12300.8
EXPENDITURE					
Cost of Materials / Goods	**16**	**4871.9**		3222.0	
Indirect Taxes	**17**	**423.5**		419.9	
Personnel Cost	**18**	**1415.9**		888.2	
Operating and Other Expenses	**19**	**3218.1**		2146.6	
Research and Development Expenditure	**20**	**1533.7**		1009.1	
Depreciation / Amortisation		**610.2**	**12073.3**	406.0	8091.8
PROFIT BEFORE TAXATION			**5969.0**		4209.0
Provision for Taxation - Current Tax			**73.8**		69.3
- Deferred Tax			**156.7**		137.4
- Fringe Benefit Tax			**8.8**		—
PROFIT AFTER TAX BEFORE PRIOR YEAR ADJUSTMENTS			**5729.7**		4002.3
Prior Year Adjustments - Deferred Tax			—		18.1
- Current Tax			—		(20.0)
PROFIT FOR THE YEAR AFTER PRIOR YEAR ADJUSTMENTS			**5729.7**		4004.2
Minority Interest			**(2.8)**		42.2
PROFIT FOR THE YEAR AFTER MINORITY INTEREST AND PRIOR YEAR ADJUSTMENTS			**5732.5**		3962.0
BALANCE OF PROFIT BROUGHT FORWARD			**4464.4**		2870.7
Adjustment of Carried Forward Profit of Amalgamating Company			—		1.9
AMOUNT AVAILABLE FOR APPROPRIATIONS			**10196.9**		6834.6
APPROPRIATIONS					
Proposed Dividend					
Preference Shares		**0.8**		0.8	
Equity Shares-Final		**1023.0**		695.7	
Proposed Dividend written back		—		(58.4)	
Corporate Dividend Tax		**143.6**		99.1	
Corporate Dividend Tax written back		—	**1167.4**	(7.5)	729.7
Transfer to General Reserve		**2000.0**		1500.0	
Transfer to Capital Redemption Reserve		**0.1**		—	
Transfer to Debenture Redemption Reserve		**136.7**	**2136.8**	140.5	1640.5
BALANCE OF PROFIT CARRIED TO BALANCE SHEET			**6892.7**		4464.4
EARNING PER SHARE (Refer Note B.10 (ii) of Schedule 21)					
Basic (Rs.)			**30.9**		21.4
Diluted (Rs.)			**27.7**		20.8
SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	**21**				

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

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, July 26, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, July 26, 2006

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

		Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
A.	**Cash Flow From Operating Activities:**		
	Net Profit Before Tax	**5,969.0**	4,209.0
	Adjustments for:		
	Depreciation	**610.2**	406.0
	Interest Expense	**155.5**	129.4
	Interest Income	**(1,025.0)**	(247.3)
	(Profit)/Loss on Fixed Assets sold	**0.1**	6.7
	(Profit)/Loss on sale of Investments	**(454.1)**	(68.5)
	Goodwill on Amalgamation written off	**—**	24.5
	Provision for Bad and Doubtful Debts	**21.6**	19.0
	Liability No Longer Required Written Back	**5.1**	(47.4)
	Provision For Gratuity and Leave Encashment	**17.1**	8.0
	Unrealised Foreign Exchange (Gain) / Loss	**(112.4)**	15.3
	Other Provisions	**1.2**	—
	Dividend Writeback	**—**	65.9
	Lease Terminal Adjustment	**(0.1)**	(1.9)
	Minority Interest	**5.1**	—
	Operating Profit Before Working Capital Changes	**5,193.3**	4,518.7
	(Increase)/Decrease in Sundry Debtors	**(1,167.4)**	(243.7)
	(Increase)/Decrease in Other Receivables	**(670.60)**	(116.3)
	(Increase)/Decrease in Inventories	**(1,944.5)**	(630.7)
	Increase/(Decrease) in Trade and Other Payables	**605.5**	333.2
	Cash Generated From Operations	**2016.3**	3,861.1
	Taxes (Paid) / Received (Net of TDS and Refund)	**(164.5)**	(107.0)
	Net Cash Generated From Operating Activities	**1,851.8**	3,754.1
B.	**Cash Flow From Investing Activities:**		
	Contribution by Minority	**2.7**	43.5
	Purchase of Fixed Assets - Additions During the Year	**(3,485.3)**	(1,615.9)
	Capital Work in Progress	**79.1**	(83.5)
	Proceeds From Sale of Fixed Assets	**19.7**	33.1
	Proceeds From Sale of Investments	**22,552.6**	11,249.4
	Purchase of Investments	**(19,041.2)**	(15,907.1)
	Exchange Fluctuation Adjustment - Investment in Caraco Pharmaceutical Laboratories Ltd.		
	Loans/Inter Corporate Deposits Received back/Given(Net)	**(250.6)**	(207.5)
	Interest Received (Revenue)	**881.4**	136.3
	Net Cash generated from / (Used In) Investing Activities	**758.4**	(6,351.7)
C.	**Cash Flow From Financing Activities:**		
	ECB Loan taken	**(0.2)**	(80.5)
	Zero Coupon Foreign Currency Convertible Bonds	**—**	15,753.5
	Zero Coupon Debenture	**(136.7)**	262.5
	Redemption of Zero Coupon Debenture	**—**	(125.8)
	Repayment of Deferred Sales Tax Loan	**(2.4)**	(52.3)
	Redemption of Preference Share Capital	**—**	(140.5)
	Long Term Loan Taken (Repaid)	**4.8**	(5.9)
	Short Term Loan Taken (Repaid)	**4.4**	0.4
	Interest Paid	**(155.5)**	(83.8)
	Borrowing from bank	**930.8**	(1,262.7)
	Dividend Paid	**(695.3)**	(552.4)
	Dividend Tax Paid	**(97.7)**	(72.3)
	Net Cash generated from / (Used In) Financing Activities	**(147.8)**	13,640.2
	Net Increase/(Decrease) In Cash and Cash Equivalents	**2462.4**	11,042.6
	Cash and Cash Equivalents (Opening)	**11,808.9**	945.5
	Cash and Cash Equivalents acquired on acquisition	**57.6**	0.2
	Consolidation Adjustment	**973.1**	(179.4)
	Cash and Cash Equivalents (Closing)	**15,302.0**	11,808.9
		15,302.0	11,808.9

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	Year ended 31st March, 2006 Rs. in Million	Year ended 31st March, 2005 Rs. in Million
Cash and Cash Equivalents Comprise:		
Cash and Cheques in hand and balances with Scheduled/ Other banks	**15,322.8**	11,808.9
Unrealised exchange loss	**(20.8)**	—
	15,302.0	11,808.9

Notes:

1. The above Cash Flow Statement has been prepared under the "Indirect Method" set out in AS-3, issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outgo.
3. The above cash flow statement excludes assets (other than cash and cash equivalents) / liabilities acquired on acquisition of ICN Hungary Inc. and Universal Enterprises (P) Ltd. (Previous year erstwhile Baizley Finvest Ltd, Dhaval Finvest Limited and Manish Finvest Limited.
4. Cash and cash equivalents includes Rs. 7.3 Million (Previous Year Rs. 6.2 Million), which are not available for use by the Company (Refer Schedule 10 in the accounts).

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants

P. N. Sarda
Partner

Mumbai, July 26, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Borad

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, July 26, 2006

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

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

Notes:
Of the above :

1) 161,630,010 Equity Shares were allotted as fully paid Bonus Shares by Capitalisation of Securities Premium Account, Profit and Loss Account, Amalgamation Reserve and Capital Redemption Reserve Account.

2) 413,633; 208,000; 477,581; 11,438; 18,519 and 19,771 Equity Shares of Rs.10 each and 4274 Equity Shares of Rs. 5 each fully paid, were allotted to the shareholders of erstwhile Tamilnadu Dadha Pharmaceuticals Ltd, Milmet Laboratories Pvt. Ltd, Gujarat Lyka Organics Ltd, Sun Pharmaceutical Exports Ltd, Pradeep Drug Company Ltd , M.J.Pharmaceuticals Ltd and Phlox Pharmaceuticals Limited., respectively, pursuant to Schemes of Amalgamations, without payment being received in cash.

3) 187,177,232 6% Cumulative Redeemable Preference Shares of Re.1 each were allotted as fully paid bonus shares, to the equity shareholders, by capitalisation of Capital Redemption Reserve. Out of this, 46,896 (Previous Year 224,698) Preference shares were redeemed at par and Nil (Previous Year 140,261,922) Preference shares have been bought back during the year.

4) 216,007 (Previous Year Nil) Equity Shares of Rs. 5 each were allotted to the holders of Zero Coupon Foreign Currency Convertible Bond on exercise of conversion option.

SCHEDULE 1A : SHARE CAPITAL SUSPENSE				
Nil (Previous Year 29,713) equity shares of Rs.5 each fully paid up, to be issued pursuant to the scheme of Amalgamation of Phlox Pharmaceuticals Limited with the Company.		—		0.1
SCHEDULE 2 : RESERVES AND SURPLUS				
Capital Reserve				
As per last Balance Sheet	**267.2**		16.7	
Transferred from Amalgamating Company	—		250.5	
Amalgamation Adjustment	**(8.2)**		—	
Transferred from Share Capital Suspense (Refer note B.13 of Schedule 21)	**0.1**	**259.1**	—	267.2
Securities Premium				
As per last Balance Sheet	—		—	
Received during the year	**156.5**	**156.5**	—	—
Capital Redemption Reserve				
As per last Balance Sheet	**140.5**		351.3	
Add : Transferred from Profit and Loss Account	**0.1**		140.5	
	140.6		491.8	
Less: Utilised for Issue of Bonus Equity Shares	—	**140.6**	351.3	140.5

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
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	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
Debenture Redemption Reserve				
As per last Balance Sheet	—		—	
Add : Transferred from Profit and Loss Account	136.7		—	
	136.7		—	
Less: Transferred to General Reserve on redemption of debentures	136.7	—	—	—
General Reserve				
As per last Balance Sheet	5557.5		4186.2	
Add : Transferred from Amalgamating Company	—		26.1	
Transferred from Profit and Loss Account	2000.0		1500.0	
Transferred from Debenture Redemption Reserve	136.7		—	
	7694.2		5712.3	
Less: Utilised for issue of Bonus Equity Shares	—		112.4	
Utilised for Buy-Back of Preference Shares (Rs. 46,896)	—		4.2	
Utilised for Impairment of Fixed Assets	—		2.5	
Add: Caraco Minority Fresh Capital - Earlier written off in our reserve now reversed	2.7		8.5	
Less: Share of Current (Loss) of Minority in Foreign Subsidiary	(168.2)	7528.7	(44.2)	5557.5
Currency Fluctuation Reserve on Consolidation				
As per last Balance Sheet	(63.9)		115.5	
Additions during the Year	45.2	(18.7)	(179.4)	(63.9)
Surplus as per Profit and Loss Account		6892.7		4464.4
		14958.9		10365.7
SCHEDULE 3 : SECURED LOANS				
Short Term Loan from Banks		356.3		216.7
(Refer Note B. 7 of Schedule 21)				
		356.3		216.7
SCHEDULE 4 : UNSECURED LOANS				
Long Term				
External Commercial Borrowing in foreign currency from Banks *	1808.1		1808.3	
Zero Coupon Foreign Currency Convertible Bonds (Refer note B.14 of Schedule 21)	15467.8		15753.5	
Nil (Previous Year 1,367,011) - 0% Debentures	—		136.7	
Deferred Sales Tax Liability	—		2.4	
Other Loans	7.7	17283.6	2.9	17703.8
Short Term				
From Banks	1097.4		306.2	
Others	8.0	1105.4	3.6	309.8
		18389.0		18013.6

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

	As at 31st March, 2006	As at 31st March, 2005
SCHEDULE 5: DEFERRED TAX LIABILITY (NET)		
Deferred Tax Assets		
Unpaid Liabilities Allowable on payment basis U/s 43B of Income Tax Act, 1961.	17.9	26.3
Others	69.0	0.9
	86.9	27.2
Deferred Tax Liability		
Depreciation on Fixed Assets	1139.6	923.2
	1052.7	896.0

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
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SCHEDULE 6 : FIXED ASSETS **Rs in Million**

Particulars	Gross Block (At Cost)						Depreciation / Amortisation						Impairment of Assets	Net Block	
	As At 01.04.05	Consolidation Adjustment	Addition on Acquisition/ Amalgamation	Additions 05-06	Deletions 05-06	**As at 31.03.06**	As at 01.04.05	Consolidation Adjustment	Addition on Acquisition/ Amalgamation	For the year 05-06	Deletion / Adjustment 05-06	**As at 31.03.06**		**As at 31.03.06**	As at 31.03.05
A) OWNED ASSETS															
I. TANGIBLE ASSETS															
Freehold Land	32.5	0.2	17.9	4.7	—	**55.3**	—	—	—	—	—	—	—	**55.3**	32.5
Leasehold Land	27.6	—	—	7.4	—	**35.0**	5.0	—	—	0.3	—	**5.3**	—	**29.7**	22.6
Buildings	2,138.1	6.8	934.3	540.8	1.5	**3,618.5**	295.0	4.1	278.4	73.6	—	**651.1**	—	**2,967.4**	1,843.1
Plant and Machinery	4,725.0	6.1	844.2	1,956.1	11.0	**7,520.4**	1,472.5	6.3	776.2	461.5	4.2	**2,712.3**	—	**4,808.1**	3,252.6
Vehicles	74.8	—	11.9	40.0	2.3	**124.4**	23.9	—	11.9	10.6	1.2	**45.2**	—	**79.2**	50.8
Furniture and Fixtures	182.8	0.4	30.8	60.0	0.1	**273.9**	54.2	0.7	28.7	16.1	0.1	**99.6**	—	**174.3**	128.5
Sub-Total	7,180.8	13.5	1,839.1	2,609.0	14.9	**11,627.5**	1,850.6	11.1	1,095.2	562.1	5.5	**3,513.5**	—	**8,114.0**	5,330.2
II. INTANGIBLE ASSETS															
Trademarks,Designs and other Intangible Assets	561.3	3.0	115.8	37.2	3.0	**714.3**	182.6	0.1	37.7	48.1	3.0	**265.5**	—	**448.8**	378.7
Sub-Total	561.3	3.0	115.8	37.2	3.0	**714.3**	182.6	0.1	37.7	48.1	3.0	**265.5**	—	**448.8**	378.7
SUBTOTAL-A	**7,742.1**	**16.5**	**1,954.9**	**2,646.2**	**17.9**	**12,341.8**	**2,033.2**	**11.2**	**1,132.9**	**610.2**	**8.5**	**3,779.0**	—	**8,562.8**	**5,708.9**
B) LEASED ASSETS															
Assets Given On Lease	64.2	—	—	—	64.2	—	29.8	—	—	—	29.8	—	—	—	34.4
Lease Terminal Adjustment	—	—	—	—	—	—	24.0	—	—	—	24.0	—	—	—	(24.0)
SUBTOTAL-B	**64.2**	—	—	—	**64.2**	—	**53.8**	—	—	—	**53.8**	—	—	—	**10.4**
TOTAL A+B	**7,806.3**	**16.5**	**1,954.9**	**2,646.2**	**82.1**	**12,341.8**	**2,087.0**	**11.2**	**1,132.9**	**610.2**	**62.3**	**3,779.0**	—	**8,562.8**	
Previous Year	6,231.8	2.8	1.1	1,643.9	73.3	**7,806.3**	1,713.3	(1.3)	—	406.0	33.5	2,084.5	**2.5**		**5,719.2**
Capital Advances and Work-in-Progress														**414.3**	493.4
														8,977.1	6,212.6

NOTES :

1. Buildings include Rs.1020 (Previous Year Rs 1020) towards cost of shares in a Co-operative Housing Society.
2. Capital work-in-progress (including advances on Capital Account) includes Rs. 16.5 Million (Previous Year Rs 7.9 Million) on account of preoperative expenses.

	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 7 : INVESTMENTS				
(I) LONG TERM INVESTMENTS (At Cost)				
A) Government Securities				
National Savings Certificates Rs. 70,000 (Previous Year Rs. 70,000) (Deposited with Government Authorities)		**0.1**		0.1
B) Trade Investments				
Unquoted				
In Equity Shares				
Enviro Infrastructure Co. Ltd. 100,000 (Previous Year Rs.100,000) Shares of Rs. 10/- each fully paid up.		**1.0**		1.0
C) Other Investments				
a) In Bonds				
Quoted				
US64 Bonds 399,734 (Previous Year 399,734) units of Rs 100 each Market Value Rs. 40.6 Million (Previous Year Rs 41.8 Million)		**42.2**		42.2
7.75% ABN Amro Bank NV HUF Bonds Due 01.02.2007 of Face Value 111 Million HUF (Market Value Rs. 22.3 Million)		**25.4**		—

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		As at 31st March, 2006		As at 31st March, 2005	
		Rs in Million	Rs in Million	Rs in Million	Rs in Million
	9.75% Dexia Municipal Agency Euro Medium HUF Bonds-Term Notes Due 15.12.2006 of Face Value 1,127 Million HUF (Market Value Rs. 229.0 Million)		**259.9**		—
	9.50% Genelec Electric Capital Corp EMTN HUF Bonds Due 26.03.2007 of Face Value 912 Milion HUF (Market Value Rs. 186.4 Million)		**213.0**		—
	9.00% Rabobank Nederland NV Euro Medium- Term Notes Due 5.02.2007 of Face Value 1,534 Million HUF (Market Value Rs. 311.0 Million)		**355.0**		—
	Impax Laboratories Inc. 162,200 Shares (Previous Year – Nil) Market Value Rs. 72.3 Million		**69.8**		—
	Andrax Corporation 1,549,033 Shares - (Previous Year – Nil) Market Value Rs. 1641.6 Million		**1100.3**		—
	Unquoted				
	National Housing Bank Bonds 5,315 (Previous Year 5,315) Units of Rs.10,000 each fully paid		**53.2**		53.2
	Rural Electrification Corporation Ltd. Bonds 1,015 (Previous Year 530) Units of Rs. 10,000 each fully paid		**10.1**		5.3
	Tivabusz Kft (Business Shares of 9,450,000 Huf)		**1.1**		—
	Reanal Rt. (3,441 Shares (Previous Year Nil) of Face Value 10,000 HUF)		**158.0**		—
b)	**In Equity Shares**				
	Ramin Developers Pvt. Ltd. - 200 (Previous Year 200) Shares of Rs. 100 each fully paid (pending registration)		**2.1**		2.1
c)	**Others**				
	Solapur Organics Ltd. Nil (Previous Year 900) 0% Optionally Fully Convertible Debentures of Rs. 100 each fully paid		—		0.1
D)	**In Mutual Fund (Units of Face Value of Rs. 10/- Each)**				
	Unquoted				
	Kotak Mahindra Mutual Fund "Kotak Fixed Maturity Plans (8)"- Growth Plan Nil (Previous Year 15,000,000) Units		—		150.0
	Reliance Capital Mutual Fund "Reliance Fixed Term Scheme-Annual Plan-3"-Growth Option Nil (Previous Year 25,000,000) Units		—		250.0
	Standard Chartered Mutual Fund "G31 Grindlays Fixed Maturity Annual Plan "-Growth Nil (Previous Year 35,000,000) Units		—		350.0
	ING Vysya Mutual Fund "ING Vysya Fixed Maturity Fund Series - II" Growth Option 10,000,000 (Previous Year 10,000,000) Units		**100.0**		100.0
	JM Financial Mutual Fund " J120 JM Fixed Maturity Plan - YSW" Growth Option Nil (Previous Year 20,000,000) Units		—		200.0
	JM Financial Mutual Fund " J130 JM Equity & Derivative Fund" Growth Option Nil (Previous Year 25,000,000) Units		—		250.0
	Principal Mutual Fund "Principal Deposit Fund (FMP) 371 days plan"- Growth Nil (Previous Year 20,000,000) Units		—		200.0
	Principal Mutual Fund "Principal Deposit Fund (FMP-6) 371 days plan - Nov 04"- Growth Nil (Previous Year 10,000,000) Units		—		100.0
	Principal Mutual Fund "Principal Deposit Growth - Feb 05" Nil (Previous Year 10,000,000) Units		—		100.0
	SBI Mutual Fund "Magnum Debt Fund Series 15 Month Fund" - Growth Option 10,000,000 (Previous Year 10,000,000) Units		**100.0**		100.0
	ABN Amro Asset Management – ABN Amro Fixed Term Plan – Series 1 - Regular- Growth Plan 50,00,000 (Previous Year Nil) Units		**50.0**		—
	Principal Mutual Fund " Principal PNB Fixed Maturity Plan-460 Dys -Series I Growth Plan-Feb-06 4,00,00,000 (Previous Year Nil) Units.		**400.0**		—
	Standard Chartered Mutual Fund " G134 GFMP-20th Plan "-Growth 5,00,00,000 (Previous Year Nil) Units		**500.0**		—
	Total (I)		**3441.2**		1904.0

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	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
(II) CURRENT INVESTMENTS (At lower of cost and Net realisable value)				
In Mutual Fund (Units of Face Value of Rs. 10/- Each)				
Kotak Mahindrra Mutual Fund "Inst Premium " - Growth Nil (Previous year 2,249,027) Units.		—		30.0
JM Financial Mutual Fund " J94 JM High Liquidity Fund - Super Institutional Plan" Growth Nil (Previous Year 4,796,025) Units		—		50.0
DWS Investment S.A. Germany Nil (Previous year 478.96) Units. Market Value Nil (Previous Year $ 5,008,157)		—		218.8
DWS Investment S.A. "DWS Institutional USD Money Plus" Nil (Previous year 9,167) Units		—		4282.0
Principal Mutual Fund " Principal Cash Management Fund Growth" 9,183,495 (Previous Year Nil) Unilts		**100.0**		—
Total (II)		**100.0**		4580.8
Total (I) + (II)		**3541.2**		6484.8

AGGREGATE VALUE OF INVESTMENT	**BOOK VALUE**	**MARKET VALUE**	BOOK VALUE	MARKET VALUE
Quoted	**2065.6**	**2503.2**	261.0	261.0
Unquoted	**1475.6**		6223.8	

SCHEDULE 8 : INVENTORIES

Consumables Stores		**72.1**		35.1
Stock in Trade				
Raw Materials	**2251.2**		1411.9	
Packing Materials	**196.6**		128.7	
Finished Goods	**1018.7**		932.5	
Work-in-Progress	**1578.8**	**5045.3**	664.7	3137.8
		5117.4		3172.9

SCHEDULE 9 : SUNDRY DEBTORS

(Unsecured-Considered Good, unless stated otherwise)

Over Six Months				
Considered Good		**392.3**		237.9
Considered Doubtful	**34.9**		21.4	
Less: Provison for Doubtful Debts	**34.9**	—	21.4	—
Other Debts		**3216.6**		2272.7
		3608.9		2510.6

SCHEDULE 10 : CASH AND BANK BALANCES

Cash / Cheques on hand		**4.7**		6.3
Balances with Banks				
Schedule Banks				
Current Accounts	**621.8**		31.2	
Deposit Accounts	**9670.8**		7283.3	
Unpaid Dividend Accounts	**7.3**	**10299.9**	6.2	7320.7
Other Banks				
Current Accounts	**193.6**		313.7	
Deposit Accounts	**4824.6**	**5018.2**	4168.2	4481.9
		15322.8		11808.9

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	As at 31st March, 2006		As at 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 11 : OTHER CURRENT ASSETS				
Interest accrued on - Investment		**14.7**		51.3
- Bank Balance		**219.4**		10.9
		234.1		62.2
SCHEDULE 12 : LOANS AND ADVANCES				
(Unsecured – Considered Good, unless stated otherwise)				
Loan to Employees / Others *		**261.1**		116.3
Advances Recoverable in Cash or in Kind or for Value to be received				
Considered Good		**563.5**		263.2
Considered Doubtful	**9.5**		4.5	
Less : Provision for Doubtful Advances	**9.5**	**—**	4.5	—
Advances to Suppliers		**394.1**		349.0
Balances with Central Excise and Customs		**412.4**		214.9
DEPB and Advance Licence		**225.5**		222.9
Other Deposits		**176.1**		56.6
Advance Payment of Income Tax (Net of Provision)		**204.5**		168.8
		2237.2		1391.7
* Secured Loans Rs. Nil (Previous Year Rs. 24.1 Million)				
SCHEDULE 13 : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
Due to Small Scale Industrial Undertakings	**—**		—	
Others	**1110.1**		1063.2	
Advances from Customers	**36.4**		—	
Security Deposits	**18.3**		26.8	
Investor Education and Protection Fund shall be credited by				
Unclaimed Dividend	**7.4**		6.2	
Temporary Book Overdraft	**—**		0.5	
Other Liabilities	**1073.6**		620.8	
Interest accrued but not due on Loans	**33.1**	**2278.9**	23.7	1741.2
Provisions				
Provision for Fringe Benefit Tax (Net of Advance Tax Rs. 8.7 Million)	**—**		—	
Proposed Dividend - Equity Shares	**1023.0**		695.7	
- Preference Shares	**0.8**		0.8	
	1023.8		696.5	
Corporate Dividend Tax	**143.6**		97.7	
Provision for Earned Leave	**68.2**	**1235.6**	51.1	845.3
		3514.5		2586.5

	Year ended 31st March, 2006		Year ended 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 14 : OTHER OPERATING INCOME				
Lease Rental and Hire Charges	**12.0**		57.9	
Add: Lease Equalisation Adjustment	**0.1**	**12.1**	(43.1)	14.8
		12.1		14.8
SCHEDULE 15 : OTHER INCOME				
Interest from Banks & Other Advances / Deposits (Refer Note B.3 of Schedule 21)		**868.9**		118.1
Profit on Sale of Fixed Assets		**0.7**		1.6
Profit on Sale of Current Investments		**454.1**		68.5
Sundry Balances Written Back (Net)		**—**		47.4
Insurance Claims		**4.0**		6.0
Miscellaneous Income		**334.3**		191.6
		1662.0		433.2

SUN PHARMACEUTICAL INDUSTRIES LTD.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
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	Year ended 31st March, 2006		Year ended 31st March, 2005	
	Rs in Million	Rs in Million	Rs in Million	Rs in Million
SCHEDULE 16 : COST OF MATERIALS / GOODS				
Inventories at the beginning of the year		**3137.8**		2540.5
Purchases during the year		**6779.4**		3819.3
Inventories at the end of the year		**(5045.3)**		(3137.8)
		4871.9		3222.0
SCHEDULE 17 : INDIRECT TAXES				
Sales Tax		**415.6**		411.0
Turnover Tax		**0.5**		1.1
Purchase Tax		**7.4**		7.8
		423.5		419.9
SCHEDULE 18 : PERSONNEL COST				
Salaries, Wages, Bonus and Benefits		**1167.6**		746.1
Contribution to Provident and Other Funds		**92.3**		80.8
Staff Welfare Expenses		**156.0**		61.3
		1415.9		888.2
SCHEDULE 19 : OPERATING AND OTHER EXPENSES				
Stores and Spares Consumed		**155.4**		130.7
Manufacturing Charges		**321.6**		296.5
Power and Fuel		**454.1**		198.2
Rent		**40.4**		19.2
Rates and Taxes		**27.7**		24.2
Insurance		**106.4**		81.3
Selling and Distribution		**750.1**		228.3
Commission and Discount		**182.3**		113.3
Repairs				
Building	**33.2**		29.8	
Plant and Machinery	**170.3**		134.3	
Others	**68.8**	**272.3**	53.2	217.3
Printing and Stationery		**38.9**		23.2
Travelling and Conveyance		**62.5**		51.3
Overseas Travel and Export Promotion		**332.7**		280.2
Communication		**42.2**		45.8
Provision for doubtful Debts / Advances		**5.1**		19.0
Sundry Balances/Bad Debts Written Off (Net)	**27.8**		—	
Less :- Adjusted out of Provision for earlier years.	**6.0**	**21.8**	—	—
Professional and Consultancy		**80.0**		78.8
Donations		**3.9**		1.3
Loss on Sale of Fixed Assets		**0.1**		8.3
Loss on Fire		**1.2**		—
Auditors' Remuneration				
Audit Fees	**17.6**		5.7	
Other Services	**0.1**		0.3	
Out of Pocket Expenses (Rs.34,900)	—	**17.7**	0.1	6.1
Goodwill on Amalgamation written off		—		24.5
Miscellaneous		**301.7**		299.1
		3218.1		2146.6

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	Year ended 31st March, 2006		Year ended 31st March, 2005	
	Rs in Million	**Rs in Million**	Rs in Million	Rs in Million
SCHEDULE 20 : RESEARCH AND DEVELOPMENT EXPENDITURE				
Salaries, Wages, Bonus and Benefits		**272.4**		246.2
Contribution to Provident and Other Funds		**9.1**		8.6
Staff Welfare Expenses		**24.5**		23.9
Raw Material, Stores and Spares Consumed		**343.2**		203.6
Power and Fuel		**13.9**		7.2
Rates and Taxes		**2.9**		2.0
Insurance		**4.0**		3.8
Repairs				
Building		**9.2**		5.9
Plant and Machinery		**43.0**		32.4
Others		**11.7**		7.6
Printing and Stationery		**5.4**		4.6
Travelling and Conveyance		**12.2**		10.9
Communication		**8.1**		5.7
Professional and Consultancy		**423.4**		175.9
Loss on Sale of Fixed Assets		**0.7**		—
Interest (Rs. 12,652)		**0.0**		—
Miscellaneous		**352.3**		271.4
		1536.0		1009.7
Less				
Interest Income	**0.5**		—	
Misc. Income	**0.2**		—	
Bad Debts Recovered / Sundry balances written Back	**0.2**		0.4	
Insurance Claim Received	**1.3**		—	
Rent	**0.1**	**2.3**	0.2	0.6
		1533.7		1009.1

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

SCHEDULE 21: SIGNIFICANT ACCOUNTING POLICIES & NOTES TO THE FINANCIAL STATEMENT

A Significant Accounting Policies:

1. Basis of Consolidation:

(i) Basis of preparation:

The consolidated financial statements are prepared in accordance with Accounting Standard 21 on Consolidated Financial Statements issued by the Institute of Chartered Accountant of India. Reference in these notes to Company, Holding Company, Companies or Group shall mean to include Sun Pharmaceutical Industries Limited or any of its subsidiaries, unless otherwise stated.

(ii) Principles of consolidation:

The consolidated financial statements comprise of the Financial Statements of Sun Pharmaceutical Industries Limited and its subsidiaries .The financial statements of the group companies are prepared according to uniform accounting policies, in accordance with accounting principles generally accepted in India. The effects of inter company transactions are eliminated on consolidation.

(iii) Goodwill / Capital Reserve

Goodwill represents the difference between the company's share in the net worth of subsidiaries, and the cost of acquisition at each point of time of making the investment in the subsidiaries. For this purpose, the company's share of net worth is determined on the basis of the latest financial statements prior to the acquisition after making necessary adjustments for material events between the date of such financial statements and the date of respective acquisition. Capital Reserve on consolidation is adjusted against Goodwill. The Goodwill recorded in these consolidated financial statements has not been amortised, but instead evaluated for impairment whenever events or changes in circumstances indicate that its carrying amount may be impaired.

(iv) Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis.

(v) Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during year. Difference between the actual result and estimates are recognised in the year in which the results are known / materialised.

(vi) Fixed Assets and Depreciation / Amortization

Fixed Assets including Intangible assets are stated at historical cost (Net of cenvat credit) less accumulated depreciation / amortization thereon and impairment losses, if any. Depreciation on tangible assets is provided on Straight Line Method at the rates specified in Schedule XIV to the Companies Act,1956 except for: a) at CARACO, depreciation is computed using the Straight Line Method over the estimated useful lives of the related assets, which ranges from 3 to 40 years b) at ICN Hungary Inc., depreciation is computed using Straight Line Method over the estimated useful lives of the related assets, which ranges from 50 to 100 years in respect of real assets and 3 to 10 years in respect of other assets c) at Sun Farmaceutica Ltda Brazil, depreciation is computed using Straight Line Method over useful lives of the related assets,which ranges from 5 to 10 years. Intangible assets consisting of trademarks, designs, technical know-how, non compete fees and other intangible assets are amortized on Straight Line Method from the date they are available for use, over the useful life of the assets (5/10/20 years), as estimated by the Management. Leasehold land is amortized over the period of lease.

(vii) Leases

Assets acquired on finance lease prior to April 1, 2001, are stated at original cost. In consonance with the matching concept, lease terminal adjustment and lease equalisation accounts have been created for the assets given on lease, where ever required.

In case of assets taken on operating lease, the lease rentals are charged to the Profit And Loss Account in accordance with Accounting Standard 19 on leases issued by the Institute of Chartered Accountants of India.

(viii) Revenue Recognition.

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on dispatch of goods. Export sales are recognised on the basis of Bill of Lading / Airway Bill. Sales includes sales tax, interest on delayed payments and are stated net of returns and chargebacks at CARACO. (Chargebacks are price adjustments given to wholesale customers selling products further to those parties with whom the Company has established contractual pricing).

(ix) Investments

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and fair value. Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

(x) Inventories

Inventories consisting of raw and packing materials, stores and spares, work in progress and finished goods are stated at lower of cost (absorption costing) and net realisable value, on a FIFO basis /specific identification method.

(xi) Research and Development

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

(xii) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currency at the year end and not covered by forward exchange contracts are translated at year end rates. In respect of monetary items which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognised as exchange difference and the premium on such forward contracts is recognised over the life for the forward contract. The exchange differences arising on settlement / translation are recognised in the revenue accounts, except those pertaining to the fixed assets acquired from outside India, which are adjusted to the cost of such fixed assets. Exchange differences relating to monetary items that are in substance forming part of the Company's net investment in non integral foreign operation are accumulated in Currency Fluctuation Reserve on Consolidation Account.

For the purpose of Consolidation, the amounts appearing in foreign currencies in the Financial Statements of the foreign subsidiaries are translated at the following rates of exchange:

a. Average rates for income and expenditure.

b. Year end rates for assets and liabilities.

(xiii) Taxes on Income

Provision for taxation comprises of Current Tax, Deferred Tax and Fringe Benefit Tax. Current tax is determined as the tax payable in respect of taxable income for the year and is computed in accordance with relevant tax regulations. Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantively enacted at the Balance Sheet date. The Fringe Benefit Tax has been calculated and accounted for in accordance with the provisions of the Income tax Act, 1961 and the guidance note on Accounting for Fringe Benefits Tax issued by the Institute of Chartered Accountants of India.

(xiv) Terminal Benefits

(a) The Company's contribution in respect of provident fund / social security funds is charged to Profit and Loss Account each year.

(b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy is charged to Profit and Loss Account each year. The contribution for group gratuity policy is based on values as actuarially determined and demanded by the LIC at the year end.

(c) Liability for accumulated earned privileged leave of employees is ascertained and provided for as per Company Rules.

(xv) Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(xvi) Provisions, Contingent Liabilities and Contingent Assets

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

(xvii) Impairment of Assets

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

(xviii) Common/Convertible Preferred Stock Issued

Common/Convertible Preferred Stock is issued by CARACO from time to time in lieu of cash for directors fees and in exchange for fees towards formula for products developed by Parents & its affiliates and is recorded as compensatory expenses/research and development costs respectively.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

B Notes to Accounts:

1. The Consolidated Financial Statements present the consolidated accounts of Sun Pharmaceutical Industries Ltd with its following subsidiaries/affiliates.

Name of Subsidiary	Country of Incorporation	Proportion of ownership interest	Year ending of subsidiary	Audited By
Indian Subsidiary				
Universal Enterprises (P) Ltd.	India	95.00%	31/03/2006	N. Marda & Associates
Sun Pharma Advanced Research Company Limited	India	100.00%	31/03/2006	Deloitte Haskins & Sells
Foreign Subsidiaries				
Sun Pharma Global Inc.	British Virgin Islands	100.00%	31/03/2006	Muscat Auditing Bureau
ZAO Sun Pharma Industries Limited	Russia	100.00%	31/12/2005	Best Audit
Sun Pharmaceutical (Bangladesh) Limited	Bangladesh	72.50%	31/03/2006	Rahman Rahman Huq
Caraco Pharmaceutical Laboratories Ltd (CARACO)	United States of America	63.84%	31/03/2006	Rehmann Robson
Sun Farmaceutica Ltda Brazil	Brazil	99.57%	31/03/2006	Peppe Associados Consultores & auditions independentes
Sun Pharma De Mexico S.A. DE C.V.	Mexico	75.00%	31/12/2005	Barrutia Franco Y Asociados S. C.
Sun Pharmaceutical Industries INC.	United States of America	100.00%	31/03/2006	Martin, Arrington, Desai & Meyers, P. C.
SPIL De Mexico S.A. DE C.V.	Mexico	100.00%	31/12/2005	Barrutia Franco Y Asociados S. C.
ICN Hungary INC.	Hungary	100.00%	31/12/2005	PV Auditor Ltd.
Sun Pharmaceutical Peru S.A.C.	Peru	99.33%	31/12/2005	C. P. C. Margarita Vera Pelaez
Sun Pharmaceutical UK Limited	United Kingdom	100.00%	31/03/2006	Anderson Shaw CCA
Name of Partnership Firm				
Sun Pharmaceutical Industries	India	95.00%	31/03/2006	Deloitte Haskins & Sells
Sun Pharma Exports	India	80.00%	31/03/2006	H. C. Timbadia & Co.

Sun Pharma De Mexico S.A. DA C.V., SPIL De Mexico S.A. DE C.V ,ZAO Sun Pharma Industries Limited , Sun Pharmaceutical Peru S.A.C. and ICN Hungary Inc. follow calendar year as their accounting year. Accordingly, the audited financial statements of the Companies for the year ended December 31, 2005 are available. For the purpose of this consolidation, the accounts for the financial year April 1, 2005 to March 31, 2006 (except for ICN Hungary Inc., whose accounts for the period from August 9,2005 to March 31, 2006 and Zao Sun Pharma Industries Limited whose accounts for the year ended March 31,2006 for which audited financial statements are available as at March 31,2006) are considered and are compiled based on the audited financial statements for the year ended December 31, 2005 and the adjustment thereto in respect of the unaudited financial statements for the quarter ended March 31, 2005 and March 31, 2006 which are certified by its Management.

The holding in CARACO as on March 31, 2006 has decreased to 63.84% and accordingly the minority interest was considered at 36.16% for the purpose of these financial statements. During the year, the company has acquired ICN Hungary Inc. as a wholly owned subsidiary and Sun Pharmaceuticals Industries has acquired Universal Enterprises Pvt. Ltd as a wholly owned subsidiary. During the year,the company has incorporated SPIL De Mexico S.A. DE C.V. and Sun Pharmaceutical U.K. Ltd and Sun Pharmaceutical Advanced Research Company Limited as wholly owned subsidiaries.

The Company has initiated the process for Liquidation of ZAO Sun Pharma Industries Limited and has appointed Official Liquidator as per the terms of Resolution passed at the General Meeting of the Subsidiary held on October 29, 2002.

Significant Accounting Policies and Notes to these Consolidated Financial Statements are intended to serve as a means of informative disclosure and a guide for better understanding of the consolidated position of the Companies. Recognising this purpose, the Company has disclosed only such policies and notes from the individual financial statements which fairly represent the needed disclosures. Lack of homogeneity and other similar considerations made it desirable to exclude some of them, which in the opinion of the management, could be better viewed when referred from the individual financial statements.

2. CONTINGENT LIABILITIES NOT PROVIDED FOR:

	As at 31st March, 2006 (Rs. in Million)	As at 31st March, 2005 (Rs. in Million)
Guarantees given by the Bankers on behalf of the Company.	**114.7**	46.9
Letters of Credit for Imports	**328.5**	225.7
Liabilities Disputed - Appeals filed with respect to :		
Sales Tax	**42.6**	20.8
Excise Duty	**8.7**	29.9
Income Tax	**190.6**	212.9
ESIC Contribution	**0.2**	0.2
Drug Price Equalisation Account [DPEA] on account of demand towards unintended benefit, including interest there on, enjoyed by the Company	**14.0**	13.0
Demand by JDGFT import duty with respect to import alleged to be in excess of entitlement as per the Advanced Licence Scheme	**9.4**	17.2
Claims against the Company not acknowledged as debts	**1.1**	0.4
Estimated amount of contracts remaining to be executed on Capital Account (Net)	**139.5**	112.6

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

		Year ended 31st March, 2006 (Rs. in Million)	Year ended 31st March, 2005 (Rs. in Million)
3.	RESEARCH AND DEVELOPMENT EXPENDITURE INCLUDE:		
	On Revenue account	**1533.7**	1009.1
	On Capital account	**480.5**	418.4
4.	INTEREST INCOME ON LOANS / DEPOSITS RS. 869.4 MILLIONS IS NET OF INTEREST EXPENSES AS UNDER :		
	Fixed Loans	**98.6**	82.8
	Others	**57.0**	46.6
		155.6	129.4

5. The contribution of subsidiaries/affiliates acquired or incorporated during the year is as under:

Name of the subsidiary	Revenue (Post Acquisition) (Rs. in Million)	Net Profit/(Loss) (Post Acquisition) (Rs. in Million)	Net Assets (Rs. in Million)
Universal Enterprises (P) Ltd.	0.0	0.0	5.1
ICN Hungary INC.	503.2	(249.3)	926.2
Sun Pharmaceutical UK Limited	0.0	(0.1)	0.0
SPIL De Mexico S.A. DE C.V.	0.0	0.0	0.2
Sun Pharma Advanced Research Company Limited	0.0	0.0	0.5

As a result of the above acquisition/incorporation, the comparative figures are not comparable with the figures for the year ended as at March 31, 2006

6. Goodwill on consolidation(Net) comprises of:	As at 31st March, 2006 (Rs. in Million)	As at 31st March, 2005 (Rs. in Million)
Goodwill in respect of		
Caraco Pharmaceutical Laboratories Ltd (CARACO)	**1,537.6**	1,537.6
Universal Enterprises (P) Ltd.	**7.5**	—
Total (A)	**1,545.1**	1,537.6
Less:		
Capital Reserve in respect of :		
ICN Hungary INC.	**1,038.2**	—
Total (B)	**1,038.2**	—
Total (A-B)	**506.9**	1,537.6

7. SECURED LOANS

(i) Short term loan from Banks taken by the company are secured by hypothecation of stocks and book debts and with respect to Sun Pharmaceutical (Bangladesh) Ltd. is secured by hypothecation of fixed assets, equitable mortgage at Bangladesh Plant.

(ii) Loan taken in Sun Pharmaceutical Industries from Bank is secured by hypothecation of inventories, book debts, receivables and movable properties.

8. As regards consolidation of Accounts of CARACO:

(i) The current years minority losses of Rs.161.3 Million (i.e. for the year April 1, 2005 to March 31, 2006), have been reduced from General Reserve and fresh capital received from Minority Shareholders of CARACO aggregating to Rs. 2.7 Million is credited to General Reserve as in the previous year losses of Minority were absorbed by holding company.

(ii) With respect to routine litigation incidental to the business, Management believes that the ultimate disposition of these matters willl not have any material adverse effect on the financial statements.

(iii) With respect to deferred tax, certain net operating losses available for set off will begin to expire from 2007 and utilisation of such loss may be limited due to ownership change.

9. The current years minority losses of Sun Pharma De Mexico amounting to Rs.6.9 Million (i.e. for the year April 1, 2005 to March 31,2006), have been reduced from General Reserve.

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

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

(i) Accounting Standard (AS-18) on Related Party Disclosure - as per Annexure 'A' annexed.

(ii) Accounting Standard (AS-20) on Earnings Per Share

	Year ended 31st March, 2006 Rs in Million	Year ended 31st March, 2005 Rs in Million
Profit After Tax	**5729.7**	4002.3
Less : Dividend on Preference Shares	**0.8**	1.0
Less : Corporate Dividend Tax on Preference Shares	**0.1**	—
Less : Minority Interest	**(2.8)**	42.2
Less: Prior year adjustment - deferred taxation	—	18.1
Less: Prior year adjustment - current taxation	—	(20.00)
Profit used as Numerator for calculating Earnings per share	**5731.6**	3961.0
Weighted Average number of Shares used in computing basic earnings per share	**185514583**	185511356
Add: Potential number of equity shares that could arise on exercise of Options on Zero Coupon convertible Bonds- due 2009 -21384843 (Previous year 5681319)	**21384843**	5711032
Weighted Average number of Shares used in computing diluted earnings per share	**206899426**	191222388
Nominal value per share (In Rs.)	**5**	5
Basic Earnings Per Share (in Rs.)	**30.9**	21.4
Diluted Earnings Per Share (in Rs.)	**27.7**	20.8

11. Accounting Standard (AS-17) on Segment Reporting

a) Primary Segment
The Company has identified "Pharmaceuticals" as the only primary reportable segment.

b) Secondary Segment (By Geographical Segment)

India	**10413.6**	7716.3
Outside India	**6957.9**	5027.4
Total sales	**17371.5**	12743.7

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

12. Intangible assets consisting of trademarks, designs, technical knowhow, non compete fees and other intangible assets are stated at cost of acquisition based on their agreements and are available to the company in perpetuity. The depreciable amount of intangible assets is arrived at based on the managements best estimates of useful lives of such assets after due consideration as regards their expected usage, the product life cycles, technical and technological obsolescence, market demand for products, competition and their expected future benefits to the company.

13. Adjustment to Capital Reserve represents Rs. 8.2 Million paid by the Company in April-2005 for acquisition of Equity Shares of erstwhile Phlox Pharmaceuticals Limited which has amalgamated with the Company in earlier year and Rs. 0.1 Million being transferred from Share Capital Suspense Account as the relevant shares were not required to be issued by the company as they were cancelled off against the investment held by the Company in erstwhile Phlox Pharmaceuticals Limited pursuant to amalgamation with the Company.

14. The Board of Directors of the Company at their meeting held on 9th Feb. 2006 decided to demerge and transfer its Innovative Research & Development business (including New Drug Delivery Systems) to Sun Pharma Advanced Research Company Ltd. (SPARC), so as to aid in focusing on manufacturing, including Reverse Research and Development activities by the Company and Innovative Research & Development activity by SPARC. The said demerger / transfer is effective from 1st April, 2006 subject to necessary regulatory approvals.

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

The Company has not earned any Revenue from the said Research Activity proposed to be demerged / transferred. The innovative Research & Development activities which is at an infant stage to date, forms part of the overall Research & Development activities of the Company, and as no significant expenditure has been incurred on the said Research & Development activity, and as the same has not been identified as a reportable segment, separate information in respect of expenditure on such

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)
SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006

revenue expenditure on Innovative Research & Development activity is not separately identifiable. Consequently the impact of the said revenue expenditure incurred on Innovative Research & Development activities on the Pre-Tax Profits and Income Tax expenses which is not significant, could not be ascertained. The said Research & Development activity is considered as an operating activity in the cash flow statements for the current & previous years. As at March 31, 2006, the carrying amount of the Assets of the Innovative Research & Development activity wa Rs. 210.3 Million and its Liabilities were Rs. Nil.

15. As per the terms of the issue, the holders of Zero Coupon Foreign Currency Convertible Bonds (FCCBs) of a face value of US $ 1000 aggregating to US $ 350 Million have an option to convert FCCBs into Equity Share at an initial conversion rate of Rs. 729.30 per Equity share at a fixed exchange rate conversion of Rs. 45.01 = US $ 1 , from December 26, 2004 to November 16,2009. The conversion price will be subject to certain adjustment . Further , under certain conditions the company has an option for early redemption in whole but not in part, at any time on or after November 26,2007. Unless previously converted , redeemed or purchased and canceled, the company will redeem these bonds at 125.594 per cent of the principal amount on November 26,2009. In view of likely conversion into Equity Shares, premium on redemption of FCCB has not been provided in this accounts.

As at the year end Rs. 157.53 Million (US$ 3.5 Million) worth of FCCB's were converted into 216,007 equity shares, upon conversion option by the FCCB holders.

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

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

Signatures to Schedule 1 to 21 form an integral part of Accounts

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As per our Report of even date attached.

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai, July 26, 2006

KAMLESH H. SHAH
Company Secretary

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman & Managing Director

SUDHIR V. VALIA
Wholetime Director

SAILESH T. DESAI
Wholetime Director

Mumbai, July 26, 2006

SUN PHARMACEUTICAL INDUSTRIES LIMITED (CONSOLIDATED)

ANNEXURE 'A' TO NOTES ON ACCOUNT

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

(Rs in Million)

Particulars	Key Management Personnel		Relatives of Key Management Personnel		Enterprise under significant Influence of Key Management Personnel or their relatives		Total	
	31/03/06	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05	**31/03/06**	31/03/05
Purchases of goods / DEPB	—	—	—	—	2.7	—	2.7	—
Sun Petrochemical Pvt Ltd								
(Previous Year Rs.38,300)	—	—	—	—	2.7	—	2.7	—
Sale of goods / DEPB	—	—	—	—	—	3.2	—	3.2
Sun Petrochemical Pvt Ltd	—	—	—	—	—	3.2	—	3.2
Rendering of Service							—	—
Services	—	—	—	—	**0.4**	0.2	**0.4**	0.2
Sun Petrochemical Pvt Ltd	—	—	—	—	0.4	0.2	0.4	0.2
Reimbursment of Expenses	—	—	—	—	**0.1**	—	**0.1**	—
Sun Petrochemical Pvt Ltd	—	—	—	—	0.1	—	0.1	—
Rent Income	—	—	—	—	**0.2**	0.1	**0.2**	0.1
Others	—	—	—	—	0.2	0.1	0.2	0.1
Director's Remuneration	**20.1**	11.7	—	—	—	—	**20.1**	11.7
Rent Paid	—	—	0.3	0.3	—	—	**0.3**	0.3

Note :

Names of related parties and description of relationship

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

ZAO SUN PHARMA INDUSTRIES LIMITED RUSSIA

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

LETTER

enclosed to the Balance Sheet for Business Activity
of ZAO "Sun Pharma Industries Limited" for the period of 2005.

During 2005 ZAO "Sun Pharma Industries Limited" did not perform any business activity.

On the current date, when the enclosed document for the period of 2005 is being composed, ZAO "Sun Pharma Industries Limited" is in the process of liquidation (See the Decision of Shareholders Meeting issued on 29.10.2002 in Mumbai, India).

The initial aspects, which have made an influence on the financial status of Company, are as follows:

During 2005 Company did not have Incomes and Expenses.

Subsequently, in accordance with the results of 2005, Balance Profit is equal to zero.

At the end of 2005 Company has a debit liability equal to 12167 roubles from the side of Migration Service (a loan for a foreign employee – 12024 roubles) and an overpaid tax equal to 143 roubles; besides, there is a credit liability equal to 85705 roubles, which is debt in respect of the State Budget.

Losses shown in the 3rd **Section of the Balance Sheet (93295 roubles) is the sum of losses for the previous years.**

P. A. Sinarevsky
Liquidator

April 19, 2006

AUDITING COMPANY "BEST AUDIT"

Member of the Russian Union of Industrialists and Businessmen Member of the Moscow auditor Chamber

117420, Moscow, Profsoyuznaya str., 57 of. 725 E-mail: best-audit@best-audit.ru	License BT Russian Federation E 004394 (the general audit) phone/fax 332-03-82
TIN 7727036330	ph. 334-42-49,334-43-19

No. 94-az dt.27, April 2006

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

Auditing Conclusion on the book keeping balance
ZAO <<Sun Pharma Industries Limited>>
For the Year 2005

Information of the Auditor.
ZAO "Auditing Company "Best-Audit" (hereinafter referred to as the "Auditor") was registered with the Moscow Registration Chamber on 17.02.94. State Registration N325095. General Director – Egorov Mikhail Evgenievich (Qualified Attested Auditor № 008955). Address : Moscow, Ul.Profsoyuznaya, Dom 57, Office 725, Tel 334-43-19, Fax 332-03-51, INN 7727036330, EGRN № 1027700591027.
Auditor has received the general licence of Ministry of RF № E 004394 dt.27.06.2003 (valid for 5 years).
The auditor is the member of non commercial professional affiliation << Moscow Auditors Chamber>> (The testimony on accreditation № 2 is issued by Ministry of Finance of RF) The civil liability of implementation of professional activity is insured in OAO <<Reso-Garantiya>>, insurance policy No.906/08035 dt.19th September 2005.

Audited Subject.
ZAO <<Sun Pharma Industries Limited>> (hereinafter referred to as the "Company") registered with the Moscow Registration Chamber dt.15.04.1994 (Registration Number 031055).
Charter capital of 20000 (Twenty thousand) roubles.
In the Unified state list of the legal persons state fixed number assigned to Company is 1037700003604. Company is registered with the Ministry of Taxes and Fees of RF No.21, Moscow and identification number of tax payer is 7721003699.
Legal Address: RF, 109444, Moscow, ul.Sormovskaya, Dom 8, Korpus 2

Volume of Audit.
We have performed the audit of ZAO <<Sun Pharma Industries Limited>> accounting documentation for the period since January 01, 2005 till December 31, 2005.

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

It is the responsibility of ZAO <<Sun Pharma Industries Limited>> Executive Management to prepare and to submit the above mentioned accounting documentation. Our obligation is to make up the official opinion about the authenticity of the mentioned documentation and to check that the documentation is composed in accordance with the Russian Federation law by means of our audit.

We carried out the audit in accordance with:
- The Federal Law of RF "Auditing Activity" № 119-FZ dt.07.08.2001
- Federal Rules (Standards) worked out to execute the audit adopted by the RF Government Statement № 696 dt.23.09.2002 and № 405 dt.04.07.2003
- Auditing Rules (Standards) issued by the Moscow Auditors Chamber
- Auditing Rules (Standards) issued by Auditing Company <<Best-Audit>>

The audit was planned and carried out in order to get the confirmation that there had not been admitted any grave infringements in the internal accounting documentation. The audit was conducted on the elective basis and included analysis on the basis of testing of the evidences verifying value and deployment in the financial (accounting) reporting of the information about finance and economic activities, estimation of methods and principles of book keeping, rules of opening-up of the financial (accounting) reporting, definition of mail evaluation values obtained by a management (manual) face, and also estimation of a common view about the financial (accounting) reporting.

The appended annual accounts are prepared by the audited company ZAO <<Sun Pharma Industries Limited>> in accordance with the rules of book keeping established under PBU 4/99 <<The Accounts of Organizations>> approved Order of the Ministry of Finance of the Russian Federation of July 6, 1999 № 43n, <<About the forms of the accounts of organizations>> approved Order of the Ministry of Finance of the Russian Federation of July 22, 2003 № 67n, the book keeping implemented in conformity of the Law of Russian Federation № 129-FZ <<About book keeping>>, Position on management of book keeping and reporting in Russian Federation under approved order of Ministry of Finance of the Russian Federation № 34n dt.29.07.1998.
On the moment of compiling of the accounts for 2005 the company is in the stage of Liquidation.
We guess that the executed audit gives us the reason to confirm that the book keeping balance is true and has been maintained in accordance with the Russian Federation Legislation.
Audit was completed on 27 April 2006.

Auditors Conclusion
Our opinion is that the documentation is properly composed to define the exact financial situation of the audited company on the 31st of December, 2005 and the results of business activity for the period January 01 till December 31, 2005.

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

ZAO SUN PHARMA INDUSTRIES LTD. RUSSIA

BALANCE SHEET AS AT 31ST DECEMBER, 2005

	Amount (RRu) As at 31/12/2005	Amount (RRu) As at 31/12/2004
ASSETS		
I FIXED ASSETS		
Office Equimpments	—	—
II CURRENT ASSETS		
Inventories	—	—
Finished Goods	—	—
Receivables (less than 12 months)		
Debtors for goods & services	12.024	12.024
Other Debtors	143	143
Cash & Bank Balances		
Bank Balances	243	243
Other Current Assets	—	—
III PROFIT & LOSS ACCOUNT		
Profit & Loss Account	93.295	93.295
	105.705	105.705
LIABILITIES		
IV CAPITAL AND RESERVES		
Authorised Capital	20.000	20.000
Paid up Share Capital	20.000	20.000
V CURRENT LIABILITIES		
Sundry Creditors		
For Goods & Services	—	—
Advances from Customers	—	—
Other Liabilities	85.705	85.705
	105.705	105.705

P. A. Sinarevsky
Liquidator

Date - 19/04/2006
ZAO «Sun Pharma Industries Limited»

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2005

	Amount (RRu) As at 31/12/2005	Amount (RRu) As at 31/12/2004
Net Sales	—	—
Interest	—	—
Other Income	—	500
	—	500
Cost of Sales of Goods & Services	—	—
Commercial Expenses	—	—
Interest	—	—
Other Operating Expenses	—	369
Road Tax & Property Tax	—	—
	—	369
Profit for the period	—	131
Loss for the period	—	—
Add: Preliminary Expenses	—	—
Balance brought forward	93.295	93.426
Balance carried over to Balance Sheet	93.295	93.295

P. A. Sinarevsky
Liquidator

Date - 19/04/2006
ZAO «Sun Pharma Industries Limited»

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 31st March, 2006.

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

Results and Dividend
The net Profit for the year is US$ 43,423,180. No dividend was paid during the year and the Directors have not proposed any dividend for the financial year under review.

Capital
The authorised, issued and paid-up capital of the Company is 500,000 Shares of US$ 1/- each.

Directors
The Directors who served during the year were as follows:

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

Auditors
M/s.Muscat Auditing Bureau, Public Accountants, Muscat, Sultanate of Oman, have been appointed in place of the retiring Auditors M/s. KSI Shah & Associates, Chartered Accountants, Dubai at the previous Annual General Meeting. A resolution to re-appoint M/s. Muscat Auditing Bureau, Public Accountants, Muscat, Sultanate of Oman as auditors and fix their remuneration will be put before the Shareholders at the ensuing Annual General Meeting.

On behalf of the board
For **Sun Pharma Global INC**

July 19, 2006

Rajendra P. Ashar Managing Director
Sunil K. Gandhi Director

AUDITORS' REPORT TO

The Directors

M/S. SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND
International Trust Building, P. O. Box 659, Road Town Tortola, British Virgin Island

We have audited the accompanying Financial Statements of **M/S. SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND** as of 31st March 2006 which have been prepared under the historical and replacement cost convention and in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND AUDITORS
The company's management is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, on those statements and to report our opinion to you.

BASIS OF OPINION
We conducted our Audit in accordance with international auditing standards. An audit includes examination on test basis, evidence relevant to the amount disclosures in the financial statements. It also includes assessment of the significant estimates and judgments made by management, in the preparation of financial statements and whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION
In our opinion, the accompanying Balance Sheet and Income Statement read with notes (1) to (14) give a true and fair view of the Company's financial position as at 31st March 2006 and have been properly prepared in accordance with the international Financial Reporting standards and accounting policies.

MUSCAT AUDITING BUREAU
PUBLIC ACCOUNTANTS

Muscat, Oman
July 19, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

	NOTES	31/03/2006 USD	31/03/2005 USD
INVESTMENTS	**4**	**173,132,225**	94,248,637
CURRENT ASSETS			
Fixed Deposits		**51,046,927**	59,120,255
Security Deposits		**10,000**	10,000
Bank Balances		**2,169,619**	517,866
Inventories		**256,800**	746,800
Sundry debtors		—	71,544
Loans and Advances	**5**	**49,842,442**	88,000
Other Income Accrued		**1,483,622**	393,208
TOTAL CURRENT ASSETS	**(A)**	**104,809,410**	60,947,673
CURRENT LIABILITIES			
Accounts Payables and Accruals	**6**	**3,440,662**	1,246,530
TOTAL CURRENT LIABILITIES	**(B)**	**3,440,662**	1,246,530
NET CURRENT ASSETS	**(A-B)**	**101,368,748**	59,701,143
TOTAL ASSETS		**274,500,973**	153,949,780
REPRESENTED BY			
Share Capital	**7**	**500,000**	500,000
Retained Earnings		**86,453,778**	43,030,598
Unsecured Loans	**8**	**187,547,195**	110,419,182
TOTAL		**274,500,973**	153,949,780

Notes 1 to 14 form an integral part of the financial statements.

This is the financial statements referred to in our report of even date and the same have been approved by the Members and signed on their behalf.

For, **Muscat Auditing Bureau**
Public Accountants

For and on behalf of the Board

MAHMOUD SULEIMAN
Proprietor

SUNIL K. GANDHI
Director

RAJENDRA P. ASHAR
Managing Director

July 19, 2006

INCOME STATEMENT 1ST APRIL, 2005 TO 31ST MARCH, 2006

	NOTES	2005/2006 USD	2004/2005 USD
INCOME			
Turnover		**35,055,360**	26,771,450
Cost of Turnover	**9**	**750,000**	860,000
GROSS INCOME		**34,305,360**	25,911,450
Other Income	**10**	**10,188,545**	1,882,830
TOTAL INCOME	**(A)**	**44,493,905**	27,794,280
EXPENDITURE			
Salaries and benefits		**243,531**	154,436
General & Administrative expenses	**11**	**827,194**	744,565
Sundry balacne written off		—	146,726
TOTAL EXPENDITURE	**(B)**	**1,070,725**	1,045,727
NET PROFIT FOR THE YEAR	**(A-B)**	**43,423,180**	26,748,553
Balance Brought Forward		**43,030,598**	16,282,045
Balance Carried Forward to Balance Sheet		**86,453,778**	43,030,598

Notes 1 to 14 form an integral part of the financial statements.

This is the financial statements referred to in our report of even date and the same have been approved by the Members and signed on their behalf.

For, **Muscat Auditing Bureau**
Public Accountants

For and on behalf of the Board

MAHMOUD SULEIMAN
Proprietor

SUNIL K. GANDHI
Director

RAJENDRA P. ASHAR
Managing Director

July 19, 2006

SUN PHARMA GLOBAL INC. BRITISH VIRGIN ISLAND

CASH FLOW FOR THE YEAR ENDED 31ST MARCH, 2006

		2005/2006 USD
Net profit for the year		**43,423,180**
ADD: ADJUSTMENT FOR ITEMS NOT INVOLVING MOVEMENT OF FUNDS:		
Sundry balacne written off		—
Operating Profit/(Loss) Before changes in working capital	**(A)**	**43,423,180**
CHANGES IN (INCREASE)/DECREASE IN WORKING CAPITAL		
Fixed Deposits		8,073,328
Security Deposits		—
Inventories		490,000
Sundry debtors		71,544
Loans and Advances		(49,754,442)
Other Income Accrued		(1,090,414)
Accounts Payables and Accruals		2,194,132
TOTAL (INCREASE)/DECREASE IN WORKING CAPITAL	**(B)**	**(40,015,852)**
NET CASH FROM OPERATING ACTIVITIES	**(A+B)**	**3,407,328**
Cash flow from (used in) investing activities		
Investments (Net)		(78,883,588)
Cash flow from (used in) financing activities		
Unsecured Loans		77,128,013
Net Cash from (used in) Operating, Investing and Financing activities		**1,651,753**
Cash on hand and Banks - Beginning of the year		**517,866**
Cash on hand and Banks - End of the year		**2,169,619**

NOTES
(forming part of the financial statements)

1. LEGAL STATUS

SUN PHARMA GLOBAL INC. is an International Business Company incorporated on 1st February 1996 under the International Business Companies Act, Cap. 291 of British Virgin Island.

The Shareholders and their shareholdings in the company are as under:

Name of the Shareholder	No. of Shares	Share Vaue U.S. $
Sun Pharmaceuticals Industries Ltd.	500,000	500,000
TOTAL	**500,000**	**500,000**

The Officers of the company are as under :

Name of the Officer	Nationality	Position
Mr. Rajendra Parshotam Ashar	Indian	Managing Director
Mr. Dilip S. Sanghvi	Indian	Director
Mr. Sudhir V. Valia	Indian	Director
Mr. Sunil Gandhi	Indian	Secretary & Director
Mr. Surendra M. Joshi	Indian	Director

2. ACTIVITY

SUN PHARMA GLOBAL INC. is engaged in Sale and Distribution of Pharmaceutical Products and Investment activities.

3. PRINCIPAL ACCOUNTING POLICIES

(i) ***Statement of Compliance***

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Committee ("IFRSC"), interpretations issued by the Standing Interpretations Committee of IFRSC.

(ii) ***Basis of preparation***

These financial statements have been prepared on the historical and replacement cost accounting rules.

The accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(iii) ***Investments***

Investments are classified into Current and Long Term Investments. Current Investments are valued at lower of cost and net realisable value. Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

(iv) ***Inventories***

Inventories are stated at cost or net realisable value whichever is lower on FIFO basis.

(v) ***Advances & Accruals***

Trade and other receivable are stated at their cost less impairment losses.

(vi) ***Cash and Cash equivalents***

Cash and cash equivalents comprise cash balances and bank deposits.

(vii) ***Dividend***

Dividends are recognised as a liability in the period in which they are declared.

(viii) ***Impairment***

The carrying amounts of the Company's assets, other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. As impairment loss is recognised in the profit and loss account whenever the carrying amounts of an asset exceeds its recoverable amount.

(ix) ***Provisions***

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(x) ***Payable and accruals***

Payable and accruals are stated at cost.

(xi) ***Revenue***

Revenue from the sale is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyers.

(xii) ***Foreign Currencies***

Transactions denomiated in foreign currencies are translated to United State Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilites denominated in foreign currencies at the balance sheet date are translated to United State Dollar at exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

(xiii) ***Hedging***

There is no hedging transactions undertaken by the company.

(xiv) Previous year's figures have been regrouped wherever necessary to make it more comparable with the current year's figures.

(xv) Figures are rounded off to the nearest United State Dollar.

4.	INVESTMENTS		31.03.2006 USD	31.03.2005 USD
(a)	**Trade Investments**			
	Quoted		**81,259,536**	56,547,127
	Unquoted		**72,756,870**	37,701,510
	Total Trade Investments	**(a)**	**154,016,406**	94,248,637
(b)	**Long Term Investments - Quoted (b)**		**19,115,819**	—
	TOTAL INVESTMENTS	**(a+b)**	**173,132,225**	94,248,637

5. LOANS AND ADVANCES

Loans and Advances includes US $ 32,088,000 (Previous Year US $ 88,000) receivable from Associate Concerns.

6. ACCOUNTS PAYABLES AND ACCRUALS	31.03.2006 USD	31.03.2005 USD
Accounts Payables	**477,844**	415,250
Other Payables	**2,962,818**	831,280
TOTAL	**3,440,662**	1,246,530

7. SHARE CAPITAL	31.03.2006 USD	31.03.2005 USD
Authorised		
500,000 Shares of US $ 1/- Each	**500,000**	500,000
Issued and Subscribed		
500,000 Shares of US $ 1/- Each Fully Paid Up (Entire Share Capital is held by Holding Company, Sun Pharmaceutical Industries Ltd., India)	**500,000**	500,000

8. UNSECURED LOANS

Unsecured Loans includes US $ 64,878,530 (Previous Year 65,419,182) payable to Holding Company.

9. COST OF SALES	2005/2006 USD	2004/2005 USD
Opening stock	**746,800**	176,800
Purchases	**260,000**	1,430,000
Less: Closing stock	**(256,800)**	(746,800)
TOTAL	**750,000**	860,000

10. OTHER INCOME		
Interest Income (Net)	**1,939,745**	667,227
Commission Income	—	1,146,886
Exchange Rate Gain	**464,640**	68,717
Profit on Sale of Investments	**7,784,160**	—
TOTAL	**10,188,545**	1,882,830

11. GENERAL & ADMINISTRATIVE EXPENSES	31.03.2006 USD	31.03.2005 USD
Vehicle expenses	**17,694**	7,431
Professional charges	**543,180**	94,700
Rent	—	48,000
Travelling & Conveyance	**36,918**	72,055
Miscelleneous expenses	**185,881**	35,834
Repairs & Maintenance	—	14,863
Selling & Distribution Expenses	—	236,937
Office Expenses	**1,000**	16,247
Communication Expenses	—	47,357
Printing & Stationery	**8,500**	14,207
Entertainment	**680**	47,867
Business promotion expenses	**33,341**	109,067
TOTAL	**827,194**	744,565

12. FINANCIAL INSTRUMENTS

(1) Credit and Exchange Rate risk exposures.

(a) CREDIT RISK

Trade debtors are stated net of provision for doubtful debts. There are no significant concentrations of credit risk with any single debtor or group of companies or to debtors outside the industry and the country in which the company operates.

(b) EXCHANGE RATE RISK

There are no significant exchange rate risks as substantially most of the financial assets and financial liabilities are denominated in United State Dollars.

(2) FAIR VALUE INFORMATION

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. In respect of company's all financial assets and liabilities, in the opinion of the management, the book value approximates to their carrying value.

13. FINANCIAL INSTRUMENTS : RECOGNITION & MEASUREMENT

The account receivable, Deposits and advances are for business and carry same value as stated in the financial statements.

14. EVENTS OCCURRED AFTER THE BALANCE SHEET DATE

No significant events have occurred from the date of Balance Sheet till the date of Auditor's report.

Sun Pharmaceutical (Bangladesh) Limited

DIRECTORS' REPORT

To,

The Members of **Sun Pharmaceutical (Bangladesh) Limited**

Your Directors take pleasure in presenting the Fifth Annual Report and Audited Accounts for the Year ended on 31st March ,2006.

Financial Results (Taka)

	Year Ended 31st March, 2006	Year Ended 31st March, 2005
Total Income	**79,217,682**	12,516,221
Profit/(Loss) After Tax	**(44,056,600)**	(20,180,594)

Dividend

In view of loss incurred during the year, your Directors do not recommend any dividend for the year.

Operation Review

The Company has successfully introduced 20 products including dosage form in the market during the year making the total products to 36 products in the Domestic Market. The new products have been well received by the medical profession in the country.

During the year the Company made a further investment of Tk 12,732,486 raising the total investment to Tk 213,209,765.

Capacity Utilisation

Installed Capacity - 132,500 Thousands Tablets

Utilised Capacity - 33,960 Thousands Tablets

Auditors

Your Company's Auditors, M/s Rehman Rehman Huq, Chartered Accountants, Dhaka, retire at the conclusion of the forthcoming Annual General Meeting and being eligible have offered themselves for re- appointment as auditors of the Company for the year 2006-07.

Acknowledgements

Your Directors wish to thank all Shareholders, Board of Investment and Bankers for their continued support and valuable co-operation.

For and on behalf of Board of Directors

Girish Desai, Chairman
Sailesh Desai, Director

Dhaka, 10 April 2006

Auditors' Report to the Shareholders of Sun Pharmaceutical (Bangladesh) Limited

We have audited the accompanying balance sheet of Sun Pharmaceutical (Bangladesh) Limited as of 31 March 2006 and the related profit and loss account, statement of changes in equity and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subject to the consequential financial effect of the notes-1.2, 7.1, 7.2 and 18.4.1 to the financial statements regarding company's continuity as a going concern, useful lives of the property, plant and equipment, the useful life of the factory building and tax deduction on lease rental respectively; in our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the company's affairs as of 31 March 2006 and of the results of its operations and its cash flows for the year then ended and comply with the Companies Act 1994 and other applicable laws and regulations.

We also report that:

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 and made due verification thereof;

b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of those books; and

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

Rahman Rahman Huq

Dhaka, 10 April 2006

Sun Pharmaceutical (Bangladesh) Limited

Balance sheet as at 31 March, 2006

	Notes	2006 Taka	2005 Taka
Sources of fund			
Shareholders' equity :			
Share capital	4	**60,000,000**	60,000,000
Share money deposit	5	**52,429,462**	59,543,271
Accumulated loss		**(64,237,194)**	(20,180,594)
		48,192,268	99,362,677
Loan funds:			
Unsecured loan	6	**5,135,000**	4,135,000
		53,327,268	103,497,677
Applications of fund			
Property, plant and equipment:	7		
Cost		**213,209,765**	200,477,279
Less: Depreciation		**11,906,237**	3,300,603
		201,303,528	197,176,676
Preliminary expenses		**52,400**	58,950
Current assets:			
Inventories	8	**47,181,558**	15,997,309
Trade receivables	9	**4,064,916**	228,558
Advance income tax	10	**759,756**	513,666
Advances, deposits and prepayments	11	**10,062,710**	3,465,325
Cash and bank balances	12	**1,851,471**	641,171
		63,920,411	20,846,029
Current liabilities:			
Short term loan and bank overdraft	13	**195,636,892**	98,760,195
Liabilities for goods	14	**7,580,437**	8,699,586
Liabilities for services	15	**894,188**	663,530
Other liabilities	16	**7,837,554**	6,460,667
		211,949,071	114,583,978
Net current assets/(liabilities)		**(148,028,660)**	(93,737,949)
		53,327,268	103,497,677

The annexed notes 1 to 31 form an integral part of these financial statements.

Girish Desai — Chairman

Sailesh Desai — Director

Note under section 189 of the Companies Act 1994: Only one director has signed in Bangladesh, the other director being not present in Bangladesh at the time of signing these financial statements.

As per our annexed report of same date.

Rahman Rahman Huq
Auditors

Dhaka, 10 April 2006

Profit and loss account for the year ended 31 March, 2006

	Notes	2006 Taka	2005 Taka
Turnover	17	**79,217,682**	12,516,221
Cost of sales	18	**(62,467,454)**	(9,387,222)
Gross profit		**16,750,228**	3,128,999
General and administration expenses	19	**(31,578,315)**	(12,888,846)
Selling and distribution expenses	20	**(13,374,300)**	(5,036,599)
Operating loss		**(28,202,387)**	(14,796,446)
Finance costs		**(15,349,175)**	(4,499,879)
Foreign exchange loss		**(643,045)**	(888,489)
Net loss from ordinary activities		**(44,194,607)**	(20,184,814)
Other income		**138,007**	4,220
Net loss before tax		**(44,056,600)**	(20,180,594)
Provision for tax		—	—
Net loss after tax		**(44,056,600)**	(20,180,594)
Balance brought forward from previous year		**(20,180,594)**	—
Balance transferred to Balance Sheet		**(64,237,194)**	(20,180,594)

The annexed notes 1 to 31 form an integral part of these financial statements.

Girish Desai — Chairman

Sailesh Desai — Director

Note under section 189 of the Companies Act 1994: Only one director has signed in Bangladesh, the other director being not present in Bangladesh at the time of signing these financial statements.

As per our annexed report of same date.

Rahman Rahman Huq
Auditors

Dhaka, 10 April 2006

Statement of changes in equity for the year ended 31 March, 2006

	Share Capital Taka	Share money Deposit Taka	Accumulated profit/(loss) Taka	Total Taka
Balance as at 31 March 2004	100,000	111,415,547	—	111,515,547
Issue of shares from share money deposit	59,900,000	(59,900,000)	—	—
Increase of share money deposit	—	8,027,724	—	8,027,724
Net loss for the year	—	—	(20,180,594)	(20,180,594)
Balance as at 31 March 2005	60,000,000	59,543,271	(20,180,594)	99,362,677
Refund of share money deposit	—	(7,113,809)	—	(7,113,809)
Net loss for the year	—	—	(44,056,600)	(44,056,600)
Balance as at 31 March 2006	60,000,000	52,429,462	(64,237,194)	48,192,268

Sun Pharmaceutical (Bangladesh) Limited

Cash flow statement for the year ended as at 31 March, 2006

		2006 Taka	2005 Taka
A)	**Cash flows from operating activities**		
	Cash received from customers	**75,381,323**	12,287,663
	Cash paid to suppliers and employees	**(136,744,168)**	(32,301,732)
	Finance costs	**(15,349,175)**	(4,499,879)
	Income tax paid on import stage	**(246,090)**	(513,666)
	Other income	**138,007**	4,220
	Net cash flows from operating activities	**(76,820,103)**	(25,023,394)
B)	**Cash flows from investing activities**		
	Purchase of property, plant and equipment	**(12,732,486)**	(62,148,561)
	(Increase)/decrease in pre-operating expenses	—	31,685,665
	Net cash out flows from investing activities	**(12,732,486)**	(30,462,896)
C)	**Cash flows from financing activities**		
	Issue of share capital	—	59,900,000
	Increase/(decrease) in share money deposit	**(7,113,809)**	(51,872,276)
	Increase/(decrease) in short term loan and bank overdraft	**96,876,698**	48,092,792
	Increase/(decrease) in unsecured loan	**1,000,000**	—
	Net cash used in financing activities	**90,762,889**	56,120,516
D)	**Net increase in cash and cash equivalents (A+B+C)**	**1,210,300**	634,226
E)	**Opening cash and cash equivalents**	**641,171**	6,945
F)	**Closing cash and cash equivalents (Note 12)**	**1,851,471**	641,171

Notes to the financial statements for the year ended 31 March, 2006

1. Company profile

1.1 Sun Pharmaceutical (Bangladesh) Limited is a private limited company incorporated in 2001 in Bangladesh under the Companies Act 1994 with an authorised capital of Tk 60 million divided into 600,000 ordinary shares of Tk 100 each. During the year the company has increased its authorised share capital from Tk 60 million to Tk 500 million.

The company was formed jointly with Sun Pharmaceutical Industries Limited (SPIL), a company incorporated in India, City Overseas Limited (COL), a company incorporated in Bangladesh and Sun Pharma Global Inc (SPGI), a company incorporated under the laws of British Virgin Island.

1.2 The financial statement of the company reflect a net current liability of Tk 148,028,660 and an accumulated loss of Tk 64,237,194 as at 31 March 2006. As against the aforesaid position the parent company, Sun Pharmaceutical Industries Limited, India, has expressed its intention to maintain its stake in Sun Pharmaceutical (Bangladesh) Limited and continue the operation of the company as a going concern.

2. Nature of business

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

3. Significant accounting policies

3.1 Basis of accounting

These financial statements have been prepared in accordance with Bangladesh Accounting Standards.

3.2 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less depreciation.

Depreciation on addition to property, plant and equipment is charged on the basis of usage for the actual number of days.

Depreciation is calculated and charged on all property, plant and equipment on the straight line method at the following rates, considering the estimated useful lives of the assets as assessed by the management:

Factory building	1.63%
Plant and machinery	4.75%
Computer equipment	16.21%
Motor vehicles	9.50%
Office equipment	4.75%
Electrical installation	4.75%
Furniture and fixtures	6.33%

3.3 Inventories

Stocks

Stocks are valued at the lower of cost and net realisable value.

Costs of raw materials and packing materials are valued by using FIFO costing method.

Costs of finished stocks and work in progress are arrived by using FIFO costing method including allocation of manufacturing overheads related to bringing the inventories to their present condition.

3.4 Trade receivables

Trade receivables are stated net of provisions, if any.

3.5 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances.

3.6 Payable and accruals

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

3.7 Provisions

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

3.8 Revenue recognition

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

3.9 Foreign exchange

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

3.10 Provision for tax

No provision for income tax is made since the company has been enjoying tax holiday benefit for the period of five years commencing from 1 October 2004 to 30 September 2009.

3.11 Tax holiday reserve

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

4. Share capital

	2006 Taka	2005 Taka
Authorised:		
5,000,000 (2005: 600,000) Ordinary shares of Tk 100 each	**500,000,000**	60,000,000
Issued, subscribed and paid-up:		
600,000 Ordinary shares of Tk 100 each fully paid	**60,000,000**	60,000,000

Shareholding position of the company is as follows:

	2006		2005	
	Nominal value (Tk)	**% of present holding**	Nominal value (Tk)	% of present holding
Sun Pharmaceutical Industries Limited, India	**43,446,900**	**72.4115**	43,446,900	72.41
City Overseas Limited	**16,500,000**	**27.5000**	16,500,000	27.50
Sun Pharma Global Inc., BVI	**53,100**	**0.0885**	53,100	0.09
	60,000,000	**100.0000**	60,000,000	100.00

5. Share money deposit

	2006 Taka	2005 Taka
Sun Pharmaceutical Industries Limited, India	**38,213,466**	38,213,466
City Overseas Limited (Note 5.1)	**14,202,944**	21,316,753
Sun Pharma Global Inc., BVI	**13,052**	13,052
	52,429,462	59,543,271

5.1 City Overseas Limited

	2006	2005
Opening balance	**21,316,753**	35,789,253
Received during the year	**3,886,191**	2,000,000
	25,202,944	37,789,253
Refunded during the year	**(11,000,000)**	(16,472,500)
Closing balance	**14,202,944**	21,316,753

6. Unsecured loan

	2006	2005
From directors	**135,000**	4,135,000
From others	**5,000,000**	—
	5,135,000	4,135,000

7. Property, plant and equipment

Name of assets	Cost			Depreciation			Written down value	
	Balance as at 1 Apr 2005	Addition during the year	Balance as at 31 Mar 2006	Balance as at 1 Apr 2005	Charged during the year	Balance as at 31 Mar 2006	As at 31 Mar 2006	As at 31 Mar 2005
	Taka	Taka	Taka	Taka	Taka	Taka	Taka	Taka
Leasehold land	33,000	—	33,000	3,644	825	4,469	28,531	29,356
Factory building	75,075,616	2,527,239	77,602,855	506,489	1,223,855	1,730,344	75,872,511	74,569,127
Plant and machinery	95,674,822	9,334,427	105,009,249	1,856,751	4,754,930	6,611,681	98,397,568	93,818,071
Computer equipment	7,068,644	520,635	7,589,279	383,121	1,214,029	1,597,150	5,992,129	6,685,523
Motor vehicles	5,412,792	—	5,412,792	188,197	514,215	702,412	4,710,380	5,224,595
Office equipment	1,506,500	298,085	1,804,585	28,965	81,897	110,862	1,693,723	1,477,535
Electrical installation	11,431,222	15,500	11,446,722	224,734	543,363	768,097	10,678,625	11,206,488
Furniture and fixtures	4,274,683	36,600	4,311,283	108,702	272,520	381,222	3,930,061	4,165,981
31 March 2006	200,477,279	12,732,486	213,209,765	3,300,603	8,605,634	11,906,237	201,303,528	197,176,676
31 March 2005	138,328,718	62,148,561	200,477,279	—	3,300,603	3,300,603	—	197,176,676

7.1 Assessment of useful life of the property, plant and equipment

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

7.2 Useful life of the factory building

The life of the factory building has been estimated at 61 years for the purpose of depreciating in anticipation that the land lease will be renewed further to cover the life of the building.

	2006 Taka	2005 Taka
8. Inventories		
Stock:		
Finished products - Factory	**10,874,560**	4,110,633
- Depots	**6,792,421**	2,986,575
Raw materials	**23,317,842**	6,424,465
Packing material	**2,112,559**	943,485
Work in progress	**4,084,176**	1,405,790
	47,181,558	15,870,948
Store:		
Spare parts	—	126,361
	47,181,558	15,997,309
9. Trade receivables		
Due below six months	**4,064,916**	228,558
	4,064,916	228,558
10. Advance income tax		
Opening balance	**513,666**	—
Add: Tax deducted at source on import stage during the year	**246,090**	513,666
	759,756	513,666
11. Advances, deposits and prepayments		
Advances:		
Advance to employees	**520,239**	127,000
Prepaid land rent	**3,340,000**	—
Advance for rent	**229,500**	498,838
Registration for Trademark	**131,400**	131,400
VAT current account	**1,048,222**	452,233
Advance VAT on depot stock	**1,908,490**	760,794
VAT (insurance)	—	33,834
Margin money with bank	**970,492**	213,245
Insurance claim receivable	**800,377**	—
Other advances	**90,481**	284,989
	9,039,201	2,502,333
Deposits:		
Imprest money with employees	**210,000**	225,000
Security deposit	**603,250**	306,500
	813,250	531,500
Prepayments:		
Sundry prepaid expenses	**210,259**	431,492
	10,062,710	3,465,325
12. Cash and bank balances		
Cash in hand	**90,927**	235,161
Cash at bank:		
Standard Chartered Bank	**898,230**	393,184
Eastern Bank Ltd.	**429,773**	—
Premier Bank Ltd.	**303,382**	—
Janata Bank	**125,934**	8,971
First Security Bank Limited	**2,580**	2,780
State Bank of India	**645**	1,075
	1,851,471	641,171
13. Short term loan and bank overdraft		
Citibank, N.A.:		
Short term loan	**190,000,000**	—
Overdraft	**5,636,892**	98,760,195
	195,636,892	98,760,195

Total short term loan and overdraft facility limit sanctioned by Citibank, N.A. is Tk 202.73 million secured by corporate guarantee given by Sun Pharmaceutical Industries Limited, India. Interest is payable at the rate of 11% per annum on over draft facility and at the rate of 10.5% per annum on short term loan.

		2006 Taka	2005 Taka
14.	**Liabilities for goods**		
	For goods:		
	Ice S.R.L. - for raw materials	**2,043,291**	—
	United Technologies Limited	**1,224,595**	5,699,380
	Khan Printing & Packaging	**351,639**	—
	Saleheen Printers & Packaging	**346,085**	34,188
	Taher Brothers Limited	**412,610**	—
	Other suppliers	**532,206**	183,375
		4,910,426	5,916,943
	For capital machinery:		
	Sun Pharmaceuticals Industries Limited	**2,670,011**	2,782,643
		7,580,437	8,699,586
15.	**Liabilities for services**		
	Ave Engineering & Consultants	**719,500**	719,500
	Azad Traders - for C&F bill	—	(806,223)
	Taher Brothers Ltd. - for maintenance	—	412,610
	Tech Valley Computers Ltd. - for maintenance	—	217,725
	Other suppliers	**174,688**	119,918
		894,188	663,530
16.	**Other liabilities**		
	Security deposits	—	248,550
	Outstanding expenses (Note 16.1)	**7,834,064**	5,644,796
	Provident fund	—	328,044
	Tax deducted at sources - Suppliers	**3,490**	6,300
	Tax deducted at sources - Employees	—	232,977
		7,837,554	6,460,667

		2006 Taka	2005 Taka
16.1	**Outstanding expenses**		
	Sun Pharmaceutical Industries Ltd. - for expenses	**5,989,109**	—
	Field staff expenses	**322,000**	—
	Leave travel assistance (LTA)	**540,311**	—
	Interest on short term loan	**656,000**	—
	Audit fee	**54,250**	—
	Other factory expenses	**272,394**	—
		7,834,064	—
17.	**Turnover**		
	Sales	**92,288,599**	14,581,398
	Less: VAT	**13,070,917**	2,065,177
		79,217,682	12,516,221
18.	**Cost of sales**		
	Opening stock of finished goods	**7,097,208**	—
	Add: Cost of production (Note 18.1)	**73,037,227**	16,484,430
	Cost of goods available for sales	**80,134,435**	16,484,430
	Less: Closing stock of finished goods	**17,666,981**	7,097,208
		62,467,454	9,387,222
18.1	**Cost of production**		
	Opening stock of work in progress	**1,405,790**	—
	Add: Raw materials consumed (Note 18.2)	**39,717,934**	7,431,325
	Packing materials consumed (Note 18.3)	**3,343,949**	1,209,128
	Conversion cost (Note 18.4)	**32,653,730**	9,249,767
		77,121,403	17,890,220
	Less: Closing stock of work in progress	**4,084,176**	1,405,790
		73,037,227	16,484,430

18.2 Raw materials consumption and closing stock (All imported)

Particulars	Opening Balance		Purchase		Closing Balance		Consumption	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
	Kg	Taka	Kg	Taka	Kg	Taka	Kg	Taka
Nal Trexone Hydrochloride	—	—	8	7,003,232	3	2,542,173	5	4,461,059
Ursodeoxycholic Acid BP	—	—	300	7,242,605	110	2,617,839	190	4,624,766
Granules of Carbidopa BP and Levodopa BP	9	60,985	2,507	17,801,036	629	4,533,865	1,887	13,328,156
5-Amino Salicylic Acid USP	40	201,213	200	1,106,874	39	215,669	201	1,092,418
Clomipramine Hydrochloride BP	17	1,189,388	15	1,115,104	2	172,916	30	2,131,577
Carbamazepine BP	458	1,294,585	325	1,062,517	3	9,725	780	2,347,376
Clozapine BP	2	27,653	185	2,401,754	15	197,082	172	2,232,324
Sodium Valproate BP	304	819,824	450	1,404,634	-	428	753	2,224,030
Others (Note-18.2.1)	7,313	2,830,817	10,840	17,473,555	6,254	13,028,145	11,900	7,276,228
Total	8,143	6,424,465	14,830	56,611,311	7,055	23,317,842	15,918	39,717,934

18.2.1 Others

Above represent items which in value do not individually account for 10% or more of the total value of the raw materials consumed.

		2006 Taka	2005 Taka
18.3	**Packing materials consumption and closing stock**		
	Opening stock	**943,485**	—
	Add: Purchase	**4,513,023**	2,152,613
		5,456,508	2,152,613
	Less: Closing stock	**2,112,559**	943,485
	Consumption	**3,343,949**	1,209,128
18.4	**Conversion cost**		
	Factory salary, wages and bonus	**5,997,811**	2,610,706
	Employer's contribution to PF	**199,014**	—
	Consumable stores	**2,197,547**	537,350
	Drug testing fees/licence fees	**95,240**	—
	Quality control chemicals	**3,431,443**	516,897
	Bank charges	**376,877**	—
	Depreciation	**7,419,641**	2,974,740
	Power and fuel	**3,035,660**	1,362,697
	Land rent (Note-18.4.1)	**6,660,000**	—
	Insurance	**1,099,675**	506,000
	Repairs and maintenance:		
	Building	**203,302**	
	Plant and machinery	**116,617**	
	Others	**256,241**	
		576,160	219,959
	Printing and stationery	**226,743**	—
	Travelling and conveyance	**252,769**	—
	Communication	**150,305**	—
	Miscellaneous	**934,845**	521,418
		32,653,730	9,249,767

18.4.1 Tax on land rent

Tax is not deductible from payment of land lease rental as per legal opinion obtained in this regard.

		2006 Taka	2005 Taka
19.	**General and administration expenses**		
	Salaries, wages, bonus and benefits	**20,358,951**	7,297,843
	Employer's contribution to PF	**876,474**	—
	Drug testing fees/licence fees	**193,165**	263,587
	Electricity, gas and other utilities	**277,130**	145,962
	Bank charges	**56,156**	349,432
	Rent	**1,346,500**	754,000
	Preliminary expenses written off	**6,550**	6,550
	Insurance	**222,421**	150,044
	Repairs and others	**334,454**	—
	Depreciation	**1,185,994**	325,863
	Printing and stationery	**1,010,361**	577,999
	Travelling and conveyance	**1,777,761**	1,361,384
	Communication	**1,218,941**	571,716
	Auditors' remuneration	**60,000**	50,000
	Miscellaneous	**2,653,457**	1,034,466
		31,578,315	12,888,846
20.	**Selling and distribution expenses**		
	Sales promotion expenses	**8,468,508**	3,149,456
	Sales depot expenses	**1,028,010**	1,029,329
	Field staff expenses	**3,877,782**	857,814
		13,374,300	5,036,599

21. Contingent liability

None.

		2006	2005
22.	**Capacity utilisation**		
	Installed capacity (tablets/capsules)	**132,500,000**	132,500,000
	Utilised capacity (tablets/capsules)	**33,960,000**	9,500,000
	Percentage of utilisation (%)	**25.63**	7.17
23.	**Directors' remuneration and benefit**		
	Remuneration	**4,510,000**	1,050,000
	Benefits	**260,000**	112,000

24. Information relating to consumption of materials

	2006		2005	
	Quantity kg	**Value Taka**	Quantity Kg	Value Taka
Raw materials	**15,918**	**39,717,934**	4,707	7,431,325
Packing materials		**3,343,949**		1,209,128

25. Value of import calculated on CIF basis

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

		2006		2005	
	Currency	Foreign currency	Equivalent Taka	Foreign currency	Equivalent Taka
Particulars					
Raw materials	USD	658,879	44,530,000	205,987	12,970,000
	EUR	70,800	6,180,000	—	—
Packing materials	USD	11,186	780,000	20,217	1,220,000
Lab chemicals	USD	41,215	2,810,000	3,291	210,000
Capital machinery	USD	3,895,637	7,250,000	53,146	3,310,000
and spare parts	YEN	3,790,480	2,270,000	—	—
Promotional inputs	USD	22,993	1,570,000	1,500	20,000
			65,390,000		17,730,000

Notes to the financial statements for the year ended 31 March, 2006

26. Employee benefit

The company maintains a recognised contributory provident fund for its permanent employees.

27. Reporting currency and level of precision

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

28. Number of employees

The number of employees who received annual salaries and allowances of Tk 36,000 and above was 102 (2005: 102).

29. Related party transactions

Name	Relationship	Nature of transaction during the year	Amount (Tk)
Sun Pharmaceutical Industries Ltd.	Parent company	Purchase of raw materials	6,320,000
		Purchase of spare parts & machinery	7,250,000
		Purchase of laboratory re-agents	170,000
		Promotional inputs	1,120,000
		Reimbursement of expenses	2,880,000
Mr. Sukumar Ranjan Ghosh	Managing Director	Land rent	6,660,000

30. Comparative figures

These financial statements have been prepared based on full year's operation whereas last year's operation was commenced with effect from 4 October 2004. Accordingly, the figures for current year are not comparable with those of last year.

31. General

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

CARACO PHARMACEUTICAL LABORATORIES, LTD.

(A Subsidiary of Sun Pharmaceutical Industries Limited)

Dear Shareholders & Friends

It's an honor for me to report to our shareholders for the first time since joining Caraco Pharmaceutical Laboratories as your Chief Executive Officer as of May 2005. I had the pleasure of meeting some of you during last year's annual meeting and hope to meet more shareholders at this year's annual meeting scheduled to be held at 11:00 a.m. on September 11, 2006, Detroit time, at the Ritz-Carlton Hotel, 300 Town Center Drive, Dearborn, Michigan 48126.

I am pleased to report that we accomplished our objectives during my first full year as CEO of Caraco. Fiscal 2006 (April 1, 2005 to March 31, 2006) was an exciting and productive period for our Company. We filed 10 ANDAs with the U.S. Food and Drug Administration, and received notice of approval for three products, which were subsequently launched to the market. We posted record sales and improved our gross margin during the course of the year, which reflects positively on our ability to improve efficiency while growing our Company. As expected, we recorded a net loss from operations, resulting primarily from GAAP (generally accepted accounting principles) non-cash charges for planned research & development spending to build our drug formulary and set the stage for continued growth and future profitability. Equally important, we enhanced the Caraco Team with the appointment of two new independent directors to our Board, the filling of key management positions and additions to manufacturing, quality control, and quality assurance to support our higher production and sales volumes. Unquestionably, it was the individual and collective efforts of all of our employees that enabled our Company to meet our goals and position us well for Fiscal 2007.

We Posted Solid Operating Results.

Despite the absence of any significant product approvals until December 2005, our net sales for Fiscal 2006 increased 29% to $82.8 million, from $64.1 million for the corresponding year-earlier period. This was our fifth consecutive year of exceptionally strong annual sales growth. Our gross profit was relatively stable. However, due to price erosion, our gross profit as a percent of sales dropped, year-over-year, from 58% to 49%, yet actual dollars increased by 10%. This improvement was attributable to higher sales and a more favorable mix of products and customers.

SG&A rose modestly to 9.9% of sales from 9.2% of sales in Fiscal 2005. The increase reflects a host of higher operating expenses including: sales and marketing, personnel, benefits, property taxes and SEC compliance, notably Sarbanes-Oxley costs.

We generated strong positive cash flow of $8.9 million for Fiscal 2006, despite increasing inventory levels throughout the year and carrying higher accounts receivable balances, primarily due to increased sales. The higher inventory levels have allowed us to increase market share as we capitalize on opportunities that arise in the generic pharmaceutical marketplace.

We incurred substantially higher R&D expenses for Fiscal 2006, both cash and non-cash, including costs to file 10 ANDAs. Total R&D expense was $43.5 million for Fiscal 2006 and $33.4 million for Fiscal 2005. Cash R&D expenses were $8.4 million for Fiscal 2006, up from $6.6 million during Fiscal 2005. The non-cash R&D expense of $35.1 million (related to technology-transfer costs) represents 4,896,000 shares of Series B convertible preferred stock for nine product transfers under our 2002 product-development agreement with Sun Pharma Global, Inc. (Sun Global), a wholly owned subsidiary of Sun Pharmaceutical Industries, Ltd. (Sun Pharma). The non-cash R&D expense is a GAAP (generally accepted accounting principles) requirement, designed to recognize the value of the convertible preferred stock paid to Sun Global for product development under our 25-product development agreement.

This agreement enables us to develop new products without impairing cash flow and at a faster pace than would be possible through our own Detroit-based R&D Group. Currently, all 25 products under this agreement have been selected and, as of July 31, 2006, only three products remain to undergo and pass bioequivalency studies and to be filed with the FDA. In Fiscal 2005, this non-cash R&D charge was $26.8 million for 4,352,000 shares of Series B convertible preferred stock for eight product transfers. Additional details of the product-development agreement are included in the MD&A and Notes sections of this annual report.

As expected, we incurred a net loss for Fiscal 2006. This was $10.4 million, or $0.39 per diluted share, compared to a net loss of $2.3 million, or $0.09 per diluted share, for Fiscal 2005. The increase in the net loss was primarily due to higher R&D expenses, particularly non-cash R&D expense, as disclosed above.

At the close of Fiscal 2006, as a result of the issuance of the 4,896,000 shares of Series B convertible preferred stock to Sun Global, Stockholders' Equity stood at $56.4 million, up 78% from Stockholders' Equity of $31.7 million at the close of Fiscal 2005.

At the close of Fiscal 2006, we remain free of all debt. We established a $10 million standby credit line with J.P Morgan Chase Bank, N.A., which may be used for working capital or future expansion needs. There were no outstanding borrowings under the credit line at the close of Fiscal 2006.

At March 31, 2006 we had $41.4 million in working capital, compared with $18.8 million the year before.

We Expanded Plant Capacity and Improved Efficiency.

At the plant level, we completed $3.6 million in renovations that added approximately 10,000 square feet of manufacturing space, raising total production space to more than 80,000 square feet. In addition, we lease approximating 55,000 square feet, near our main plant, which is used as our primary facility for product distribution, inventory storage and administrative space. Our total operations footprint tops 142,000 square feet.

Over the course of the past two to three years, we have made significant changes to our manufacturing infrastructure in order to increase capacity and improve efficiency. These improvements, combined with current projects, should provide us with adequate operational space to meet our production and sales goals through Fiscal 2008. Additional expansion opportunities are under review.

Subsequent to the close of Fiscal 2006, we completed the relocation of our administrative offices to a leased space in the nearby New Center area of Detroit. This move frees-up needed space at our main plant for additional R&D and manufacturing activities, and consolidates some of our corporate and executive staff for more efficient interaction.

Solid Product Progress.

Our product-development strategy primarily has been supported by the Sun Global product-development agreement. Product development is the fuel that propels our Company forward. In the future, product development will remain a primary focus for our Company.

We intend to continue to work with Sun Pharma to develop products and to complement that relationship with product-development arrangements with unaffiliated companies, both domestic and foreign. In addition, we intend to initiate further product development within Caraco by Caraco's skilled product-development team.

It is a high priority to improve the stream of products while managing development costs per product. Accomplishing this will allow us to maximize the number of products we can bring to market each year.

We have identified all 25 drugs under our product-development agreement with Sun Global. Nine of these passed biostudies in Fiscal 2006, raising to 20 the total number that have passed biostudies through Fiscal 2006. During Fiscal 2006 we filed 10 ANDAs, bringing our total ANDA filings to 34. Of these 34, the FDA has approved 18, as of the close of Fiscal 2006. Also, we received tentative approvals from the FDA for two additional ANDAs in Fiscal 2006. At the close of the fiscal year our formulary encompassed 21 prescription products in 44 strengths in 99 package sizes.

We Accelerated Research And Grew Our Formulary.

Our product strategy going forward is to discover, develop and co-develop opportunities for products that have solid market potential, that are difficult to develop, that require difficult-to-source raw materials and/or products representing smaller therapeutic niche markets. During Fiscal 2006 we also continued to develop products that have potential patent litigation, and/or first-to-file opportunities. We will also look for opportunities to in-license authorized generics from brand pharmaceutical companies.

Product Litigation.

As reported, we were awarded summary judgment in favor of Caraco on Tramadol with Acetaminophen, our generic version of Ultracet®. The manufacturer of Ultracet ® has appealed the ruling. Our product was approved on December 19, 2005 and launched immediately thereafter.

Web Development.

In March 2006 we launched our Clozapine Website, to support product sales. The Website electronically registers our customers who prescribe and purchase Clozapine and their respective patients. This registration requirement is unique to this particular product. Previously at Caraco this registration process was performed manually. The process was archaic and time consuming. The new Website allows registrants to electronically register each patient, the pharmacy provider and physician. With its user-friendly interface and ease of use, we expect the Website to significantly improve our market share position on this product.

Sun Pharma Partnership.

Sun Pharma is India's fifth largest pharmaceutical company and a vertically integrated pharmaceutical manufacturer serving international markets. In addition to technology transfers for shares, Sun Pharma and its affiliates have directly loaned capital and acted as a guarantor on loans to Caraco. They supply us with raw materials for certain of our products, help us obtain machinery and equipment to enhance our production capacities at competitive prices, and transferred certain generic products to us. Sun Pharma's investment in and support of Caraco has directly resulted in Caraco achieving the sales necessary to support its operations. As of July 2006, Sun Pharma beneficially owns approximately 64% (75% including its Series B convertible preferred stock) of the outstanding shares of Caraco.

The Caraco Team.

We continued to fortify our staff, building succession models throughout the organization. We very judiciously added needed staff to remove hurdles and allow us to execute our plan. As we build our team we model productivity per-headcount in each functional area. This enables us to closely monitor per formance and performance improvements as we modify the level of support in each area.Based on stringent benchmarks, we saw measurable improvement in productivity in each quarter of the year.

Looking forward, we are encouraged about the future of our Company and the industry as a whole. We understand the competitive environment we find ourselves in is conducive to our growth. It requires a company to manage its business consistently better than its peers. It requires a company to execute its plan effectively, while maintaining or lowering costs to bring products to market. It requires a company to be proactive by getting ahead of problems or behind opportunities. It requires a management that is able to move deftly and effectively to maintain discipline in every functional area of the Company. I believe our Company largely holds itself to these standards. I believe in execution of our plan.

As we have noted, we anticipate continued pressure on margins from strong competition from U.S. and international pharmaceutical firms. We have and will continue to work diligently to counter the pricing pressures through increased sales volumes, better cost absorption of operational overheads, and cost reductions.

Our own management focus for Fiscal 2007 will continue to be on several key areas:

- Ongoing focus and improvement on FDA compliance.
- Increased pace of research and development activities with a view to maximize ANDA fillings.
- Continued investments in equipment and facilities to expand capacity to meet projected near-term growth.
- Increasing market share for certain existing and recently introduced products.
- Enhance customer reach and satisfaction.
- Promptly introduce new products when approved.
- Achieve further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase the number of products, as well as anticipated volume increases for existing products, which in turn, will improve manufacturing-capacity utilization.
- Attract and retain talented employees to help differentiate our Company from our competitors.
- Research alternate product-development sources and obtain product licenses such as in-licensing and/or authorized generics from brand innovator companies.
- Acquisitions of ANDAs from competitor manufacturers, both domestic and foreign.
- Develop alternative ways of increasing cash, such as marketing ANDAs owned by Sun Pharma.
- Expand our relationship with financial institutions to fortify our credit position and borrowings, as necessary.

In closing, and on behalf of our Directors and the entire Caraco Team, I would like to express my sincere thanks to all of our shareholders. We appreciate your continued trust and support. In addition, I would also like to acknowledge the contribution made by the very talented team of individuals who make up the Caraco family. Each year this team is together it will become more cohesive and focused on reaching our goals. In my first year here at Caraco I have found that we are transitioning into a true team, filled with experts in their respective area, who understand the impact their actions have on one another and on the success of the Company. Our Company's accomplishments and progress would not have been possible without their individual and collective efforts. We are proud of the Company that we are today and we are excited about the prospects of the Company we will become tomorrow.

Daniel H. Movens
Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Caraco Pharmaceutical Laboratories, Ltd.
Detroit, Michigan

We have audited the accompanying balance sheets of *Caraco Pharmaceutical Laboratories, Ltd.* (a Michigan corporation) (a subsidiary of Sun Pharmaceutical Industries Limited) (the "Corporation") as of March 31, 2006 and 2005 and the related statements of operations, stockholders' equity (deficit) and cash flows for the year ended March 31, 2006, the three months ended March 31, 2005 and for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caraco Pharmaceutical Laboratories, Ltd. as of March 31, 2006 and 2005, and the results of its operations and its cash flows for the year ended March 31, 2006, the three months ended March 31, 2005, and for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the *Public Company Accounting Oversight Board (United States)*, the effectiveness of the Corporation's internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 7, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Rahmann Robson

Troy, Michigan

May 7, 2006

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

BALANCE SHEETS

	March 31 2006	March 31 2005
ASSETS		
Current assets		
Cash and cash equivalents	**$ 11,924,245**	$ 6,627,425
Accounts receivable, net	**20,859,099**	6,736,778
Inventories	**26,965,690**	18,467,693
Prepaid expenses and deposits	**2,532,561**	1,105,618
Total current assets	**62,281,595**	32,937,514
Property, plant and equipment		
Land	**197,305**	197,305
Buildings and improvements	**10,790,703**	9,605,888
Equipment	**12,040,688**	9,701,979
Furniture and fixtures	**681,705**	589,329
Total	**23,710,401**	20,094,501
Less accumulated depreciation	**8,749,997**	7,197,422
Net property, plant and equipment	**14,960,404**	12,897,079
Total assets	**$ 77,241,999**	$ 45,834,593

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

	March 31 2006	March 31 2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable, trade	**$ 3,696,265**	$ 2,577,668
Accounts payable, Sun Pharma	**14,678,085**	9,639,890
Accrued expenses	**2,489,398**	1,931,442
Total liabilities (all current)	**20,863,748**	14,149,000
Commitments and contingencies (Notes 9, 11 and 12)		
Stockholders' equity (Note 7)		
Series B convertible preferred stock, no par value; issued and outstanding 10,880,000 shares (March 31, 2006) 5,984,000 shares (March 31, 2005)	**72,755,770**	37,700,410
Common stock, no par value; authorized 30,000,000 shares, issued and outstanding 26,421,994 shares (March 31, 2006) 26,360,294 shares (March 31, 2005)	**44,988,597**	44,927,987
Additional paid-in capital	**2,718,735**	2,718,735
Accumulated deficit	**(64,084,851)**	(53,661,539)
Total stockholders' equity	**56,378,251**	31,685,593
Total liabilities and stockholders' equity	**$ 77,241,999**	$ 45,834,593

STATEMENTS OF OPERATIONS

	Year Ended March 31, 2006	Three Months Ended March 31, 2005	Year Ended December 31 2004	Year Ended December 31 2003
Net sales	$ 82,788,918	$ 17,336,500	$ 60,340,309	$ 45,498,400
Cost of goods sold (Notes 1 and 4)	41,872,834	7,879,425	24,441,569	19,507,406
Gross profit	**40,916,084**	**9,457,075**	**35,898,740**	**25,990,994**
Selling, general and administrative expenses	8,182,718	1,879,480	5,276,755	7,363,341
Research and development costs - affiliate (Note 7)	35,055,360	10,200,000	24,397,040	3,103,370
Research and development costs - other	8,437,338	1,719,865	6,053,334	3,112,294
Operating (loss) income	**(10,759,332)**	**(4,342,270)**	**171,611**	**12,411,989**
Other income (expense)				
Interest income	233,385	16,385	40,316	9,102
Interest expense	(3,740)	—	(407,330)	(1,233,531)
(Loss) gain on sale of equipment	—	—	(10,636)	25,531
Other income	106,375	4,172	6,671	9,627
Other income (expense) - net	**336,020**	**20,557**	**(370,979)**	**(1,189,271)**
Net (loss) income	**$ (10,423,312)**	**$ (4,321,713)**	**$ (199,368)**	**$ 11,222,718**
Net (loss) income per share				
Basic	$ (0.39)	$ (0.16)	$ (0.01)	$ 0.46
Diluted	$ (0.39)	$ (0.16)	$ (0.01)	$ 0.44

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

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Preferred Stock Dividends	Accmulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balances at January 1, 2003	—	$ —	23,762,532	$ 40,457,028	$ 282,858	$ (350,380)	$ (60,012,796)	$ (19,623,290)
Payment of preferred stock dividends	—	—	—	—	—	350,380	(350,380)	—
Issuance of common stock to directors in lieu of cash compensation	—	—	31,000	112,310	—	—	—	112,310
Common stock options exercised	—	—	784,296	872,973	2,435,877	—	—	3,308,850
Net income	—	—	—	—	—	—	11,222,718	11,222,718
Balances at December 31, 2003	—	—	24,577,828	41,442,311	2,718,735	—	(49,140,458)	(4,979,412)
Issuance of preferred stock to affiliate in exchange for product technology transfers	4,352,000	27,500,410	—	—	—	—	—	27,500,410
Common stock options exercised	—	—	1,756,866	3,453,946	—	—	—	3,453,946
Net loss	—	—	—	—	—	—	(199,368)	(199,368)
Balances at December 31, 2004	4,352,000	27,500,410	26,334,694	44,896,257	2,718,735	—	(49,339,826)	25,775,576
Issuance of preferred stock to affiliate in exchange for product technology transfers	1,632,000	10,200,000	—	—	—	—	—	10,200,000
Common stock options exercised	—	—	25,600	31,730	—	—	—	31,730
Net loss	—	—	—	—	—	—	(4,321,713)	(4,321,713)
Balances at March 31, 2005	**5,984,000**	**37,700,410**	**26,360,294**	**44,927,987**	**2,718,735**	—	**(53,661,539)**	**31,685,593**
Issuance of preferred stock to affiliate in exchange for product technology transfers	4,896,000	35,055,360	—	—	—	—	—	35,055,360
Common stock options exercised	—	—	61,700	60,610	—	—	—	60,610
Net loss	—	—	—	—	—	—	(10,423,312)	(10,423,312)
Balances at March 31, 2006	**10,880,000**	**$ 72,755,770**	**26,421,994**	**$ 44,988,597**	**$ 2,718,735**	—	**$ (64,084,851)**	**$ 56,378,251**

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

STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2006	Three Months Ended March 31, 2005	Year Ended December 31	
			2004	2003
Cash flows from operating activities				
Net (loss) income	$ (10,423,312)	$ (4,321,713)	$ (199,368)	$ 11,222,718
Adjustments to reconcile net (loss) income to net cash provided by operating activities Depreciation	1,552,578	306,626	932,419	683,339
Capital stock issued or to be issued to affiliate in exchange for product formula	35,055,360	10,200,000	24,397,040	3,103,370
Common shares issued in lieu of compensation	—	—	—	112,310
Loss (gain) on sale of property, plant and equipment	—	—	10,636	(25,531)
Variable compensation expense for stock options extended to director and officer	—	—	—	2,435,877
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(14,122,321)	(2,133,911)	(64,393)	945,662
Inventories	(8,497,997)	(1,333,882)	(7,523,001)	(3,994,848)
Prepaid expenses and deposits	(1,426,943)	(441,807)	(140,430)	(90,716)
Accounts payable	6,156,792	2,300,793	4,690,789	1,243,139
Accrued expenses	557,954	220,793	(64,548)	(126,829)
Net cash provided by operating activities	**8,852,111**	**4,796,899**	**22,039,144**	**15,508,491**

	Year Ended March 31, 2006	Three Months Ended March 31, 2005	Year Ended December 31 2004	Year Ended December 31 2003
Cash flows from investing activities				
Purchases of property, plant and equipment	(3,615,901)	(657,673)	(3,982,413)	(2,493,173)
Proceeds from sale of property, plant and equipment	—	—	—	76,200
Net cash used in investing activities	**(3,615,901)**	**(657,673)**	**(3,982,413)**	**(2,416,973)**
Cash flows from financing activities				
Proceeds from loans payable to financial institutions	1,500,000	—	10,000,000	1,600,000
Repayments of loans payable to financial institutions	(1,500,000)	—	(26,875,000)	(625,000)
Payment of preferred stock dividends	—	—	—	(350,380)
Net repayments of subordinated stockholder notes	—	—	—	(9,700,000)
Repayments of EDC loan	—	—	(6,385,490)	(1,217,057)
Proceeds from issuance of common stock	60,610	31,730	3,453,946	872,973
Net cash provided by (used in) financing activities	**60,610**	**31,730**	**(19,806,544)**	**(9,419,464)**
Net increase (decrease) in cash and cash equivalents	**5,296,820**	**4,170,956**	**(1,749,813)**	**3,672,054**
Cash and cash equivalents, beginning of year	6,627,425	2,456,469	4,206,282	534,228
Cash and cash equivalents, end of year	**$ 11,924,245**	**$ 6,627,425**	**$ 2,456,469**	**$ 4,206,282**

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Caraco Pharmaceutical Laboratories, Ltd. ("Caraco" or the "Corporation"), based in Detroit, Michigan, develops, manufactures and markets generic, prescription and over-the-counter pharmaceuticals in the United States. The process of developing a line of proprietary drugs requires approvals by the Food and Drug Administration (FDA) of Abbreviated New Drug Applications (ANDA). The Corporation's present product portfolio consists of a number of products in various strengths and package sizes. The Corporation's drugs relate to a variety of therapeutic segments including the central nervous system, cardiology, pain management and diabetes.

The Corporation's manufacturing facility and executive offices were constructed in 1991, pursuant to a $9.1 million loan from the Economic Development Corporation of the City of Detroit (the "EDC"). Since August 1997, capital infusions and loans have primarily come from Sun Pharmaceutical Industries Limited, a specialty pharmaceutical corporation organized under the laws of India ("Sun Pharma"). Among other things, Sun Pharma has acted as a guarantor on loans to Caraco, has supplied the Corporation with raw materials for certain products, assisted in obtaining machinery and equipment to enhance production capacities at competitive prices, and has transferred certain generic products. As of June 3, 2006, Sun Pharma beneficially owns approximately 64% (75% including its convertible Series B Preferred stock) of the outstanding common shares of Caraco.

Sun Pharmaceutical Industries Limited

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

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

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

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

The products agreement was amended by the Independent Committee, comprised of the three independent directors, in the first quarter of 2004 to eliminate the provision requiring that the Independent Committee concur in the selection of each product, and provides instead that each product satisfy certain objective criteria developed by management and approved by the Independent Committee. Pursuant to such objective criteria, all 25 of the products under this agreement have been selected, 20 of which passed bio-equivalency studies through March 31, 2006.

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

Sun Pharma and its subsidiaries supply the Corporation with certain raw materials (Note 4) and formulations, assist in acquiring machinery and equipment to enhance production capacities, and provide qualified technical professionals who work as Caraco employees.

Also, four of the nine directors of Caraco are, or were, affiliated with Sun Pharma. Further, Sun Pharma and its affiliates may use Caraco as a contract manufacturer and/or distributor of their products. In December 2004, Caraco entered into an agreement for two such products.

During the three month period ended March 31, 2005 SPARC Bioresearch Private Limited ("SPARC"), an affiliate of Sun Pharma, performed certain analytical studies required as part of the bio-equivalency process for two products. The Corporation incurred approximately $172,000 of costs during this period for the studies performed by SPARC. No similar studies were performed by SPARC during the years ended March 31, 2006, December 31, 2004 or 2003.

While management has a basis to reasonably believe that Sun Pharma's substantial investment in Caraco provides Sun Pharma with sufficient economic incentive to continue to assist Caraco in developing its business, and Sun Pharma has expressed its intent to continue to support Caraco's operations in the near term, as it has done in the past, there can be no assurance that such support will, in fact, continue.

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

In addition to its substantial relationship with and dependence on Sun Pharma as described above, the Corporation is subject to certain risks associated with companies in the generic pharmaceutical industry. Profitable operations are dependent on the Corporation's ability to market its products at reasonable profit margins. In addition to maintaining profitable operations, the ongoing success of the Corporation will depend, in part, on its continuing ability to attract and retain key employees, obtain timely approvals of its ANDAs, and develop new products (see "Operations", below).

Operations

The Corporation recorded net sales of $82.8 million during for the year ended March 31, 2006 (Fiscal 2006) and generated cash from operations of $8.9 million during Fiscal 2006. This cash was generated after funding working capital requirements of $17.5 million. The Corporation incurred a net loss of $10.4 million during Fiscal 2006. The loss was primarily due to non-cash research and development expense (R&D) of $35.1 million recorded during Fiscal 2006. This non-cash R&D expense relates to nine products passing their bio-equivalency studies and the related value of the preferred stock issued to Sun Global during this period. At March 31, 2006, the Corporation had stockholders' equity of $56.4 million.

Management's plans for fiscal 2007 include:

- Continued focus on FDA compliance.
- Increased pace of research and development activities, with a view to maximize ANDA filings.
- Continuing to invest in equipment and facilities to expand capacity to meet requirements of projected growth in the near term.
- Increased market share for certain existing products and recently introduced new products and enhanced customer reach and satisfaction.
- Prompt introduction of newly approved products to the market.
- Achieving further operational efficiencies by attaining economies of scale and cost reduction per unit.
- Increase the number of products, as well as anticipated volume increases for existing products that, in turn, will improve manufacturing capacity utilization.
- Expanding relationships with financial institutions to fortify the Corporation's credit position and borrowings as necessary.
- Considering alternative ways of increasing cash, such as through marketing ANDAs owned by Sun Pharma
- Research alternative product development sources and product licenses such as in licensing authorized generics from brand innovator companies and acquisitions of ANDAs from competitor manufacturers both domestic and abroad.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, provisions for estimated customer returns, discounts, rebates and other price adjustments, including customer chargebacks (see "Revenue Recognition", below), valuation allowances for deferred tax assets, and valuation of overhead components in inventory.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less. The Corporation invests its excess cash primarily in deposits with major banks and in other high quality short-term liquid money market investments. During the normal course of business, the Corporation may maintain cash on deposit in excess of federally insured limits with financial institutions. The Corporation maintains a policy of making investments only with institutions with at least an investment grade credit rating.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, shipment of the goods has occurred, the selling price is fixed or determinable, and collectibility is reasonably probable. The Corporation's customers consist primarily of large pharmaceutical wholesalers who sell directly into the retail channel. Provisions for sales discounts, and estimates for chargebacks, rebates, and product returns are established as a reduction of product sales revenue at the time revenues are recognized, based on historical experience and current market trends adjusted to reflect known changes in the factors that impact these reserves. These revenue reductions are reflected as a direct reduction to accounts receivable through an allowance.

Allowances for Sales Adjustments

Chargebacks

Chargebacks represent the Corporation's most significant provision against gross accounts receivable and related reduction to gross revenue. Chargebacks are credits given to wholesale customers for the price difference on the products they sell (at a contractual price) to retail, chain stores, and managed care organizations at prices lower than the Corporation sells to the wholesale customer. The Corporation records an estimate at the end of the reporting period to the wholesaler of the amount to be charged back to them, over and above those already received by the Corporation. Such estimated amounts, in addition to certain other deductions, are deducted from the Corporation's gross sales to determine their net revenues. The Corporation records provisions for chargebacks based upon various factors, including current contract prices, historical trends, and their future expectations. The amount of actual chargebacks claimed could be either higher or lower than the amounts accrued. Changes in these estimates, if any, are recorded in the income statement in the period of the change. If the Corporation has over or under estimated the amount that will ultimately be charged back to them by their wholesale customers, there could be a material impact on the Corporation's financial statements.

The Corporation considers the following factors in the determination of the estimates of chargebacks:

1. Historical data of chargebacks as a percentage of sales, as well as the various chargeback reports that are received from the wholesale customers.
2. Volume of product sold to wholesalers and the average chargeback rates, on a quarterly and annualized basis are applied to current period and annual product sales.
3. The sales trends for future estimated prices, wholesale acquisition cost (WAC), the contract prices with the retailers, chain stores and managed care organizations (end-users). The Corporation's prices with the wholesalers and end users are contracted prices.

Approximately 88% and 94% of the total allowance for trade receivables at March 31, 2006 and 2005, respectively has been established to provide for estimated chargebacks (see Note 3).

Shelf Stock Adjustments

Shelf stock adjustments are credits issued to customers to reflect decreases in the selling prices of products. These credits are customary in the industry and are intended to reduce the customers' inventory cost to better reflect current market prices. The determination to grant a shelf stock adjustment to a customer following a price decrease is at the Corporation's discretion.

Factors considered when recording a reserve for shelf stock adjustments include estimated launch dates of competing products based on market intelligence, estimated decline in market price of products based on historical experience and input from customers, and levels of inventory held by customers at the date of the pricing adjustments.

Product Returns and Other Allowances

In the pharmaceutical industry, customers are normally granted the right to return product for credit if the product has not been used prior to its expiration date. The Corporation's return policy typically allows product returns for products within a 12-month window from six months prior to the expiration date and up to six months after the expiration date. The Corporation estimates the level of sales, which will ultimately be returned pursuant to its return policy, and records a related reserve at the time of sale. These amounts are deducted from its gross sales to determine net revenues. These estimates take into consideration historical returns of our products and the Corporation's future expectations. The Corporation periodically reviews the reserves established for returns and adjusts them based on actual experience, as necessary. The primary factors considered in estimating its potential product returns include shelf life of expiration date ofeach product and historical levels of expired product returns. If the Corporation becomes aware of any returns due to product related issues, this information is used to estimate an additional reserve. The amount of actual product return could be either higher or lower than the amounts reserved. Changes in these estimates, if any, would be recorded in the income statement in the period of the change. If the Corporation over or under estimates the quantity of product that will ultimately be returned, there may be a material impact to its financial statements.

Discounts (trade and prompt payment discounts) are reserved for at the end of every reporting period based on the gross sales made to the customers during the period and based on their terms of trade. The Corporation reviews its contracts with its customers in addition to historical data and percentages to estimate the reserve for estimated discounts.

Customer rebates are estimated at the end of every reporting period, based on direct or indirect purchases. If the purchases are direct, the rebates are recognized when products are purchased and a periodic credit is given. For indirect purchases, the rebates are recognized based on the terms with such customer. Medicaid Rebates are estimated based on the historical data the Corporation receives from the public sector benefit providers, which is based on the final dispensing of our products by a pharmacy to a benefit plan participant.

Doubtful Accounts

Doubtful accounts are estimated based on the data available from external sources, including information obtained related to the financial condition of customers. Delinquent accounts are reviewed by management on a quarterly basis, to identify and record allowances, as considered necessary, for accounts receivable not expected to be recoverable.

Accounts Receivable

The Corporation sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Corporation provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on management's assessment of the current status of individual accounts. Balances that are still outstanding after the Corporation has attempted reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Inventories

Inventories, which consist principally of raw materials, goods in transit and finished goods, as well as work-in-process, are stated at the lower of cost, determined using the specific identification method, or market. The Corporation analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are written off. Materials acquired for research and development on products yet to be launched are written off in the year of acquisition. The determination of whether or not inventory costs will be realizable requires estimates by management. A critical estimate in this determination is the estimate of the future expected inventory requirements, whereby the Corporation compares its internal sales forecasts to inventory on hand. Actual results may differ from those estimates and inventory write-offs may be required. The Corporation must also make estimates about the amount of manufacturing overhead to allocate to its finished goods and work in process inventories. Although the manufacturing process is generally similar for its products, the Corporation must make judgments as to the portion of costs to allocate to purchased product, work in process and finished goods, and such allocations can vary based upon the composition of these components and the fact that each product produced does not necessarily require the same amount of time or effort for the same production step. Accordingly, the assumptions made can impact the value of reported inventories and cost of sales.

Net (Loss) Income Per Share

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

At March 31, 2006 and 2005 and at December 31, 2004 options to purchase 341,400, 357,000 and 381,600 shares respectively, 10,880,000, 5,984,000 and 4,352,000 shares of convertible preferred stock, respectively and 45,000 shares of common stock granted to the Corporation's Chief Executive Officer during 2006 (Note 7) were excluded from the computation of earnings per share because they would have an antidilutive effect on net loss per share.

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

	Year Ended March 31	Three Months Ended March 31	Year Ended December 31	
	2006	2005	2004	2003
Numerator:				
Net (loss) income available for common stockholders	$ (10,423,312)	$ (4,321,713)	$ (199,368)	$ 11,222,718
Denominator:				
Weighted average shares outstanding, basic	26,392,054	26,348,347	24,734,282	24,137,108
Incremental shares from assumed conversion of common stock options	—	—	—	1,344,851
Weighted average shares outstanding, diluted	26,392,054	26,348,347	24,734,282	25,481,959
Net (loss) income per common share				
Basic	$ (0.39)	$ (0.16)	$ (0.01)	$ .46
Diluted	$ (0.39)	$ (0.16)	$ (0.01)	$ .44

Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets for impairment and reasonably believes the carrying value of these assets will be recovered through cash flows from operations.

Federal Income Taxes

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and federal income tax basis of assets and liabilities as measured by the estimated tax rates that will be in effect when these differences reverse. The principal difference between assets and liabilities for financial statement and federal income tax return purposes is attributable to accounts receivable allowances and the anticipated utilization of tax net operating losses.

Research and Development Costs

Series B convertible preferred stock (Note 7) is issued on an ongoing basis to Sun Pharma and its affiliates under the Products Agreement between the Corporation and Sun Global in exchange for the formulations of technology products delivered by Sun Global to the Corporation. The resulting amount of research and development expense is charged to operations and is determined based on the fair value of the preferred shares on the date the respective product formula passes its bio-equivalency studies. The fair value of such shares is based upon an independent valuation.

Research and development costs settled in cash are charged to expense as incurred.

Common Stock Issued to Directors

Common stock was issued from time to time in lieu of cash for directors fees, and was recorded as compensation expense at the fair values of such shares on the dates they were earned. Subsequent to December 31, 2003, directors' fees are paid in cash. Also, since December 31, 2003, independent directors are granted stock options upon completion of their anniversary of serving on the board of directors.

Fair Values of Financial Instruments

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the short-term maturities of these financial instruments.

Recent Accounting Pronouncements

In July 2005, the *Financial Accounting Standards Board* ("FASB") published an Exposure Draft of a proposed Interpretation, "Accounting for Uncertain Tax Positions." The Exposure Draft seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. It would apply to all tax positions accounted for in accordance with *Statement of Financial Accounting Standards* ("SFAS") 109, "Accounting for Income Taxes." The Exposure Draft requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. This threshold is to be met assuming that the tax authorities will examine the uncertain tax position. The Exposure Draft contains guidance with respect to the measurement of the benefit that is recognized for an uncertain tax position, when that benefit should be derecognized, and other matters. This proposed Interpretation would clarify the accounting for uncertain tax positions in accordance with SFAS 109. This Interpretation, once approved, is expected to be effective as of the end of the fiscal year ending after December 15, 2005. The Corporation does not expect that the exposure draft will have a significant impact on its operating results.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20, "Accounting Changes," and supersedes FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements—an amendment of APB Opinion No. 28." SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, SFAS 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Corporation does not expect that the provisions of the SFAS 154 will have a significant impact on its operating results.

The FASB has proposed amending SFAS 128, "Earnings per Share," to make it consistent with International Accounting Standard 33, "Earnings per Share", and make earning per share, or EPS, computations comparable on a global basis. Under the proposed amendment, the year-to-date EPS computation would be performed independently from the quarterly computations. Additionally, for all contracts that may be settled in either cash or shares of stock, companies must assume that settlement will occur by the issuance of shares for purposes of computing diluted EPS, even if they intend to settle by paying cash or have a history of cash-only settlements, regardless of who controls the means of settlement. Lastly, under the proposed amendment, shares that will be issued upon conversion of a mandatory convertible security must be included in the weighted-average number of shares outstanding used in computing basic EPS from the date that conversion becomes mandatory, using the if-converted method, regardless of whether the result is anti-dilutive. The proposed amended standard was expected to be issued during the first quarter of 2005. However, the FASB has not yet finalized the revised effective date of the proposed amendment or its transition provisions. Retrospective application in all periods presented would be required and could require the restatement of previously reported EPS. The Corporation does not expect that the provisions of the amended SFAS 128 will have a significant impact on its operating results.

In December 2004, the FASB issued SFAS 123R (revised 2004), Share-Based Payment, (SFAS 123R). SFAS 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, Caraco will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Instead, Caraco will be required to account for such transactions using a fair-value method and recognize the expense in the statement of operations. On April 14, 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123 (R). The new rule allows companies to implement SFAS 123 (R) at the beginning of their next fiscal year, instead of their next reporting period beginning after June 15, 2005. The Corporation plans to adopt the new statement beginning in the first quarter of fiscal 2007. The Corporation expects that the adoption of SFAS 123R will not have a significant impact on its results of operations, nor does it expect that the adoption of SFAS 123R will impact its overall financial position. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS 123R may be different from the calculation of compensation cost under SFAS 123, but such differences have not yet been quantified.

In December 2004, the FASB issued SFAS 153 Exchanges of Nonmonetary Assets, and Amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to the principle. SFAS 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. The Corporation does not believe that the adoption of SFAS 153 will have a material impact on its results of operations or financial position.

2. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Financing Activities

As described in Notes 1 and 7, pursuant to the technology transfer agreement with an affiliate of the Corporation's parent, Caraco, on an ongoing basis, finances the acquisition of research and development costs in exchange for the issuance of preferred stock to its parent. Preferred stock earned or issued to affiliates had fair values of $35,055,360 for the year ended March 31, 2006, $10,200,000 for the three month period ended March 31, 2005, and $24,397,040 and $3,103,370 for the years ended December 31, 2004 and 2003, respectively.

Other Cash Flows Information

Cash paid for interest was approximately $4,000, $407,000 and $1,783,000 for the years ended March 31, 2006, December 31, 2004 and 2003, respectively. No cash was paid for interest for the three month period ended March 31, 2005.

3. ACCOUNTS RECEIVABLE, NET OF ALLOWANCES FOR SALES ADJUSTMENTS AND DOUBTFUL ACCOUNTS (NOTE 1)

Accounts receivable and related allowances are summarized as follows:

	March 31	
	2006	2005
Accounts receivable - gross	**$ 33,926,099**	$ 27,766,778
Allowances:		
Chargebacks	**11,467,000**	19,810,000
Sales returns and allowances	**1,500,000**	1,120,000
Doubtful accounts	**100,000**	100,000
Total allowances	**13,067,000**	21,148,000
Accounts receivable, net of allowances	**$ 20,859,099**	$ 6,736,778

A summary of the activity in accounts receivable allowances is as follows:

	Total Allowances
Balance at December 31, 2002	**$ 9,305,000**
Additions charged to net sales	56,515,000
Deductions allowed to customers	(49,777,000)
Balance at December 31, 2003	**16,043,000**
Additions charged to net sales	67,670,000
Deductions allowed to customers	(65,578,000)
Balance at December 31, 2004	**18,135,000**
Additions charged to net sales	21,712,000
Deductions allowed to customers	(18,817,000)
Balance at March 31, 2005	**21,130,000**
Additions charged to net sales	118,996,000
Deductions allowed to customers	(126,959,000)
Balance at March 31, 2006	**$ 13,067,000**

4. INVENTORIES

Inventories consist of the following amounts:

	March 31	
	2006	2005
Raw materials	$ 9,735,502	$ 5,504,006
Goods in transit	5,974,600	3,700,651
Work in process	3,283,911	2,607,903
Finished goods	7,971,677	6,655,133
Total inventories	**$ 26,965,690**	$ 18,467,693

The principal components used in the Corporation's business are active and inactive pharmaceutical ingredients and certain packaging materials. Some of these components are purchased from single sources, however, the majority of the components have an alternate source of supply. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers.

During the year ended March 31, 2006, the three months ended March 31, 2005, and during the years ended December 31, 2004 and 2003, the Corporation purchased inventory components of approximately $28.1 million, $5.3 million, $16.7 million and $10.3 million, respectively, from Sun Pharma.

5. DEBT

EDC Loan

During 2004, the Corporation repaid the entire amount due to the EDC under the Development and Loan Agreement dated August 10, 1990.

Loans Payable to Financial Institutions

During 2004, the Corporation obtained a $10,000,000 line-of-credit with Citibank, N.A., that incurred interest at the London Interbank Offered Rate (LIBOR) plus 125 basis points. Borrowings on the line-of-credit were available to Caraco only when secured by an irrevocable standby letter-of-credit from Sun Pharma. Such a letter was provided by Sun Pharma during 2004. The letter had expired as of December 31, 2004, and was terminated on March 15, 2005.

O n November 17, 2005, the Corporation entered into a one-year, $10 million Credit Agreement with JP Morgan Chase Bank, N.A. Under the Credit Agreement, the lender may make loans and issue letters of credit to the Corporation for the Corporation's working capital needs and general corporate purposes. Letters of credit, if issued, expire one year from their date of issuance, but no later than November 17, 2007. Borrowings are secured by the Corporation's receivables and inventory. Interest is payable based on a LIBOR Rate or an alternate base rate (determined by reference to the prime rate or the federal funds effective rate), as selected by the Corporation. The rate of interest is LIBOR plus 75 basis points or the bank's prime rate minus 100 basis points (effective rates of 6.0% and 6.75%, respectively at March 31, 2006.) The Credit Agreement requires that certain financial covenants be met on a quarterly basis. The Corporation is in compliance with these financial covenants at March 31, 2006. There are no borrowings under this Credit Agreement at March 31, 2006.

6. INCOME TAXES

The Corporation's deferred income taxes result principally from its net operating loss carryforwards. At March 31, 2006 a net deferred income tax asset of approximately $20.1 million (computed using a 34% tax rate) relating to these temporary differences exists. Based on the Corporation's prior operating results and operating characteristics, utilization of this deferred tax asset to offset future taxable income is not reasonably assured. Accordingly, Caraco has recorded a valuation allowance to fully offset the net deferred tax asset, resulting in no net deferred tax asset or liability in the accompanying balance sheets. The valuation allowance increased by approximately $3.7 million for the year ended March 31, 2006, $2.0 million for the three month period ended March 31, 2005, $0.4 million in 2004, and decreased by approximately $4.1 million in 2003.

At March 31, 2006, net operating loss carryforwards of approximately $58.8 million, which expire between 2007 and 2017, are available to offset future federal taxable income, if any. Sun Pharma has, over time, increased its ownership of the Corporation's capital stock. Under rules established by the Internal Revenue Code, this change in ownership may adversely affect how the Corporation is able to utilize these net operating loss carryforwards in future years.

7. STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

During 2003, the Corporation's shareholders approved the authorization of an additional 20,000,000 shares of common stock. The Corporation has not yet filed an amendment to its articles of incorporation to effect this change.

The Corporation granted 45,000 shares of common stock on May 2, 2005 to its Chief Executive Officer, which vest at a rate of 15,000 shares on each anniversary date until they are fully vested on May 2, 2008. The Corporation has recorded compensation expense of approximately $109,000 related to the portion of the stock grant that vested during fiscal 2006.

Preferred Stock

Accrued dividends of $0.4 million on Series A preferred shares were paid during 2003, and the holder, then a Corporation director, converted all Series A outstanding shares into an equivalent number of common shares. Accordingly, at March 31, 2006 and 2005, no Series A shares remain designated.

In November 2002, in connection with the new technology transfer agreement established with Sun Global (Note 1), the Corporation designated the Series B Convertible Preferred Stock. The Series B preferred shares are non-redeemable and have no par value. In addition, the Series B Convertible Preferred Stock has no voting or dividend rights or liquidation preference other than priority liquidation based on their values on the dates they were earned, and can be converted after three years from the issuance date (or immediately upon a change in control) into one share of common stock, subject to a conversion adjustment (Note 1). While such preferred shares are outstanding, Caraco cannot, without the consent of the holders of a majority of the outstanding shares of the preferred stock, amend or repeal its articles of incorporation or bylaws if such action would adversely affect the rights of the preferred stock. In addition, without such consent, capital stock having any preference or priority superior to the preferred stock may not be issued. As of March 31, 2006, the Corporation has issued 10,880,000 shares of the Series B Convertible Preferred stock to Sun Pharma in exchange for twenty product transfers. Such shares have been cumulatively valued at $ 72,755,770 million as of March 31, 2006.

8. COMMON STOCK OPTIONS

Common Stock Option Plans

As of March 31, 2006, the Corporation maintains one stock option plan, the 1999 Equity Participation Plan (the "1999 Plan") (all options under the 1993 plan were exercised during 2003, under which the Corporation may grant options to employees and non-employee-directors for the purchase of up to 3,000,000 shares of common stock.) The exercise price of options granted may not be less than the fair value of the common stock on the date of grant. Options granted under this plan generally vest in annual installments, from the date of grant, over a five-year period, and expire within six years from the date of the grant. Activity with respect to these options is summarized as follows:

	Year Ended March 31		Three Months Ended March 31		Year Ended December 31,			
	2006		2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	160,500	1.68	181,600	1.41	277,000	$ 1.00	687,138	$ 1.04
Granted	46,000	8.39	4,500	9.60	9,000	9.60	—	—
Exercised	(61,700)	0.98	(25,600)	1.24	(80,400)	1.08	(410,138)	0.97
Terminated	(3,400)	9.30	—	—	(24,000)	0.80	—	—
Outstanding, end of year	141,400	$ 3.93	160,500	$ 1.67	181,600	$ 1.41	277,000	$ 1.00
Options exercisable, end of year	71,720	$ 1.32	79,418	$ 1.50	49,800	$ 1.02	102,500	$ 1.07

Options at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Remaining Contractual Life *	Exercise Price *	Shares	Exercise Price *
$0.68 to $1.00	60,400	1.2	$ 0.78	48,320	$ 0.78
$1.01 to $2.00	25,000	1.7	1.25	20,000	1.25
$7.01 to $8.00	1,500	5.0	7.90	300	7.90
$8.01 to $9.00	47,500	5.2	8.41	300	8.76
$9.01 to $10.00	7,000	3.8	9.55	2,800	9.55
Total	141,400	2.8	$ 3.93	71,720	$ 1.32

*Weighted average

Other Common Stock Option Agreements

The Corporation has issued other stock options outside of the 1999 Plan. These stock options have been issued with various vesting schedules and expire at various dates through October 2006. Activity with respect to these options is summarized as follows:

	Year Ended March 31		Three Months Ended March 31		Year Ended December 31,			
	2006		2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	200,000	$ 3.50	200,000	$ 3.50	1,876,666	$ 2.01	2,250,824	$ 2.00
Exercised	—	—	—	—	(1,676,666)	2.01	(374,158)	1.16
Outstanding, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50	1,876,666	$ 2.01
Options exercisable, end of period	200,000	$ 3.50	200,000	$ 3.50	200,000	$ 3.50	1,876,666	$ 2.01

Options at March 31, 2006:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Shares	Remaining Contractual Life	Exercise Price
$3.01 to $4.00	200,000	—	$ 3.50

The Corporation follows only the disclosure aspects of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". Management believes that the fair value and pro-forma disclosures, required by SFAS No. 123, are not material to the financial statements. The Corporation continues to apply Accounting Principles Board (APB) Opinion No. 25 in accounting for its plan and, accordingly, no compensation cost has generally been recognized in the financial statements for its outstanding stock options. Options to purchase 46,000, 4,500 and 9,000 shares of common stock were granted for the year ended March 31, 2006, the three month period ended March 31, 2005 and the year ended December 31, 2004, respectively, to the independent directors of the Corporation. No options were granted during 2003.

In December 2001, the Board of Directors extended the exercise date to December 31, 2005 with respect to options for 224,158 shares of Caraco common stock previously granted to a then independent director. Variable compensation expense of $2.1 million and $0.3 million triggered by the extension was recorded during 2003 and 2002 in recognition of this modification.

On October 2, 2003, the Corporation entered into a severance agreement with its former Chief Executive Officer. The agreement allowed vesting of options for the purchase of 40,000 common shares held by the former officer to be accelerated. The modification resulted in the options being treated as variable rather than fixed in accordance with Financial Accounting Standards Board Interpretation 44 (FIN 44). As a result variable compensation expense of $0.3 million was charged to operations during 2003 for the difference between the fair value of the underlying common stock and the exercise price of the respective options.

The options modified for the independent director and for the former officer were exercised during 2003 resulting in an increase to additional paid in capital of $2.4 million during 2003.

The Corporation granted options to purchase 40,000 shares of common stock on May 2, 2005 to its Chief Executive Officer, which vest at a rate of 15,000 shares on each anniversary date until they are fully vested on May 2, 2008.

Strategic Alliance Stock Options Agreement

Pursuant to an agreement between the Corporation and an unaffiliated large generic pharmaceutical Corporation, dated October 1, 1993, the Corporation was to receive the formulations, technology, manufacturing processes and know-how, and other relevant information, and to pay for the bio-equivalency studies required for the preparation of ANDAs for two products. Pursuant to the agreement, the Corporation was required to pay (i) a Sign-Up Option to purchase 100,000 shares of Common Stock at $3.50 per share; and (ii) a Product Option to purchase shares to an exercise price of $3.50 per share. These options may be exercised and payment for shares may be made only out of royalties and any interest earned on the royalties while held by the Corporation. No options have yet been exercised (Note 12).

9. LEASES (INCLUDING RELATED PARTY)

The Corporation entered into two non-cancelable operating leases during 2000 with Sun Pharma to lease production machinery. The leases each required quarterly rental payments of $4,245 and expired during 2005.

The Corporation entered into a non-cancelable operating lease with an unrelated party during 2002 to lease additional warehouse space. This lease was subsequently modified during 2003 in lieu of a new non-cancelable operating lease for additional space at this warehouse. The new lease requires monthly payments that increase from $15,458 to $16,892 over the term of the lease that expires in 2007 with an option to renew for an additional year.

Net rental expense on these operating leases was $224,569 for the year ended March 31, 2006, $64,896 for the three months ended March 31, 2005 and $181,129 and $176,065 for the years ended December 31, 2004 and 2003, respectively.

The Corporation entered into a non-cancelable operating lease with an unrelated party on March 13, 2006 to obtain additional space for its administrative staff. The lease commences in May 2006 and requires monthly payments that increase from $8,481 to $9,066 over the term of the lease that expires in 2009.

The following is a schedule of annual future minimum lease payments required under the operating leases with remaining non-cancelable lease terms in excess of one year as of March 31, 2006:

Year	Amount
2007	293,046
2008	104,992
2009	63,171

The Corporation also paid approximately $0.2 million for the year ended March 31, 2006, $0.1 million for the three month period ended March 31, 2005, respectively, and $0.6 million and $0.5 million to Sun Pharma during the years ended December 31, 2004 and 2003, respectively, for the purchase of various parts and machinery needed for operations.

10. RETIREMENT PLAN

The Corporation maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to the maximum allowable amount determined by the Internal Revenue Code. The Corporation may make discretionary matching and profit sharing contributions under the provisions of the Plan. The Corporation made no discretionary contributions during the year ended March 31, 2006, the three months ended March 31, 2005, or for the years ended December 31, 2004 or 2003.

11. CONCENTRATIONS AND COMMITMENTS

Major Customers

Shipments to three wholesalers accounted for approximately 77% of gross revenue for the year ended March 31, 2006, 60% of gross revenue for the three months ended March 31, 2005 and 79% and 80% of gross revenue for the years ended December 31, 2004 and 2003, respectively. Balances due from these customers represented approximately 72% and 77% of gross accounts receivable at March 31, 2006 and 2005, respectively.

The loss of these customers could have a materially adverse effect on short-term operating results.

Major Products

Shipments of three products accounted for approximately 80% of gross revenue for the year ended March 31, 2006, 74% of gross revenue for the three months ended March 31, 2005 and 80% of gross revenue for the year ended December 31, 2004, respectively. Shipments of two products accounted from approximately 87% of gross revenue for the year ended December 31, 2003.

Approximately 84% of raw material purchases for the year ended March 31, 2006 and for the three months ended March 31, 2005 were made from Sun Pharma. Approximately 75% and 73% of Caraco's raw material purchases for the years ended December 31, 2004 and 2003, respectively, were made from Sun Pharma.

Product Sales Commitment

Certain of the Corporation's customers purchase its products through designated wholesalers, who act as an intermediary distribution channel for the Corporation's products. One such customer, the Veterans Administration, an agency of the United States Government, entered into a sales contract with the Corporation effective August 5, 2002 to purchase approximately $13,000,000 of product per year over a one year base contract period that ended June 30, 2003. The contract has four one-year option periods, the first three of which were exercised. The agreement may be terminated by the purchaser without cause and in such case, Caraco would only be entitled to a percentage of the contract price, plus reasonable charges that have resulted from the termination. The agreement further provides for certain penalty provisions if the Corporation is unable to meet its sales commitment.

Labor Contract

The majority of the Corporation's hourly work force is covered by a collective bargaining agreement that expires in September 2008.

12. OTHER MATTERS

Employment Contracts

The Corporation has employment agreements with four of its executive officers that provide for fixed annual salaries and at least a six-month continuance including insurance benefits and immediate vesting of stock options upon termination without cause.

Litigation

As previously disclosed, on June 9, 2005, Novo Nordisk A/S and Novo Nordisk, Inc. ("Novo Nordisk") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Corporation's filling of an ANDA seeking approval to market its generic version of Novo Nordisk's Prandin® drug product infringed Novo Nordisk's patent, which expires June 12, 2018. Novo Nordisk seeks an order from the Court which, among other things, directs the FDA not to approve Caraco's ANDA any earlier than the claimed expiration date. The ANDA filed by Caraco contains a Paragraph IV certification challenging the Novo Nordisk patent. The corporation believes that the Novo Nordisk patent is invalid and/or will not be infringed by Caraco's manufacture, use or sale of the product, and the corporation intends to vigorously defend this action in order to capitalize on the potential 180 days of marketing exclusivity available for this product.

As previously disclosed, on September 22, 2004, Ortho-McNeil Pharmaceutical, Inc. ("Ortho-McNeil") filed a complaint in the United States District Court for the Eastern District of Michigan alleging that the Corporation's filing of an ANDA seeking approval to market its generic version of Ortho-McNeil's Ultracet® drug product infringed Ortho-McNeil's patent, which expires on September 6, 2011. Ortho-McNeil seeks an order from the Court which, among other things, directs the FDA not to approve Caraco's ANDA any earlier than the claimed expiration date. The ANDA filed by Caraco contained a Paragraph IV Certification challenging the Ortho-McNeil patent. The corporation believes that the Ortho-McNeil patent is invalid and/or will not be infringed by Caraco's manufacture, use or sale of the product, and the corporation intends to vigorously defend this action. Since this action, Ortho-McNeil has entered into a license agreement with another manufacturer and has launched its product generically while another manufacturer has launched its approved generic at risk. On October 8, 2005, arguments were heard in the US District Court in the Eastern District of Michigan, on the Corporation's motion for summary judgment on the issue of non- infringement. On October 19, 2005 the motion for summary judgment was granted in the Corporation's favor. On December 19, 2005, the FDA approved the manufacture, use and sale of the product. Ortho-McNeil has filed an appeal of the finding of non-infringement by the Eastern District of Michigan. Additionally, the United States Patent and Trademark Office has allowed Ortho-McNeil's request for a reissue patent that, if issued, Ortho-McNeil could contend that is product will be infringed by Caraco's now-marketed product. The corporation believe that, like its original patent, Ortho-McNeil's reissue patent will be invalid and unenforceable.

As previously disclosed, on February 12, 2003, C. Arnold Curry filed a complaint in the Wayne County Circuit Court alleging breach of a written employment agreement. Dr. Curry sought 175,000 shares of the Corporation's common stock (35,000 shares for each of the first five ANDAs approved by the FDA). The corporation and the plaintiff each filed a motion for summary disposition. Both parties' motions were denied, and the parties submitted the matter to binding arbitration. In connection with the submission to arbitration, the parties agreed that Mr. Curry would receive a minimum of 15,000 shares of common stock. On April 20, 2006, the arbitrator entered a determination of no cause of action against Mr. Curry and in favor of the Corporation, thus capping the Corporation's liability to Mr. Curry at 15,000 shares. The Corporation has recorded an expense of approximately $116,000 related to the 15,000 shares earned by Mr. Curry.

The Corporation is involved in certain legal proceedings from time to time incidental to normal business activities. While the outcome of any such proceedings cannot be accurately predicted, the Corporation does not believe the ultimate resolution of any existing matters would have a material adverse effect on its financial position or results of operations.

Product Liability and Insurance

The Corporation currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Corporation also maintains special product liability insurance coverage for one of its products with coverage limits of $1 million per incident and in the aggregate. The Corporation's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all. There can be no assurance that the coverage limits of such policies will be adequate to cover the Corporation's liabilities, should they occur.

Royalty Accrual

Pursuant to the Strategic Alliance Stock Options Agreement (Note 8), Caraco received the formulation for one product, Metoprolol Tartrate, in March 1995. However, Caraco has determined that the formula provided to it with respect to Metoprolol Tartrate is different than the formula submitted in an ANDA to the FDA in 1995, approved by the FDA in 1996 and manufactured and introduced by Caraco since 1997. The Corporation has accrued royalties of approximately $1 million, which is included with accrued expenses in the accompanying balance sheets at March 31, 2006 and 2005, and since April 2003, has discontinued to accrue royalties related to this agreement.

Subsequent Transactions With and Relating to Sun Pharma

On June 1, 2006 Sun Global earned 544,000 shares of Series B preferred stock pursuant to the products transfer agreement for one product transfer (Note 1).

13. SEGMENT INFORMATION

The Corporation does not manufacture, produce or sell branded products or controlled-release products. The Corporation is primarily in the business of manufacturing, developing, selling and distributing various therapeutic classes of solid oral dosage of generic pharmaceuticals. There are no separate management teams or individuals assigned to a product or products or therapeutic classes of products, no separate allocation of funds or resources to distinct products or products or therapeutic classes or products, and the performance of any individual product or products or therapeutic classes of products is not separately assessed. The Corporation revenues are solely based on the receipt of customers' orders.

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" establishes standards for reporting of financial information about operating segments in annual financial statements. The Corporation considers its business to be a single segment entity, as its revenues are solely attributable to its generic drug product line.

For informational purposes, the Corporation's sales, grouped by therapeutic categories, for the years ended March 31, 2006 and December 31, 2004 and the three months ended March 31, 2005 are as follows:

Therapeutic Category	Year Ended March 31 2006	Three Months Ended March 31 2005	Year Ended December 31 2004
Antianxiety Drug	$ 2,890,213	$ 631,670	$ 2,119,276
Antibiotic	652,055	132,624	549,261
Anticonvulsant	232,669	45,578	204,003
Antidepressant	8,010,744	507,480	957,558
Antidiabetic	32,110,625	7,362,962	30,842,081
Antihypertensive Drug/Beta Blocker	16,788,820	4,178,650	14,257,386
Antipsychotic	2,167,911	484,780	1,293,620
Cardiac	1,239,431	514,139	1,344,603
Decongestants	116,257	316,524	358,059
Hormonal Replacement Therapy	—	295,172	—
Nonsteroidal Antiinflammatory Agent	2,101,804	544,983	1,719,487
Opiate Agonist/Analgesic	14,082,000	1,887,640	5,121,809
Platelet Aggregation Inhibitor	147,856	24,571	80,730
Skeletal Muscle Relaxant	1,150,073	201,673	1,492,437
Vascular and Migraine Headache Suppressant	1,098,460	208,054	—
Net Sales	**$ 82,788,918**	**$ 17,336,500**	**$ 60,340,309**

Similar data for the year ended December 31, 2003 has not been presented as it is considered by the Corporation to be impracticable to do so.

SUN Farmacêutica Ltda.

INDEPENDENT AUDITORS' OPINION

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

1. We have examined the balance sheet of SUN Farmacêutica Ltda., as of March 31, 2006, and respective statements of income, changes in the stockholders' equity and in financial position, corresponding to the period then ended, prepared in accordance with the Brazilian Corporate Law and under the responsibility of the company's management. Our responsibility is to express an opinion on such financial statements based on our audit. The balance sheet ended as of March 31, 2005, presented for comparison purposes.
2. Our work was conducted in accordance with audit standards and comprised: a) planning the work, taking into consideration the materiality of the balances, volume of transactions, as well as accounting and internal control system of the Company; b) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and c) assessing the accounting principles used and the more significant accounting estimates made by the management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1, present fairly in all material aspects, the equity and financial position of SUN Farmacêutica Ltda. as of March 31, 2006, changes in stockholders' equity and changes in financial position for the fiscal period then ended, in accordance with the accounting principles accepted in Brazil.

São Paulo / Brazil, May 12, 2006.

CRC-SP no. 2SP021055/O-1

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

Balance Sheets
For The Periods Ended as of March 31 2006 and 2005
(In Brazilian Reais)

	31.03.06	31.03.05
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents		
Cash	78.71	136.33
Bank Checking Accounts	32,088.63	77,972.82
	32,167.34	78,109.15
Realizable Credits		
Inventories		
- Imports in Transit	347,601.38	—
- Payments on account	51,000.00	—
	398,601.38	—
Other credits - Advances	—	30,860.00
	398,601.38	30,860.00
Total Current Assets	430,768.72	108,969.15
ASSETS DUE AFTER 1 YEAR:		
Fiscal credits		
- ICMS - CIAP of the Permanent Assets	27,638.67	—
	27,638.67	—
PERMANENT ASSETS:		
Property, Plant and Equipment	210,175.76	5,514.22
Deferred Items	814,973.30	477,801.37
Total Permanent Assets	1,025,149.06	483,315.59
TOTAL ASSETS	1,483,556.45	592,284.74

	31.03.06	31.03.05
LIABILITIES		
CURRENT LIABILITIES:		
Obligations payable		
Notes payable		
- Trade payables to affiliated enterprises	347,601.38	—
- Trade accounts payables	66,780.17	—
Fiscal Obligations	427.57	224.10
Labor Obligations	3,270.09	2,970.35
Other Obligations	2,640.35	6,105.90
Accrual for Labor Obligations	13,272.31	10,358.79
Total Current Liabilities	433,991.87	19,659.14
LONG-TERM LIABILITIES		
Loans and Financing Arrangements		
International Loans	711,564.58	234,625.60
Total Long-Term Liabilities	711,564.58	234,625.60
QUOTA HOLDERS' EQUITY:		
Capital stock	338,000.00	338,000.00
Total Quota Holders' Equity	338,000.00	338,000.00
TOTAL LIABILITIES	1,483,556.45	592,284.74

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

SUN Farmacêutica Ltda.

Statement of Changes in Quota Holders' Equity
For The Periods Ended as of March 31 2006 and 2005
(In Brazilian Reais)

	Realized Capital Stock	Capital Reserves	Accumulated Results	Total
Balances as of March 31, 2004	**300,000.00**	**36,538.75**	—	**336,538.75**
Capital Increase with Use of Reserves	**36,538.00**	(36,538.00)	—	—
Payment of Domestic Capital	1,462.00	—	—	**1,462.00**
Amount Reversed to Deferred Assets	—	(0.75)	—	**(0.75)**
Balances as of March 31, 2005	**338,000.00**	—	—	**338,000.00**
In the period from abril/2005 to março/2006 there were no mutations in the Quota Holders´Equity	—	—	—	—
Balances as of March 31, 2006	**338,000.00**	—	—	**338,000.00**

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

Statement of Changes in Financial Position
For The Periods Ended as of March 31, 2006 and 2005
(In Brazilian Reais)

SOURCE OF FUNDS	**31.03.06**	31.03.05
From operations		
Adjustments from the Previous Period:		
Previous Results Transferred to Deferred Assets	—	—
Exchange Rate Variance of Loans	**(53,548.90)**	—
Depreciation of Fixed Assets (Added to Deferred Assets)	**790.89**	440.70
	(52,758.01)	440.70
From quota holders		
Received for Capital	—	1,462.00
Received as Loans	**517,874.23**	239,272.00
Value of the interest rate of the loans	**12,613.65**	—
Received as Refund of Expenses	**36,930.00**	324,943.02
Funds from quota holders	**567,417.88**	565,677.02
Total source of funds	**514,659.87**	566,117.72
USE OF FUNDS		
In permanent assets:		
Property, Plant and Equipment	**205,452.43**	2,570.00
Deferred Assets (Net)	**374,101.93**	295,150.45
Funds used in permanent assets	**579,554.36**	297,720.45
In assets due after 1 year:	**27,638.67**	—
	27,638.67	—
With quota holders:		
Payment of Loans	—	239,272.00
Adjustments to Quota Holders' Equity	—	0.75
Exchange Rate Variance on Loans (Net)	—	19,775.80
Funds used with third parties and quota holders	—	259,048.55
Total use of funds	**607,193.03**	556,769.00
Increase (reduction) in net working capital	**(92,533.16)**	9,348.72
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Current assets:		
At the beginning of the period	**108,969.15**	96,135.39
At the end of the period	**430,768.72**	108,969.15
	321,799.57	12,833.76
Current liabilities:		
At the beginning of the period	**19,659.14**	16,174.10
At the end of the period	**433,991.87**	19,659.14
	414,332.73	3,485.04
Changes in net working capital	**(92,533.16)**	9,348.72

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

Notes to the Financial Statements for the Period Ended as of March 31, 2006

(In Brazilian Reais)

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

1 - Capital Stock:

a) In the period of 1st of April 2005 to March 31st, 2006, the capital stock was not changed

b) The Capital Stock in the value of R$ 338,000.00 (three hundred and thirty eight thousand Reais), represented by 338,000 (three hundred and thirty eight thousand) quotas with face value of R$ 1.00 (one Real) each are thus distributed to the shareholders:

Stockholding composition:

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

2 - Company's Management

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

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

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

3 - Amounts Sent to Brazil:

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

a) **As Capital Stock:**

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

b) **As Loans:**

In period April 2005 for March 2006:

SUN PHARMA GLOBAL INC.		
Value in US$	**Value in R$**	
234,071.20	**517,874.23**	Exchange rate contracts original values
Several loans received in the period, as certificates of records in BACEN The loans do not happen interest rate and the payments are foreseen for beginning in June 2006 finishing in December 2007. The loans detail meet in the chapter LONG-TERM LIABILITIES – e 2- page 14		

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

Value in US$	Value in R$	
15,000.00	**36,930.00**	The remittals made by SUN PHARMACEUTICAL INDUSTRIES LIMITED, were classified as Expense Refunds. Such amounts were credited to the Permanent/ Deferred Assets account, as reducers of the Pre-operating Expenses received on May 05th, 2005.

4 - General Taxation System in Brazil:

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

a) **TAXES ON INCOME**

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

- **Assumed Income:**

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

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

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

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

- **Taxable Income:**

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

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

b) **TAXES ON GROSS REVENUE**

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

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

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

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

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

c) **STATE TAXES – ICMS:**

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

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

On payrolls, there are social charges as follows: INSS – Contribution to the Brazilian Social Security Institute – with an average taxation of 26.7% on the total amount of payroll and FGTS – Severance Indemnity Fund – with taxation of 8.5% also on the payroll.

e) **OTHER FEDERAL TAXES**

CPMF - Provisional Contribution on Financial Transactions:

Payable on all funds leaving bank accounts at the rate of 0.38%, except when such exits refer to transference to other account of the same individual or legal entity.

f) **TAXES ON IMPORTS:**

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

(In Brazilian Reais)

B) GENERAL COMMENTS ABOUT THE FINANCIAL STATEMENTS:

1 - Basis of Presentation

In the recording of operations and preparation of the financial statements for the periods ended as of March 31, 2006 and 2005 the Brazilian Generally Accepted Accounting Principles were used, as well as the practices arising from the Brazilian Corporate Law.

2 - Summary of Main Accounting Practices

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

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

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

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

b. Property, plant and equipment

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

3) Comments about the Composition of Equity Accounts:

CURRENT ASSETS

a) Cash and cash equivalents	**Mar/31/2006**	**R$**	**32,167.34**
	Previous balance	**R$**	**78,109.15**

1. Cash: R$ 78,71

This balance, as per the control position of March 31, 2006, is composed by funds available for coverage of little day-by-day payments. The controls kept by the management allow the reasonability of this account, in view of its non-materiality. During the period from April 2005 to March 2006, it was injected, as cash supply, the amount of R$ 18,340.00 (Eighteen thousand, three hundred and forty Reais) that correspond to monthly average expenses or around R$ 1,528.00 (An a thousand, five hundred and twenty-eight Reais).

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

2. Bank checking accounts: R$ 32,088.63

This amount corresponds to cash available in the bank checking account. The balance was reconciled with the respective bank statement and the amount of R$ 32,088.63 refers to an account with Banco Itaú Agency 067 – Account no. 10427-3.

b) Credits Realizable	**Mar/31/2006**	**R$**	**398,601.38**
	Previous balance	**R$**	**30,860.00**

1. Inventories - R$ 398,601.38

The balance on March 31st, 2006, it was thus composed:

1.1) – Imports in Transit - R$ 347.601,38

Composed by the departures made by: **SUN PHARMACEUTICAL INDUSTRIES LTD.** with the commercial invoices below:

Number of the Invoice	Invoice Date	USD Value	Exchange rate	
006E61906	March 11st, 2006	85,000.00	R$ 2, 1724 for	
006E62061	March 30th, 2006	75,008.00	USD 1,00	
		160,008.00		**R$ 347,601.38**

1.2) – Payments on account - R$ 51.000,00

Regarding made payment the company Codeli Despachos Aduaneiros (Dispatches port) on March 22nd, 2006 due to advancement to of import of Octreotida.

ASSETS DUE AFTER 1 YEAR

c) Fiscal credits	**Mar/31/2006**	**R$**	**27,638.67**
	Previous balance	**R$**	**—**

(In Brazilian Reais)

ICMS – CIAP of the Permanent Assets:

Paid state taxes when of the property acquisitions of the permanent assets (Machines and Equipments and Technical Facilities)

The taxes will be seized in 48 bits the abated or compensated as credits for ICMS who is select for occasion of the product sales.

PERMANENT ASSETS

c) Fixed Assets And Deferred Items (net) — **Mar/31/2006 R$ 1,025,149.06**

Previous balance R$ 483,315.59

Development of Permanent Assets Accounts	Balances on Mar/31/2005 R$	Entries in the Period R$	Low/Credits in the Period R$	Balances on Mar/31/2006 R$
Property Plant and Equipment:				
Equipament to Laboratory	—	189,502.43	—	189,502.43
Furniture and Fixtures	1,720.00	—	—	1,720.00
Facilities	2,391.28	15,300.00	—	17,691.28
Computers and Peripherals	790.00	—	—	790.00
Trademarks and Patents – Registers in Progress	1,780.00	650.00	—	2,430.00
Sub-total	6,681.28	205,452.43	—	212,133.71
(-) Accumulated Depreciation	– 1,167.06	– 790,89	—	– 1,957.95
Total residual balance	5,514.22	204,661.54	—	210,175.76
Deferred:				
Pre-Operating Expenses	477,801.37	466,659.18	– 129,487.25	814,973.30
Total Permanent Assets	**483,315.59**	**671,320.72**	**– 129,487.25**	**1.025,149.06**

Comments about acquisitions:

Property Plant and Equipment:

Equipments to Laboratory:		
– 1 Spectrophotometer 800 XI	24,652.15	
– 1 Master System - Water purifier	11,344.39	
– 1 Analytic balance – Type AG-200	2,641.30	
– 1 Drying Sterilizer 6402 – 3d 220v - (Hot air sterilizer)	1,087.34	
– 1 Weigh standard F1 100G in Stainless steel	290.54	
– 1 Equipment HPLC System SHIMADZU Model LC 2010 CHT	125,224.00	
– 1 Column and Pre-column CLC-ODS 25cm and G-ODS 8cm	2,376.00	
– 1 Title marker automatic - Karl Fischer (5102) TITRATOR System	20,556.58	
– 1 Freezer Horizontal 477 liter H500C - ELETROLUX	1,330.12	189,502.43
Facilities:		
– Facilities for montage of 2 quality control laboratories		15,300.00
Trademarks and Patents – Registers in Progress:		
– Amount referring to payments of Registration of Trademarks and - Patents in Progress		650.00
		205,452.43

Deferred:

– **Pre-Operating Expenses:**

R$ 374,101.93	—	(R$ 466,659.18 minus R$ 92,557.25) Amount referring to total net expenses and expenditure, recognized to Deferred items in the period. The general composition and break down of this amount is detailed at the end of this report as **ATTACHMENT I**.
(R$ 36,930.00)	—	Credits referring to the amount of expense refund received from **SUN PHARMACEUTICAL INDUSTRIES LIMITED**, as detailed in item **A) 3- c)** of this report.
R$ 337,171.93	—	Net effect

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

(In Brazilian Reais)

– **Values movement evolution:**

See details in the ATTACHMENT I

	Entries in the period:
96,227.82	Expenses with Personnel:
306,437.19	Other Administrative Expenses
6,439.24	Taxes, Fees and Contributions
57,554.93	Financial Expenses
466,659.18	
	Credits in the period (*)
(92,557.25)	Financial Earnings = Active Exchange Rate Variance
(36,930.00)	Refund of expenses (As explained above)
129,487.25	
337,171.93	– Net effect

The credits for period, are not represented by amortisations, but they yes are deriving of "revenues" of passive cambial variations (cambial earnings) and also of reimbursement of part of the expenses.

In Brazil, in the phase concept PRE-OPERATIONAL, bothe expenses and eventual revenues, they are registered in the group of the differed.

CURRENT LIABILITIES

d) Obligations Payable	**Mar/31/2006**	**R$ 433,991.87**
	Previous balance	**R$ 19,659.14**

1. Notes Payable

- Trade payables to affiliated enterprises: R$ 347,601.38

Composed by the departures made by: **SUN PHARMACEUTICAL INDUSTRIES LTD.** with the commercial invoices below:

Number of the Invoice	Invoice Date	USD Value	Exchange rate	
006E61906	March 11st, 2006	85,000.00	R$ 2, 1724 for	
006E62061	March 30th, 2006	75,008.00	USD 1,00	
		160,008.00		**R$ 347,601.38**

- Trade accounts payables: R$ 66,780.17

Thus composed:

Acquisitions of Property Plant an Equipment:	**R$**
– Indústria e Comércio Eletro Eletrônica GEHAKA Ltda.	31,000.00
– Labor 9000 Industria e Comércio de Móveis Ltda.	10,000.00
– Micronal S/A	25,069.00
	66,069.00
Services of technical translations:	
– Brasil Translations & Solutions Ltda.	711.17
	66,780.17

The obligations by the supplies of permanent active (Fixed assets) and services, they had the emolument in April 2006, whose payments were done

2. Tax Obligations: R$ 427.57

Amount corresponding to IRRF – Withholding Income Tax of third on several professional services of third party and on the payment of rent of the facilities at Rua Luís Góes.

This amount was paid in the month of April/2006.

3. Labor Obligations: R$ 3,270.09

The amount corresponding to social charges on payroll, which payments were made in April/2006, have the following composition:

— INSS Payable	R$ 2,573.09
— FGTS Payable	R$ 697.00
Total	**R$ 3,270.09**

(In Brazilian Reais)

4. Other Obligations: R$ 2,640.35

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

– Rents Payable in the month of	**March / 2006**	**R$ 2,640.35**

5. Accruals for Labor Obligations: R$ 13,272.31

The amount corresponding to accruals for labor obligation referring to vacations and annual bonuses (13th salaries) incurred until March 31, 2006, plus social charges and has the following composition:

– Accrual for Vacations Payable	R$ 8,200.00
– Accrual for Annual Bonus (13th Salary Payable 3/12)	R$ 1,537.50
– Social Charges referring INSS on Vacations and 13th Salary	R$ 2,707.13
– Social Charges referring FGTS on Vacations and 13th Salary	R$ 827.68
Total	**R$ 13,272.31**

LONG-TERM LIABILITIES

e) International Loans	**Mar/31/2006**	**R$ 711,564.58**
	Previous balance	**R$ 234,625.60**

1) – SUN PHARMA GLOBAL INC.

Date	Value in US$	Value in R$	Adjustment by the official exchange rate at Mar/31/2006 of R$ 2.1724 to US$ 1.00
23/03/2005	88,000.00	191,171,20	Main value
	5,476.48	11,897.11	Interest rate incurred in period of 23 of March 2005 up to March 31st, 2006 (Interest rate appropriation composed incurred in 6% for year)
	93,476.48	**203,068.31**	

Loan as register with Central Bank of Brazil no. TA330736 for payment in 2 installments in the amount of US$ 44,000.00 each.

There is a 24 months grace period in the total period of 30 months as follows: US$44,000.00 payable on March 23, 2007 and US$ 44,000.00 payable on September 23, 2007.

Annual interest rate of 6% payable together with the principal amount.

In Brazil, interest on foreign loans are levied by income tax payable by the creditor, at the rate of 15% when domiciled in a country where there is no double-taxation treaty and at the rate of 25% when the creditor is domiciled in a tax haven.

2) - SUN PHARMACEUTICAL INDUSTRIES LIMITED

Value in USD	Value in R$
234,071.20	**508,496.27**

Adjustment by the official exchange rate at Mar/31/2006 of R$ 2.1724 to US$ 1.00.

QUOTA HOLDERS' EQUITY

Mar/31/2006	**R$ 338,000.00**
Previous balance	**R$ 338,000.00**

1. Capital stock - R$ 338,000.00

As of March 31, 2006, the company's capital stock totally subscribed and paid amounted R$ 338,000.00 (three hundred and thirty eight thousand Reais) divided into 338,000 (three hundred and thirty eight thousand) quotas, with face value of R$ 1.00 (one Real) each. The distribution between the stockholders is the following:

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

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

(In Brazilian Reais)

ATTACHMENT I

COMPOSITION AND BREAK DOWN OF ACCOUNTS THAT COMPOSE

PERMANENT/ DEFERRED ASSETS (Entries in the Period)

PRE-OPERATING EXPENSES:

Accounts Recognized	Accumulated or the previous period	Recognitions for the period from Apr/05 to Mar/06	Total Accumulated
Expenses with Personnel:			
– Salaries and Wages	163,200.00	55,500.00	218,700.00
– Annual Bonuses (13th salaries)	14,400.00	5,137.50	19,537.50
– Vacations	20,560.00	10,000.00	30,560.00
– INSS Social Charges	54,155.20	19,586.13	73,741.33
– FGTS Social Charges	16,316.92	6,004.19	22,321.11
Total expenses with Personnel:	**268,632.12**	**96,227.82**	**364,859.94**
Other Administrative Expenses			
– Rent and Condominium Expenses	103,930.71	36,000.00	139,930.71
– Third Party Services – (Dossier and Technical Translations)	77,495.75	65,394.05	142,889.80
– Traveling Expenses and Representations	33,754.62	4,167.77	37,922.39
– Fees of ANVISA, Associations and Trade Unions	29,755.94	103,548.93	133,304.87
– Communication Expenses – Telephone/ Mail/ Internet	24,299.82	10,518.09	34,817.91
– Professional Fees – Accounting and Legal	22,907.52	7,525.00	30,432.52
– Cleaning Material, Conservation, Maintenance and Repairs	12,260.55	46,117.55	58,378.10
– Transportation, Fuel, Lubricants and Expenses w/ Vehicles	7,469.11	3,325.27	10,794.38
– Office Supplies and Copies	5,881.59	4,966.18	10,847.77
– Notary Expenses and Legal Expenses	6,560.59	3,566.02	10,126.61
– Cost with Sample Importing	3,462.62	13,449.95	16,912.57
– Electric Power and Water	2,771.05	1,135.96	3,907.01
– Newspapers, Magazines, Technical Books and Training	2,420.00	627.00	3,047.00
– Expenses with Meals	1,981.04	1,041.34	3,022.38
– Insurance Expenses	643.66	243.24	886.90
– Little Value Amounts	597.90	—	597.90
– Depreciation of Fixed Assets	1,167.06	790.89	1,957.95
– Other Expenses	11,140.77	4,019.95	15,160.72
Total Other Administrative Expenses:	**348,500.30**	**306,437.19**	**654,937.49**
Taxes, Fees and Contributions			
– Municipal Taxes – Fee on Sanitary Surveillance and Fees on the Pick Up of Solid Residues	185,465.91	351.34	185,817.25
– Fees on Location and Functioning License	3,758.55	76,58	3,835.13
– CPMF - Provisional Contribution on Financial Transactions	3,140.53	2,490.28	5,630.81
– IPTU - Tax on Urban Land and Property	4,941.08	2,024.10	6,965.18
– Other Taxes and Fees Payable	3,809.12	1,496.94	5,306.06
Total Taxes, Fees and Contributions	**201,115.19**	**6,439.24**	**207,554.43**
Financial Expenses (-) Financial Earnings			
Financial Expenses:			
– Passive Exchange Rate Variance	44,779.00	39,008.35	83,787.35
– Juros of Loans - Controller society	—	12,613.65	12,613.65
– Bank Expenses	4,444.22	2,492.42	6,936.64
– Commissions on Exchange Operations	3,009.37	3,354.63	6,364.00
– Expenses with Interest and Fines	339.34	85.88	425,22
	52,571.93	57,554.93	110,126.86
Financial earnings:			
– Active Exchange Rate Variance	(68,075.15)	(92,557.25)	(160,632.40)
Net Financial Result	**(15,503.22)**	**(35,002.32)**	**(50,505.54)**
Total Net Deferred Expenses:	**802,744.39**	**374,101.93**	**1,176,846.32**
Refund of expenses			
– Amounts received from SUN PHARMACEUTICAL INDUSTRIES LIMITED during the period between 2004 and 2006 in the total amount of US$ 130,975.00	(324,943.02)	(36,930.00)	(361,873.02)
Total Net Deferred Assets:	**477,801.37**	**337,171.93**	**814,973.30**

SPIL DE MEXICO S. A. de C. V.

Statutory Auditor's Report

Mexico City, February 27, 2006

To the Shareholders of SPIL de Mexico S. A. de C.V.

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the Mexican Corporations Act and the by-laws of **SPIL de Mexico S.A. de C.V.**, I am pleased to submit my report on the veracity, sufficiency and reasonability of the Financial Statements for the year ended December 31, 2005, presented to you by the Board of Directors of the Company.

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

In my opinion, the accounting and reporting policies and procedures observed by the Company in the preparation of the financial statements that are being presented to the shareholders are adequate and sufficient. It is also my opinion that the above-mentioned financial statements present fairly, in all material respects, the financial position of SPIL de Mexico S.A. de C.V. as at December 31, 2005 and are in conformity with generally accepted accounting principles in Mexico. Since the Company has not started any business activities till the period ended December 31, 2005, no Income Statement has been prepared for that period.

C.P. SAUL ALCANTAR POSADAS
Certified Public Accountant
Statutory Auditor

SPIL DE MEXICO S. A. de C. V.

BALANCE SHEET AS AT DECEMBER 31, 2005

	(Amount - Mexican Pesos)
ASSETS	**As at December 31, 2005**
Current Assets	
Bank Balance	$24,119
Pre Operative Expenses	$25,881
	$50,000
LIABILITIES AND SHARE HOLDERS' EQUITY	
Shareholders Equity	
Capital Stock	$50,000
	$50,000

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

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

Mexico City, 27th February, 2006

LIC. FERNANDO SALVADOR RAMOS SUAREZ
Director and Legal Representative

C. P. SAUL ALCANTAR POSADAS
Certified Public Accountants
Statutory Auditor

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR PERIOD ENDED DECEMBER 31, 2005

(Amount - Mexican Pesos)

Shareholders' Name	Opening and Closing Balance	
	No. of Shares	Amount
Sun Pharmaceutical Industries Ltd.	99	$49,500
Sudhir V. Valia	1	$500
Total Capital Stock	**100**	**$50,000**

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

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

Mexico City, 27th February, 2006

LIC. FERNANDO SALVADOR RAMOS SUAREZ
Director and Legal Representative

C. P. SAUL ALCANTAR POSADAS
Certified Public Accountants
Statutory Auditor

NOTES TO THE FINANCIAL STATEMENTS

1. **PRESENTATION :**

   This is a Mexican Company with foreign investors; since the company has not yet started any business operating activities during the period ended December 31, 2005 no Income Statement has been prepared for the period ended on that date.

   The Financial Statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico; the Financial Statements are presented in Mexican pesos.

2. **SIGNIFICANT ACCOUNTING POLICIES.**

   The Significant policies adopted by the Company are in accordance with Accounting Principles Generally Accepted in Mexico.

   a) Pre Operative Expenses :

   The expenses incurred by the Company prior to starting Operations are accounted as Pre Operative Expenses.

3. **CAPITAL STOCK**

   As at December 31, 2005, the Fixed Capital Stock represents an amount of $50,000 Mexican Pesos represented by 100 Nominative and free Shares of $500 Mexican Pesos each fully paid-up.

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

Statutory Auditor's Report

Mexico City, March 31, 2006

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

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the Mexican Corporations Act and the by-laws of Sun Pharma de Mexico S.A. de C.V., I am pleased to submit my report on the veracity, sufficiency and reasonability of the Financial Statements for the year ended December 31, 2005, presented to you by the Board of Directors of the Company.

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

In my opinion, the accounting and reporting policies and procedures observed by the Company in the preparation of the financial statements that are being presented to the shareholders are adequate and sufficient and were applied on a basis consistent with that of the previous year. Therefore, it is also my opinion that the above-mentioned financial statements present fairly, in all material respects, the financial position of Sun Pharma de Mexico S. A. de C.V. as at December 31, 2005, and the results of their operations, changes in the Company's shareholders' equity and changes in the company's financial position for the year then ended in conformity with accounting principles generally accepted in Mexico.

Ing. Hector Macias Meana

Statutory Auditor

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

BALANCE SHEET AS AT DECEMBER 31, 2005

(Amount - Mexican Pesos)

		As at December 31, 2005		As at December 31, 2004
ASSETS				
Current Assets				
Cash and Bank Balances	$ 1,703,288		$ 606,152	
Customers	$ 6,292,145		$ 7,106,364	
Inventories	$ 4,967,714		$ 161,258	
Advances Given	$ 417,090		$ 16,430	
Value Added Tax Recoverable	$ 675,480		$ 457,324	
Advance Income tax 2005	$ 401,721		$0	
Deposits	$ 31,940		$0	
Prepaid Expenses	$ 220,774	$ 14,710,153	$ 32,336	$ 8,379,864
Property Equipments and Leaseholds				
Office Equipments	$ 356,824		$ 246,293	
Vehicles	$ 3,362,341		$0	
Depreciation cars and equipments	($ 573,068)	$ 3,146,097	($ 14,062)	$ 232,231
		$ 17,856,249		$ 8,612,095
LIABILITIES AND SHARE HOLDERS' EQUITY				
Short-Term Liabilities				
Short Term Loans	$ 1,148,912		$0	
Suppliers	$ 226,374		$ 3,670,676	
Other Accounts Payable	$ 1,081,828		$ 360,202	
Witholding Taxes Payable	$ 200,330		$ 129,305	
Taxes payable	$ 216,429	$ 2,873,873	$ 756,848	$ 4,917,031
Long-Term liabilities				
Long Term Loans		$ 2,150,998		$ 1,128,261
Shareholders Equity				
Capital Stock	$ 1,010,360		$ 1,010,360	
Profit and Loss Account	($ 7,387,195)	($ 6,376,835)	$ 1,556,443	$ 2,566,803
Share Capital Application Money		$ 19,208,213		$ 0
		$ 17,856,249		$ 8,612,095

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

C. P. FABIAN BARRUTIA FRANCO
For **BARRUTIA FRANCO Y ASOCIADOS S. C.**
Certified Public Accountants
PARTNER
General Accountant

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

Mexico City, 31st March, 2006

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

(Amount - Mexican Pesos)

		Year Ended December 31, 2005		Period Ended December 31, 2004
Net Sales		$ 16,759,028		$ 9,867,430
Cost of Sales		$ 4,854,395		$ 2,925,198
Gross profit		$ 11,904,633		$ 6,942,232
Operational Expenses				
Personal Expenses	$ 10,397,273		$ 1,191,390	
Marketing and Sales Expenses	$ 8,938,824		$ 3,232,611	
Administration Expenses	$ 1,039,477		$ 354,813	
Depreciation	$ 559,006	$ 20,934,580	$ 14,062	$ 4,792,876
Operating Profit / (Loss)		($ 9,029,947)		$ 2,149,356
Exchange Gain / (Loss) - Net		$ 319,543		$ 143,406
Financial expenses		$ 233,233		$ 1,854
Profit / (Loss) before Income tax		($ 8,943,638)		$ 2,290,908
Income tax		$0		$ 734,465
NET PROFIT / (LOSS)		($ 8,943,638)		$ 1,556,443

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

C. P. FABIAN BARRUTIA FRANCO
For **BARRUTIA FRANCO Y ASOCIADOS S. C.**
Certified Public Accountants
PARTNER
General Accountant

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

Mexico City, 31st March, 2006

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

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 2005

(Amount - Mexican Pesos)

		Year Ended December 31, 2005		Period Ended December 31, 2004
OPERATING ACTIVITIES				
Net Income / (Loss)		**($ 8,943,638)**		$ 1,556,443
Charges not affecting Resources				
Depreciation		**$ 559,006**		$ 14,062
		($ 8,384,632)		$ 1,570,505
Changes in :				
(Increase) / Decrease Customers	**$ 814,219**		($ 7,106,364)	
Increase Inventories	**($ 4,806,456)**		($ 161,258)	
Increase Advanced Given	**($ 400,660)**		($ 16,430)	
Increase Advanced Income tax 2005	**($ 401,721)**			
(Increase) / Decrease VAT Recoverable	**($ 218,156)**		($ 457,324)	
Increase Deposits	**($ 31,940)**		$0	
Increase Prepaid Expenses	**($ 188,438)**		($ 32,336)	
Increase Suppliers	**($ 3,444,302)**		$ 3,670,676	
Increase Others Accounts Payable	**$ 721,626**		$ 360,202	
Increase / (Decrease) Withold Tax Payable	**$ 71,026**		$ 129,305	
Increase / (Decrease) Tax Payable	**($ 540,419)**		$ 756,848	
		($ 8,425,223)		($ 2,856,681)
Resources generated / (used) by/in operating activities		**($ 16,809,855)**		($ 1,286,176)
FINANCING ACTIVITIES				
Loans Accepted (Net)		**$ 2,171,649**		$ 1,035,629
Receipt of Share Capital Application Money		**$19,208,213**		$0
Resources generated by financing activities		**$ 21,379,862**		$ 1,035,629
INVESTING ACTIVITIES				
Acquisition of Fixed Assets		**$ 3,472,870**		$ 246,293
Resources used in investment activities		**$ 3,472,870**		$ 246,293
INCREASE / (DECREASE) IN CASH AND EQUIVALENTS		**$ 1,097,137**		($ 496,841)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		**$ 606,152**		$ 1,102,993
CASH AND INVESTMENS AT END OF PERIOD		**$ 1,703,289**		$ 606,152

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

C. P. FABIAN BARRUTIA FRANCO
For **BARRUTIA FRANCO Y ASOCIADOS S. C.**
Certified Public Accountants
PARTNER
General Accountant

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

Mexico City, 31st March, 2006

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR YEAR ENDED DECEMBER 31, 2005

(Amount - Mexican Pesos)

Shareholders' Name	**Opening and Closing Balances**	
	No. of Shares	**Amount**
Sun Pharmaceutical Industries Ltd.	750	$ 757,770
Serral, S. A. De C.V.	250	$ 252,590
Total Capital Stock	**1000**	**$ 1,010,360**
Period Ended December 31, 2004	1000	$ 1,010,360

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

C. P. FABIAN BARRUTIA FRANCO
For **BARRUTIA FRANCO Y ASOCIADOS S. C.**
Certified Public Accountants
PARTNER
General Accountant

LIC. FERNANDO SALVADOR RAMOS SUAREZ
President

ING. HECTOR MACIAS MEANA
Statutory Auditor

Mexico City, 31st March, 2006

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

NOTES TO THE FINANCIAL STATEMENTS

1. **PRESENTATION :**

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

   The Financial Statements have been prepared in accordance with Accounting Principles Generally Accepted in Mexico; the Financial Statements are presented in Mexican pesos.

2. **SIGNIFICANT ACCOUNTING POLICIES.**

   The Significant policies adopted by the Company are in accordance with Accounting Principles Generally Accepted in Mexico.

   a) **Fixed Assets :**

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

   b) **Revenue Recognition :**

      Revenues are accounted for on accrual basis.

   c) **Sales :**

      Sales are stated Net of Discounts.

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

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

3. **FIXED ASSETS:**

(Mexican Pesos)

Particulars	**Depn. Rate**	**As at December 31, 2005**	As at December 31, 2004
Computer Equipment		**$190,540**	$153,940
Accumulated Depreciation – Computer	**30%**	**($64,912)**	($10,495)
Office Equipment		**$166,284**	$92,353
Accumulated Depreciation – Office Equipment	**10%**	**($35,932)**	($3,567)
Vehicles		**$3,362,341**	$0
Accumulated Depreciation – Vehicles	**25%**	**($472,224)**	$0

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

BALANCES :	**As at December 31, 2005 Mexican Pesos**	As at December 31, 2004 Mexican Pesos
Customers / Other Debtors:		
Serral, S. A. de C.V	**$ 374,832**	$ 0
Sun Pharmaceutical Industries Ltd.	**$ 91,530**	$ 0
Advances Given:		
Serral, S. A. de C.V	**$ 183,533**	$ 0
Suppliers:		
Serral, S. A. de C.V	**$ 29,813**	$ 3,305,810
Long Term Loans:		
Sun Pharmaceutical Industries Ltd.	**$ 0**	$ 841,373
Serral, S. A. de C.V	**$ 0**	$ 286,887

OPERATIONS:	**Year ended December 31, 2005 Mexican Pesos**	Period ended December 31, 2004 Mexican Pesos
Sales:		
Serral, S.A. de C.V	**$1,174,832**	$0
Purchases (Including for Expenses):		
Serral, S.A. de C.V	**$10,751,970**	$3,086,455
Office Rent / Service Charges:		
Serral, S.A. de C.V	**$344,801**	$713,433

5. **CAPITAL STOCK**

   At December 31, 2005, the Fixed Capital Stock represents an amount of $1,010,360 Mexican Pesos (Previous Year $1,010,360 Mexican Pesos) represented by 1,000 (Previous Year 1,000) Ordinary and Nominative Shares with no par value.

SUN PHARMACEUTICAL INDUSTRIES, INC.

DIRECTORS' REPORT

To

The Members of Sun Pharmaceutical Industries Inc.

Fiscal Year 2005 – 06, the Second Year of Operations for your Company has been a very eventful one with the acquisition of three facilities, two located in State of New Jersey and one in Ohio respectively. With these acquisitions the platform for future revenue streams has been laid.

Acquisitions

During the Year, your Company has acquired a manufacturing facility from Valeant Pharmaceutical Industries Inc, U.S.A that is located at Brian, Ohio. This facility has given us capability of manufacturing Liquids and semi solid formulations. The other major acquisition has been the assets of Able Laboratories Ltd under Chapter XI Bankruptcy proceedings, consisting of two manufacturing facilities located in the State of New Jersey. One of these facilities is on leased premises and has a total square footage in excess of 225,000. When fully operational it will provide your company to manufacture solid dosage forms including controlled substances.

Brands

The two Brands which the company owns namely Midrin and Orthoest have been actively marketed during the Year.

Operations

Your Company recorded net sales of $3.6 million during Fiscal 2006. Net loss for the Year was $1.3 million, primarily due to expenditure incurred for making a facility operational, which has been acquired during the year. The Company used cash in operations of $6.5 million during Fiscal 2006, of which funding of working capital requirements were $5.2 million. At March 31, 2006, the Company had stockholders' deficit of $1.2 million.

Sun Pharma Partnership

During the Year Sun Pharmaceutical Industries Limited and its affiliates loaned us amounts in excess of $32 million for completing the acquisitions and carrying out necessary operations. Further one of the affiliates of Sun Pharma has been carrying out the manufacturing and marketing of our Brands. We believe that Sun Pharma would be actively helping us in developing our products with its R& D setup and continue to infuse funds for our future needs.

Directors

During the Year in December 2005 Mr. Jitendra N. Doshi has been appointed Executive Director of the Company.

Future Outlook

We intend to make our manufacturing facilities acquired during the Year to be fully operational at the earliest and expect to file six ANDAs during the Year. We are hopeful of getting FDA clearance for our New Jersey facility in the coming Year.

I extend my sincere thanks and appreciation to our Stakeholders for your trust, to the other members of the Board of Directors, for your active support and guidance, and to our dedicated employees for your hard work and commitment to our Company's growth.

Jitendra N. Doshi
Executive Director
June 1, 2006

INDEPENDENT AUDITORS' REPORT

To The Board of Directors

Sun Pharmaceuticals Industries, Inc.

We have audited the accompanying balance sheets of Sun Pharmaceutical Industries, Inc. (a Michigan Corporation) as of March 31, 2006 and 2005, and the related statements of operation, changes in stockholder's equity and cash flows for year ended March 31, 2006 and for the period from inception September 14, 2004 to March 31, 2005. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis four our opinion.

In our opinion, the financials statements referred to above present fairly, in all material respects, the financial position of Sun Pharmaceutical Industries, Inc. as of March 31, 2006 and 2005 and the results of its operations and its cash flows for the year ended March 31, 2006 and for the initial period September 14, 2004 through March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Martin, Arrington, Desai, & Meyers, P.C.

June 2, 2006

SUN PHARMACEUTICAL INDUSTRIES, INC.

BALANCE SHEETS
March 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 525,708	$ 27,940
Accounts Receivable - Trade	1,339,951	609,479
Inventories	4,492,762	—
Prepaid Expenses and Deposits	412,061	—
TOTAL CURRENT ASSETS	6,770,482	637,419
PROPERTY, PLANT AND EQUIPMENT, NET	20,668,540	—
OTHER ASSETS:		
Deferred Income Taxes	667,000	—
Trademarks (net of accumulated amortization of $ 290,193 and $59,526)	3,169,807	3,400,474
Organization Expense (net of accumulated amortization of $ 771 and $271)	1,729	2,229
TOTAL OTHER ASSETS	3,838,536	3,402,703
	$ 31,277,558	$ 4,040,122
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts Payable - Trade	$ 210,983	$ 251,927
Accrued Expenses	238,479	25,335
Note Payable - Parent and Affiliates	32,041,656	3,675,064
Other Notes Payable	1,000	1,000
TOTAL CURRENT LIABILITIES	32,492,118	3,953,326
LONG-TERM DEBT	—	—
TOTAL LIABILITIES	32,492,118	3,953,326
STOCKHOLDER'S EQUITY:		
Common Stock, $1 par value, 60,000 shares authorized, 5,000 shares issued and outstanding	5,000	5,000
Retained Earnings (Deficit)	(1,219,560)	81,796
TOTAL STOCKHOLDER'S EQUITY	(1,214,560)	86,796
	$ 31,277,558	$ 4,040,122

See accompanying notes to financial statements

STATEMENTS OF OPERATION FOR THE YEAR ENDED MARCH 31, 2006 AND FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005

	2006	2005
SALES	$ 3,590,028	$ 609,478
OPERATING EXPENSES		
Cost of Materials	989,939	414,276
Personnel Cost	1,315,067	—
Operating and Other Expenses	1,826,754	5,210
Depreciation and Amortization	951,576	59,797
	5,083,336	479,283
INCOME (LOSS) FROM OPERATIONS	(1,493,308)	130,195
OTHER INCOME (EXPENSE):		
Interest Income	222	—
Interest Expense	(475,270)	(24,064)
TOTAL OTHER INCOME (EXPENSE)	(475,048)	(24,064)
NET INCOME (LOSS) BEFORE INCOME TAXES	(1,968,356)	106,131
INCOME TAX BENEFIT (PROVISION)		
Current	—	(24,335)
Deferred	667,000	—
	667,000	(24,335)
NET INCOME (LOSS)	$ (1,301,356)	$ 81,796

See accompanying notes to financial statements

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT) FOR THE YEAR ENDED MARCH 31, 2006 AND FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005

	Common Stock	Retained Earnings	Total Stockholder's Equity (Deficit)
Issuance of Common Stock	$ 5,000	$ —	$ 5,000
Net Income	—	81,796	81,796
Balances at March 31, 2005	5,000	81,796	86,796
Net Loss	—	(1,301,356)	(1,301,356)
Balances at March 31, 2006	$ 5,000	$ (1,219,560)	$ (1,214,560)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2006 AND FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31, 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ (1,301,356)	$ 81,796
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	951,576	59,797
Deferred Income Tax Benefit	(667,000)	—
(Increase) in Accounts Receivable - Trade	(730,472)	(609,479)
(Increase) in Inventories	(4,492,762)	—
(Increase) in Prepaid Expenses and Deposits	(412,061)	—
Increase (Decrease) in Accounts Payable	(40,944)	251,927
Increase in Accrued Expenses	212,144	26,335
NET CASH USED BY OPERATING ACTIVITIES	(6,480,875)	(189,624)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of Property, Plant and Equipment	(21,388,950)	(3,462,500)
NET CASH USED FOR INVESTING ACTIVITIES	(21,388,950)	(3,462,500)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Common Stock	—	5,000
Proceeds from Loans from Parent and Affiliates	59,927,128	3,674,064
Repayment of Loans Payable to Parent and Affiliates	(31,559,535)	—
Proceeds From Loan from Director	—	1,000
NET CASH PROVIDED FROM FINANCING ACTIVITIES	28,367,593	3,680,064
NET INCREASE IN CASH	497,768	27,940
CASH AT THE BEGINNING OF THE PERIOD	27,940	—
CASH AT THE END OF THE PERIOD	$ 525,708	$ 27,940
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income Taxes Paid	$ 88,000	$ —
Cash Paid for Interest	$ 457,678	$ —

See accompanying notes to financial statements

SUN PHARMACEUTICAL INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Sun Pharmaceutical Industries, Inc. ("the Company") is a Michigan corporation and is a wholly owned subsidiary of Sun Pharmaceutical Industries, Limited ("SPIL"), a leading pharmaceutical company organized under the laws of India. The Company develops, manufactures and markets brand, generic, prescription and over-the-counter pharmaceutical products in the United States. The process of developing a line of proprietary drugs requires approvals by the Food and Drug Administration (FDA) of Abbreviated New Drug Applications (ANDA). The Company's present product portfolio consists of solid oral dosages, liquids, and ointments in various strengths and package sizes. The Company's drugs relate to a variety of therapeutic segments.

The Company's manufacturing facilities are located in Cranbury, New Jersey and Bryan, Ohio. Both of these facilities were acquired during the year ended March 31, 2006.

The Company commenced its operations in September 2004. Thus the financial statements and the notes thereto pertain to period from inception September 14, 2004 to March 31, 2005 (Fiscal 2005) and the year ended March 31, 2006 (Fiscal 2006).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and all highly liquid investments purchased with an original maturity of three months or less.

Revenue Recognition

Revenue from product sales, net of estimated provisions, is recognized when there is persuasive evidence that an arrangement exists, shipment of the goods has occurred, the selling price is fixed or determinable, and collectibility is reasonably probable. Currently, the Company has two customers, of which one is an affiliate. With the other customer, the Company has fixed contract manufacturing and sale agreement for that customer's products.

Product Returns

The Company recognizes product returns in the period they occur.

Accounts Receivable

The Company sells its products using customary trade terms; the resulting accounts receivable are unsecured. Accounts receivable are stated at the amount management expects to collect from outstanding balances

Inventories

Inventories, which consist principally of raw materials, work-in-process and finished goods, are stated at the lower of cost, or market. The Company analyzes its inventory levels quarterly and writes down any inventory that has become obsolete and inventory that has a cost basis in excess of its expected net realizable value. Expired inventory is disposed of and the related costs are written off as and when it occurs. Actual results may differ from those estimates and inventory write-offs may be required.

Fixed Assets and Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management believes that the carrying value of these assets will be recovered through cash flows from operations.

Federal Income Taxes

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

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

Research and Development Costs

Research and development costs are charged to expense as incurred.

Fair Values of Financial Instruments

The carrying values of cash equivalents, accounts receivable, and accounts payable approximate their values due to the short-term maturities of these financial instruments.

2. INVENTORIES

Inventories consist of the following amounts:

	March 31	
	2006	2005
Raw materials	**$ 4,260,648**	$ —
Work in process	**208,253**	—
Finished goods	**23,861**	—
Total inventories	**$ 4,492,762**	$ —

The principal components used in the Company's business are active and inactive pharmaceutical ingredients and certain packaging materials. Because the FDA approval process requires manufacturers to specify their proposed supplier of components in their applications, FDA approval of a new supplier would be required if components were no longer available from the specified suppliers.

3. PROPERTY, PLANT AND EQUIPMENT AND TRADEMARKS

Cost of property, plant and equipment, as of March 31, 2006 and 2005, is summarized as follows:

	2006	2005
Land	**$ 105,446**	$ —
Building	**3,560,142**	—
Machinery and Equipment	**17,086,648**	—
Furniture and Fixtures	**627,262**	—
Vehicles	**9,452**	—
	21,388,950	—
Less: Accumulated Depreciation	**720,410**	—
Property and Equipment, net	**$ 20,668,540**	$ —

Depreciation expense for the Fiscal 2006 and 2005 totaled $ 720,410 and $ 0, respectively.

During the Fiscal 2006, the Company acquired a manufacturing facility from Valeant Pharmaceutical Industries Inc., U.S.A. located at Bryan Ohio. At this facility, the Company manufactures liquids and semi solid formulations. The other major acquisition has been the assets of Able Laboratories Ltd under Chapter XI Bankruptcy proceedings, consisting of two manufacturing facilities located in the State of New Jersey. One of these facilities is on leased premises and has a total square footage in excess of 225,000. When fully operational, the Company will manufacture solid dosage forms including controlled substances.

The total cost of acquisition of trademarks, manufacturing know-how and intellectual property of $3,460,000 in Fiscal 2005 is being amortized over a period of 15 years. The amortization expense for the Fiscal 2006 and 2005 amounted to $230,667 and $59,526, respectively.

4. INCOME TAXES

The deferred tax asset and deferred tax liability are as follows:

	March 31, 2006	March 31, 2005
Deferred Tax Asset:		
Net Operating Loss Carry Forward	**$ 1,319,000**	$ —
Valuation Allowance	—	—
	1,319,000	
Deferred Tax Liability:		
Depreciation and Amortization	**(652,000)**	—
	$ 667,000	$ —

Utilization of the net deferred tax asset of $667,000 as of March 31, 2006, disclosed above, is dependent on future taxable profits in excess of profits arising from existing taxable temporary differences. The management evaluates the realizability of the net deferred tax asset periodically and determines increasing or decreasing the valuation allowance.

After considering the forecasts of taxable income in conjunction with the positive evidence surrounding the realizabililty of its deferred tax asset, the Company determined that valuation allowance was not required.

The income tax benefit (provision) for the Fiscal 2006 and 2005 consisted of the following:

	2006	2005
Current Income Tax Benefit (Provision)	$ —	$ (24,335)
Deferred Income Tax Benefit (Provision)	667,000	—
Total Current and Deferred Income Taxes	667,000	(24,335)
Decrease (Increase) in Valuation Allowance	—	—
Benefit (Provision) for Income Taxes	$ 667,000	$ (24,335)

The Income tax (provision) benefit differs from the (expense) benefit that would result from applying federal statutory rates to income (loss) before income taxes because certain expenses are not deductible for tax purposes.

The Company has available at March 31, 2006, operating loss carry forwards totaling $ 3,879,000 expiring in the fiscal year ending March 31, 2026 that may be applied against future taxable income.

5. RELATED PARTY TRANSACTIONS

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

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

On December 29, 2004, the Company entered into a manufacturing and supply agreement with Caraco Pharmaceutical Laboratories, Ltd. (“Caraco”), a Michigan Company. SPIL owns 64% of Caraco’s issued and outstanding stock. Under the terms of the agreement, Caraco manufactures and supplies these products to the Company for commercial purposes.

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

During Fiscal 2005, the Company received loans totaling to $3.7 million from SPIL. Further in Fiscal 2006, SPIL made additional loans of $27.5 million. The total loans received from SPIL including interest there upon has been repaid during Fiscal 2006. The Company received loans amounting to $32 million during Fiscal 2006, from another affiliate. All of these loans are repayable on demand and bear interest rates ranging from 3.81% to 5.1%. The interest expense on these loans for Fiscal 2006 and 2005 amounted to $ 475,270 and $ 24,064, respectively.

During Fiscal 2006 the Company purchased materials worth $367,602 and services of $17,694 from SPIL and its affiliates. As at March 31, 2006 Accounts Payable include $18,256 payable to SPIL and $99,892 to its affiliate.

During the Fiscal 2006 the Company sold goods to an affiliate totaling to $1,019,606.

Note Payable – Other consists of non-interest bearing advances by one of the members of the board of directors and is repayable on demand.

While management has a reasonable basis to believe that SPIL’s substantial investment provides sufficient economic incentive to continue to assist the Company in developing its business, and operations, there can be no assurance that such support will continue in future.

6. LEASES

The Company leases its manufacturing facility, in New Jersey, under a non-cancelable arrangement expiring in September 2015. This lease requires payment of, in addition to basic rent, taxes and operating expenses. The current lease obligations are expected to be renewed or replaced upon expiration. The net basic rental expense on this operating lease was $ 343,321 for the Fiscal 2006 and $ 0 for Fiscal 2005.

The future minimum lease payments required under this operating lease during the remaining non-cancelable lease term are as follows:

Fiscal Year	Amount
2007	$ 1,287,632
2008	1,287,632
2009	1,287,632
2010	1,287,632
2011	1,287,632
Thereafter	5,740,693
Totals	$ 12,178,853

7. CONCENTRATIONS AND COMMITMENTS

Major Customers

During Fiscal 2006 and Fiscal 2005 sales to one customer, which is an affiliate of the Company, comprise approximately 28% and 100%, respectively, and to other customer with which the Company has contract manufacturing and sale agreement, approximately 63% in Fiscal 2006, of the total sales. The loss of these customers could have a materially adverse effect on short-term operating results.

Product Sales Commitment

The Company has an agreement for manufacturing and sale with one customer for their products. The contract binds the customer to buy products worth $6.4 million over a sixteen-month period commencing October 2005.

SUN PHARMACEUTICAL INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. OTHER MATTERS

Product Liability and Insurance

The Company currently maintains general and product liability insurance, with coverage limits of $10 million per incident and in the aggregate. The Company's insurance policies provide coverage on a claim made basis and are subject to annual renewal. Such insurance may not be available in the future on acceptable terms or at all. There can be no assurance that the coverage limits of such policies will be adequate to cover the Company's liabilities, should they occur.

Independent Auditors' Report on Supplementary Information

The Board of Directors

Sun Pharmaceutical Industries, Inc.

Our report on our audits of the basic financial statements of Sun Pharmaceutical Industries, Inc. for the year ended March 31, 2006 and for the period from inception September 14, 2004 to March 31, 2005 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Martin, Arrington, Desai, & Meyers, P.C.

June 2, 2006

FOR THE YEAR ENDED MARCH 31, 2006 AND FOR THE PERIOD SEPTEMBER 14, 2004 TO MARCH 31,2005

SCHEDULE 1: MATERIAL COST	2006	2005
Inventories at the beginning of the year	$ —	$ —
Purchases during the year	5,482,701	414,276
Inventories at the end of the year	(4,492,762)	—
	$ 989,939	$ 414,276

SCHEDULE 2: PERSONNEL COST		
Salaries, Wages and Benefits	$ 1,192,379	$ —
Payroll Taxes	113,402	—
Employee Welfare Expenses	9,286	—
	$ 1,315,067	$ —

SCHEDULE 3: OPERATING AND OTHER EXPENSES		
Supplies	$ 141,532	$ —
Manufacturing Expense	268,564	—
Utilities	151,104	—
Rent	349,129	—
Taxes - State and Local	104,782	2,000
Insurance	259,052	—
Selling and Distribution	38,839	—
Repairs :		
Building	6,126	—
Plant and Machinery	47,419	—
Others	89,862	—
Printing and Stationery	46,122	—
Travel	95,666	—
Telephone and Internet	40,156	3,150
Research and Development	21,145	—
Professional and Consulting	34,471	—
Legal and Accounting	12,992	—
Other Miscellaneous	119,793	60
	$ 1,826,754	$ 5,210

DIRECTORS' REPORT

To

The Members of

Sun Pharma Advanced Research Company Limited

Your Directors have pleasure in presenting herewith their First Annual Report and the Audited Accounts for the period 1st March, 2006 to 31st March, 2006.

FINANCIAL RESULTS

	(Rs.) Period ended 31st March, 2006
Total Income	—
Profit/(Loss) before Depreciation & Taxation	(33,224)
Depreciation	—
Profit/(Loss) before Tax	(33,224)
Provision for Tax	—
Profit/(Loss) after Tax carried to Balance Sheet	(33,224)

Your Company was incorporated on 1st March, 2006, obtained the Certificate of Commencement of Business on 22nd March,2006 and is in the first year of its operations.

DIVIDEND

In view of loss and absence of accumulated profits, your Directors do not recommend any dividend for the year under review.

DEMERGER AND TRANSFER OF INNOVATIVE RESEARCH AND DEVELOPMENT UNIT OF SUN PHARMACEUTICAL INDUSTRIES LIMITED TO THE COMPANY

With effect from 1st April, 2006 or such other date as may be approved by the High Court of Gujarat at Ahmedabad , the Innovative Research and Development Unit of Sun Pharmaceutical Industries Limited will be transferred to your Company on receipt of the approval of the same by the Honourable High Court of Gujarat & filing the same before the concerned authorities.

PUBLIC DEPOSITS

The Company has not accepted any deposit from Public during the period under review under the provisions of the Companies Act, 1956 and the rules framed thereunder.

DIRECTORS' RESPONSIBILITY STATEMENT:

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, your Directors confirm that:

a. In the preparation of the Annual Accounts for the period ended 31st March,2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;

b. The Directors have 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 and loss of the Company for the period under review.

c. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

d. The annual accounts for the period under review have been prepared on a 'going concern' basis.

PARTICULARS PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975

No particulars pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended are furnished, since the Company has no person in its employment for the period ended 31st March,06 drawing salary in excess of Rs.2,00,000/- per month.

PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNING AND OUT GOES:

Since the commercial operations of the Company have not been undertaken during the period under review, there is no information /particulars to be furnished for conservation of energy, technology absorption, foreign exchange earning and out goes of the Company for the period under review.

DIRECTORS

As per the provisions of Section 255 read with Section 256 of the Companies Act, 1956 all the Directors of the Company namely Mr. Dilip S. Shanghvi, Mr. Sudhir V. Valia and Mr. Sailesh T. Desai retire by rotation at the First Annual General Meeting and being eligible offer themselves for reappointment.

AUDITORS

As per the provisions of Section 224(5) of the Companies Act, 1956, M/s Deloitte, Haskins & Sells, Chartered Accountants, Mumbai were appointed as first auditors of the Company and will retire at the conclusion of the First Annual General Meeting. Your Company has received a letter from them to the effect that their re-appointment, if made, will be in accordance with the provisions of Section 224(1-B) of the Companies Act, 1956.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Place: Mumbai
Date: 10.07.2006

Dilip S. Shanghvi
Chairman & Director

Auditors' Report to the Members of Sun Pharma Advanced Research Company Limited

1. We have audited the attached Balance Sheet of Sun Pharma Advanced Research Company Limited ("the Company") as at March 31, 2006, the Profit and Loss Account and also the Cash Flow Statement for the period from March 1, 2006 to March 31, 2006 annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the para 3 above, we report that:
   (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
   (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
   (v) on the basis of written representations received from directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
   (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
      (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2006;
      (b) in the case of the profit and loss account, of the loss for the period from March 1, 2006 to March 31, 2006; and
      (c) in the case of the cash flow statement, of the cash flows for the period from March 1, 2006 to March 31, 2006.

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner
Membership No. 038568

Vadodara, June 6, 2006

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

ANNEXURE TO THE AUDITORS' REPORT

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

Sun Pharma Advanced Research Company Limited

1. In our opinion and according to the information and explanations given to us, the nature of the Company's activities during the period from March 1, 2006 to March 31, 2006, is such that clauses i, ii, iv, v, vii, viii, ix, x, xi, xii, xiii, xiv, xviii, xix, xx of Companies (Auditors' Report) Order, 2003 are not applicable to the Company.
2. The Company has not granted or taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses iii(a) to (g) are not applicable.
3. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from public within the meaning of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
4. In our opinion and according to the information and explanation given to us, the Company has not given any guarantees for loans taken by others from banks and financial institutions.
5. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, during the period of our audit, the company has not availed any term loans.
6. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, during the period of our audit, the company has not raised any funds on short term basis.
7. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the period.

For **Deloitte Haskins & Sells**
Chartered Accountants

K. A. Katki
Partner

Vadodara, June 6, 2006

Membership No. 038568

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

BALANCE SHEET AS AT MARCH 31, 2006

	Schedules	As at March 31, 2006 Rupees
SOURCES OF FUNDS		
Shareholders' Funds		
Share Capital	1	500,000
TOTAL		500,000
APPLICATION OF FUNDS		
Current Assets, Loans and Advances		
Cash & Bank balances:		
Balances with Schedule Bank in Current Accounts		500,000
Less :		
Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors - other than Small Scale Industrial Undertakings		33,224
Net Current Assets		466,776
Profit and loss account (Debit Balance)		33,224
TOTAL		500,000
Significant accounting policies and notes to accounts	2	

As per our report of even date attached

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman

For **Deloitte Haskins & Sells**
Chartered Accountants

SUDHIR V. VALIA
Director

K.A.Katki
Partner

SAILESH T. DESAI
Director

Vadodara, 06th June, 2006

Vadodara, 06th June, 2006

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM MARCH 1,2006 TO MARCH 31, 2006

	Schedules	PERIOD FROM MARCH 1,2006 TO MARCH 31,2006 Rupees
INCOME		
Income from Operations		—
EXPENDITURE		
Preliminary Expenses		22,000
Statutory Audit Fees (including service tax)		11,224
		33,224
Loss Before Tax		33,224
Provision for Taxation		—
Loss After Tax		33,224
Balance of Loss Carried Forward		33,224
Earning Per shares (EPS) (Rs.)		(0.07)
Face Value of Shares (Rs.)		1.00
Loss used as Numerator in calculating Basic & Diluted EPS (Rs.)		33,224
Weighted Average Number of Equity Shares used in computing EPS		500,000
Significant accounting policies and notes to accounts	2	

As per our report of even date attached

For and on behalf of the Board

DILIP S. SHANGHVI
Chairman

For **Deloitte Haskins & Sells**
Chartered Accountants

SUDHIR V. VALIA
Director

K.A.Katki
Partner

SAILESH T. DESAI
Director

Vadodara, 06th June, 2006

Vadodara, 06th June, 2006

CASH FLOW STATEMENT FOR THE PERIOD MARCH 1, 2006 TO MARCH 31 , 2006

Particulars	FOR THE PERIOD MARCH 1, 2006 TO MARCH 31 , 2006 (Rupees)
Cash Flow From Operating Activities:	
Loss before Tax	(33,224)
Adjustments	—
Operating Loss Before Working Capital changes	(33,224)
Adjustments for:	
Increase in Trade payable and Other Liabilities	33,224
Cash Generated from Operations	—
Direct taxes paid	—
Net Cash Generated from Operating Activities (A)	—
Net Cash Flow from Investing Activities (B)	—
Cash Flow From Financing Activities:	
Issue of Equity Shares	500,000
Net Cash Flow from Financing Activities (C)	**500,000**
Net Increase in Cash or Cash Equivalents (A+B+C)	**500,000**
Cash and Cash equivalents at the beginning of the period	—
Cash and Cash equivalents at the close of the Period	**500,000**

NOTES TO CASH FLOW STATEMENT FOR THE PERIOD MARCH 1,2006 TO MARCH 31,2006

1 The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard-3 on Cash Flow Statements issued by the Institute Of Chartered Accountants Of India.

2 The above cash flow statement is prepared for a period of one month i.e. from March 1, 2006 (the date of incorporation of the company) to March 31, 2006. The comparable figures for the preceeding year have not been presented, as this is the first ocassion when Financial Statements have been presented by the Company.

As per our report of even date attached	For and on behalf of the Board
	DILIP S. SHANGHVI Chairman
For **Deloitte Haskins & Sells** Chartered Accountants	**SUDHIR V. VALIA** Director
K.A.Katki Partner	**SAILESH T. DESAI** Director
Vadodara, 06th June, 2006	Vadodara, 06th June, 2006

Schedules forming part of the Balance Sheet as at March 31, 2006

	As at March 31, 2006 Rupees
1 **Share Capital:**	
Authorised:	500,000
500,000 Equity Shares of Re. 1 each	
Issued, Subscribed & Paid up	500,000
500,000 Equity Shares of Re. 1 each, fully paid up (All the above shares are held by Sun Pharmaceutical Industries Limited - The Holding Company and its nominees)	
TOTAL	**500,000**

SCHEDULE - 2

SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

A Significant Accounting Policies

I Basis of Accounting

The financial statements have been prepared under historical cost convention on an accrual basis and comply with the Accounting Standards referred to in Section 211(3C) of The Companies Act, 1956.

II Use of estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known / materialsed.

III Provisions,Contingent Liabilities and Contingent Assets

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

IV Taxes on Income

Provision for Taxation comprises of Current Tax and Deferred Tax.Current tax Provision has been made on the basis of relief and deductions available under the Income Tax Act,1961.Deferred Tax is recognised for all the timing differences, subject to consideration of prudence, applying the tax rates that have been substantially enacted at the Balance Sheet date.

B Notes to accounts

1 The Company was incorporated on March 1, 2006 as a innovative research and development company. As these are the first financial statements of the company for the period from March 1,2006 to March 31,2006, figures in respect of the previous year are not applicable.

2 The Board of Directors of Sun Pharmaceutical Industries Limited ('SPIL'),The Holding Company at their meeting held on February 9,2006 decided to demerge and transfer its innovative Research & Development business (including New Drug Delivery system) into the Company, so as to aid in focusing on manufacturing, including Reverse Reseach & Development activities by SPIL and innovative Reseach & Development activities by the Company.The said transfer of business is effective from April 1, 2006 subject to necessary regulatory approvals.

3 The Company proposes to engage in the business of innovative research and development. As at the year end, the Company has not commenced business operations. Hence information in respect of segment wise disclosure is not applicable to the company.

4 Disclosure with respect to Accounting Standard (AS-18) on related party disclosure, issued by the Institute of Chartered Accountants of India, is as per Annexure- "A" annexed.

SUN PHARMA ADVANCED RESEARCH COMPANY LIMITED

ANNEXURE 'A' TO NOTES ON ACCOUNT

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

Particulars

Note :

Names of related parties and description of relationship

1.	Holding Company	Sun Pharmaceutical Industries Limited
2.	Fellow Subsidiaries	Sun Pharma Global Inc. BVI. Milmet Pharma Ltd. (Upto October 25,2005) Sun Pharmaceutical (Bangladesh) Ltd. Sun Pharma De Mexico S.A. DE C.V. Sun Farmaceutica Ltda - Brazil Sun Pharmaceutical Industries Inc , USA Sun Pharmaceuticals UK Ltd ICN Hungary Ltd Caraco Pharmaceutical Laboratories Ltd - USA Universal Enterprise Pvt. Ltd. Zao "Sun Pharma Industries Limited" Sun Pharmaceutical Peru S.A.C. SPIL De Mexico S.A. DE C.V.
3.	Other Related Parties (Partnership Firm)	Sun Pharma Exports Sun Pharmaceutical Industries
4.	Key Management Personnel	Mr Dilip S Shanghvi Mr Sudhir V Valia Mr Sailesh T. Desai
5.	Enterprise under significant Influence of Key Management Personnel	Sun Petrochemical Pvt Ltd Sun Speciality Chemicals Pvt Ltd Navjivan Rasayan (Gujarat) Pvt Ltd

Transaction during the period from March 1, 2006 to March 31,2006

Particulars	(Amount in Rs.)
	Holding Company
Reimbursement of Expenses	
Sun Pharmaceutical Industries Ltd	22,000
Issue of Equity share Capital	
Sun Pharmaceutical Industries Ltd	500,000

Outstanding Balance as at March 31,2006

Particulars	(Amount in Rs.)
	Holding Company
Current Liabilities	
Sun Pharmaceutical Industries Ltd	22,000

Sun Pharmaceuticals UK Limited

Director's report for the period ended 31 March 2006

The director presents his first report and the financial statements for the period from 20 June 2005 to 31 March 2006.

Incorporation

The company was incorporated on 20 June 2005 as Sun Pharmaceuticals UK Limited. The company commenced activities in January 2006.

Principal activity and review of the business

The principal activity of the company is that of wholesalers of pharmaceutical products.

As at 31 March 2006, the company had not made any sales but obtained a license to sell a specific medicine.

Results and dividends

The results for the period are set out on page 5 (page121).

The director does not recommend the payment of a dividend.

Director and his interest

The director who served during the period and his interest in the company are as stated below:

		Class of share	31/03/06	20/06/05 or date of appointment
Sunil Gandhi	Appointed : 20 June 2005	Ordinary shares	—	—

Director's responsibilities

The director is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the director to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the company and of the profit or loss of the company for that period. In preparing these the director is required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement in accordance with generally accepted accounting principles and practice.

Disclosure of information to auditors

In so far as the director is aware:

- there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware and
- the director has taken all the steps that he ought to have taken to make aware of any releant audit information and to establish that the company's auditors are aware of that information.

Auditors

Anderson Shaw were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a resolution proposing their reappointment will be put to the Annual General Meeting.

This report was approved by the Board on 20 June 2006 and signed on its behalf by

Sunil Gandhi
Director

Independent auditors' report to the shareholders of Sun Pharmaceuticals UK Limited

We have audited the financial statements of Sun Pharmaceuticals UK Limited for the period ended 31 March 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with section 235 of the Companies Act 1985. Out audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of director's responsibilities the company's director is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion the director's report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and transactions with the company is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss and cash flows for the period then ended.

The financial statements have been properly prepared in accordance with the Companies Act 1985 and the information given in the Directors' Report is consistent with the financial statements for the period ended 31 March 2006.

Sd/- Anderson Shaw
Chartered Certified Accountants and
Registered Auditors
4/5 Loveridge Mews
London
NW6 2DP

Dated : 20 June 2006

Sun Pharmaceuticals UK Limited

Profit and loss account for the period ended 31 March 2006

	Notes	Continuing operations Period ended 31/03/06 £
Administrative expenses		(1,440)
Loss on ordinary activities before taxation		(1,440)
Tax on loss on ordinary activities	4	—
Loss on ordinary activities after taxation		(1,440)
Loss for the period		**(1,440)**

There are no recognised gains or losses other than the profit or loss for the above financial period.

The notes on page 8 to 11 form an integral part of these financial statements

Balance sheet as at 31 March 2006

	Notes	31/03/06 £	£
Fixed Assets			
Intangible assets	5		7,996
Creditors amounts falling due within one year	6	(8,436)	
Net current liabilities			(8,436)
Total assets less current liabilities			(440)
Deficiency of assets			**(440)**
Capital and reserves			
Called up share capital	7		1,000
Profit and loss account			(1,440)
Equity shareholders' funds (deficit)	8		**(440)**

The financial statements were approved by the Board on 20 June 2006 and signed on its behalf by

Sunil Gandhi
Director

The notes on pages 8 to 11 form an integral part of these financial statements

Cash flow statement for the period ended 31 March 2006

	Notes	£	Period ended 31/03/06
Reconciliation of operating loss to net cash inflow from operating activities			
Operating loss			(1,440)
Depreciation			276
Increase in creditors			8,436
Net cash inflow from operating activities			**7,272**
Cash flow statement			
Net cash inflow from operating activities			7,272
Capital expenditure	11		(8,272)
			(1,000)
Financing	11		1,000
Increase in cash in the period			—
Reconciliation of net cash flow in movement in net funds (Note 12)			
Increase in cash in the period			—
Net funds at 31 March 2006			—

Notes to the financial statements for the period ended 31 March 2006

1. Accounting Policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board.

The company has consistantly applied all relevant accounting standards.

1.2 Licenses

Licenses are valued at cost less accumulated amortisation.

Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 5 years.

1.3 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.4 Going concern

The financial statements have been prepared on the going concern basis due to continued financial support of parent company and it is envisaged that the company will become profitable in future years once it commences selling.

	Period ended 31/03/06 £
2. Operating loss	
Operating loss is stated after charing:	
Depreciation and other amounts written off intangible assets	**276**
Auditors' remuneration	**411**

3. Employees

There are no employees during the period apart from the director

4. Tax on loss on ordinary activities

	Period ended 31/03/06 £
Analysis of charge in period	
Current Tax	
UK Corporation Tax	
Factors affecting tax charge for period	**2006** £
Loss on ordinary activities before taxation	(1,440)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(274)
Effects of:	
Expenses not deductible for tax purposes	144
Losses carried forward	130
Current tax charge for period	—

5. Intangible fixed assets

	Licenses £	Total £
Cost		
Additions	8,272	8,272
At 31 March 2006	8,272	8,272
Provision for diminution in value		
Charge for period	276	276
At 31 March 2006	276	276
Net Block value		
At 31 March 2006	7,996	7,996

6. Creditors amounts falling due within one year

	31/03/06 £
Amounts owed to parent undertaking	8,025
Accruals and deferred income	411
	8,436

7. Share Capital

	£
Authority equity	
1,000 Ordinary shares of £10 each	10,000
Allotted, called up and fully paid equity	
100 Ordinary shares of £10 each	1,000

On incorporation, the company issued 100 ordinary shares of £10 each at par

8. Reconciliation of movements in shareholders' funds

	£
Loss for the period	(1,440)
Net proceeds of equity share issue	1,000
Net addition to shareholders' funds	**(440)**

9. Ultimate parent undertaking

Sun Pharmaceutical Industries Limited, a company incorporated in India, is the ultimate holding company.

10. Controlling interest

The company is controlled by the shareholders.

11. Gross cash flows

	£
Capital expenditure	
Payments to acquire intangible assets	(8,272)
Financing	
Issue of ordinary share capital	1,000

12. Analysis of changes in net funds

	Opening balance £	Cash flows £	Other changes £	Closing balance £
Net funds	—	—	—	—

SUN PHARMACEUTICAL PERU S.A.C.

Independent Auditor's Report

To the Gentlemen Shareholders
SUN PHARMACEUTICAL PERU S.A.C.

We have reviewed the General Balance Sheet until 31st December, 2005 of Sun Pharmaceutical Peru SAC, the company doesn't have any commercial activity. It doesn't make any report about Profits and Losses.

These economic states are responsibility of the Company's Management. Our responsibility consists of expressing an opinion about the company itself, on the basis of our audit.

The General Balance Sheet of the 31st December,2005 agrees with Accounting Books that the company owns.

In our opinion the General Balance Sheet of the 31st December, 2005, in accordance with the generally accepted principles of accounting, reflects the true situation of the company until that date.

Lima, Peru 02nd May, 2006

C. P. C Margarita Vera Pelaez
Independent Auditor
Mat. № 26954 CCPL

PROFIT AND LOSS ACCOUNT FOR THE PERIOD 01st April, 2005 TO 31st Dec, 2005

PARTICULARS	SOLES
	—

Note :- No Commercial activity has been carried on during the period.

BALANCE SHEET AS AT 31ST DEC, 2005

PARTICULARS	SOLES
Share Capital	
Authorised	
150 Ordinary Shares of Soles 10/- each.	1,500.00
Issued & Paid up	
149 Ordinary Shares of Soles 10/- each held by. Sun Pharmaceutical Industries Limited (India)	1,490.00
1 Ordinary Shares of Soles 10/- each held by	10.00
Milmet Phamra Limited	1,500.00
Loan	
Loan from Sun Pharmaceutical Industries Limited	7,839.01
	7,839.01
Current Liabilities and Provisions	0.00
	0.00
	9,339.01
Fixed Assets	0.00
Current Assets , Loans and Advances	
Current Assets	
Bank Balance	985.75
	985.75
Preliminary Expenditure	
Lawyer Fees	2,789.16
Registration Fees	4,071.12
	6,860.28
Pre Operative Expenses	
Bank Interest	514.25
Exchange fluctuations	978.73
	1,492.98
	9,339.01

For : **SUN PHARMACEUTICAL PERU S.A.C.**

(Authorised Signatory)
Dinesh Naidu

C. P. C Margarita Vera Pelaez
Independent Auditor
Mat. № 26954 CCPL

ICN HUNGARY COMPANY LIMITED

REPORT BY THE BOARD OF DIRECTORS ABOUT ICN HUNGARY CO. LTD'S BUSINESS OPERATIONS IN 2005

I. MAIN CHARACTERISTICS OF THE MANAGEMENT IN 2005

In 2005, the Company achieved a net sales income of 4,358.6 million HUF, which was 26% lower than in the previous year.

Within the above amount, domestic sales represented 1,126.2 million HUF, while export sales totalled 3,232.4 million HUF.

Within sales, the percentage of export increased from 54.4% to 74.2%, while domestic sales fell from 45.6% to 25.8%. The decrease of domestic sales was partly caused by the decrease of the quantity of medicines distributed in Hungary, and, to a larger degree, by the fact that a part of the medicines that were previously distributed by Valeant Pharma Hungary Ltd. are now marketed by ICN Polfa, a Polish company.

Other incomes in 2005 included, among others, the retrieval of provisions, received late interests and the retrieval of devaluation of receivables.

Major data of management

Data in million HUF

Description	Year				Index
	2003	2004	2005		2005/2004
	in million HUF			Percentage %	%
Net sales income	8,025.1	5,864.6	4,358.6	86.88	74.32
– domestic	4,635.7	2,671.8	1,126.2	22.45	42.15
– export	3,389.4	3,192.8	3,232.4	64.43	101.24
Other income	869.1	2,609.7	658.0	13.12	25.21
– domestic	869.1	1,015.7	658.0	13.12	64.78
– export	0.0	1,594.0	0.0	0.00	0.00
Operating income	**8,894.2**	**8,474.3**	**5,016.6**	**100.00**	**59.20**
Net sales income	8,025.1	5,864.6	4,358.6	86.88	74.32
Result according to the balance sheet	**-144.8**	**-46.52**	**-1,470.2**	**-29.31**	**3,160.36**
Wage costs	1,698.2	1,375.9	1,186.4	23.65	86.23
Number of full-time employees	645.0	548.0	452.0	9.01	82.48
Research+development	131.2	123.8	17.4	0.35	14.05
Invested assets	5,551.0	4,971.5	5,085.3	101.37	102.29
Equity capital	**4,394.7**	**6,593.7**	**4,883.3**	**97.34**	**74.06**

The previous owner of the Company made up for the Company's loss of capital over the past few years by the increase of capital in 2001. This increased the Company's subscribed capital to 5,919 million HUF, which did not change either in 2002 or 2003. In 2004, the subscribed capital rose to 6,268.8 million HUF, owing to the issue of employees' shares. The Company's own capital increased from 4,394.7 million HUF to 6,593.7 million HUF, due to the fact that the 2,135.8 million HUF which was transferred by the owner in 2003 and subscribed in 2004 was put in the capital reserve. As a result of the loss in 2005, the Company's own capital fell to 4,883.3 million HUF.

The Company concluded the 2005 business year with a loss of 1,470.2 million HUF.

The financial data in the accounting period covered by this report did not come up to the expectations.

The most important reasons for this were the non-profitable production of psychotropic products and the settling of accounts of the related devaluations, as well as the low selling price and less-than-planned quantity of finished pharmaceutical products.

With consideration for the losses of the previous years, the Management of the Company gradually decreased the number of employees between 1999 and 2002 and outsourced certain activities.

In 2005, the number of employees decreased due to natural fluctuation, early retirements, and the collective lay-offs that were started in 2004. As a result of these, the number of full-time employees decreased from 548 on 31st Dec, 2004, to 452 by the end of 2005.

As from 1st Jan, 2005, the average pay-rise was 5.35%, and 4% of this was general pay-rise.

On the whole, wage costs fell from 1,375.9 million HUF in 2004 to 1,186.4 million HUF in 2005, which represents a 14% decrease.

II. MARKET SITUATION

In 2004, the Company achieved an operating income of 8,474.3 million HUF, which decreased to 5,016.6 million HUF in 2005.

Sales yielded an income of 4,358.6 million HUF, which was 74.32% of the sales income in 2004. The reason for the decrease is the fall of domestic sales (to 42.15% of the amount in the previous year), while the income from export increased to 101.24% of the amount in the previous year. The change in the percentages was caused by the sale of products to ICN Polfa to be sold on the Hungarian market, which was considered export.

ICN HUNGARY COMPANY LIMITED

Distribution of sales by area

Data in million HUF

Description	Year				Index
	2003	2004	2005		2005/2004
	in million HUF			Percentage %	%
Net sales income	8,025.1	5,864.6	4,358.6	86.88	74.32
– domestic	4,635.7	2,671.8	1,126.2	22.45	42.15
– export	3,389.4	3,192.8	3,232.4	64.43	101.24
Other income	869.1	2,609.7	658.0	13.12	25.21
Operating income	**8,894.2**	**8,474.3**	**5,016.6**	**100.00**	**59.20**

Composition of sales by product groups

Data in million HUF

Description	Year				Index
	2003	2004	2005		2005/2004
	in million HUF			Percentage %	%
Pharmaceutical raw materials	2,520.2	2,733.8	2,283.7	52.40	83.54
Intermediaries	73.5	0.0	0.0	0.00	0.00
Finished pharmaceutical prod.	4,433.6	1,907.2	1,457.2	33.43	76.41
Other sales	997.8	1,223.6	617.7	14.17	50.48
Net sales income	**8,025.1**	**5,864.6**	**4,358.6**	**100.00**	**74.32**

The Company's long term goals continue to be the increase of the sale of finished pharmaceutical productss and the increase of the export of pharmaceutical raw materials.

The composition of domestic sales by product groups is shown in the following chart:

Data in million HUF

Description	Year				Index
	2003	2004	2005		2005/2004
	in million HUF			Percentage %	%
Pharmaceutical raw materials	110.0	90.3	73.9	6.56	81.84
Intermediaries	0.3	0.0	0.0	0.00	0.00
Finished pharmaceutical prod	4,104.8	1,449.1	461.0	40.93	31.81
Other sales	420.6	1,132.4	591.3	52.50	52.22
Net sales income	**4,635.7**	**2,671.8**	**1,126.2**	**100.00**	**42.15**

The Company's market share continued to decrease both in terms of value and quantity.

In 2003, organizational structure underwent major changes; promotional, trading, and sales activities have been assigned to the newly-founded Valeant Pharma Hungary Ltd., and in 2005, the majority of finished pharmaceutical to be sold on the domestic market were sold to ICN Polfa.

The data of domestic sales between 2003-2005 are therefore not comparable.

Composition of export sales by product groups

Data in million HUF

Description	Year				Index
	2003	2004	2005		2005/2004
	in million HUF			Percentage %	%
Pharmaceutical raw materials	2,410.2	2,643.5	2,209.8	68.36	83.59
Intermediaries	73.2	0.0	0.0	0.00	0.00
Finished pharmaceutical prod.	328.7	458.1	996.2	30.82	217.46
Other sales	577.3	91.2	26.4	0.82	28.95
Net sales income	3,389.4	3,192.8	3,232.4	100.00	101.24

Composition of export sales by product groups

Data in thousand USD

Description	Year				Index
	2003	2004	2005		2005/2004
	in thousand USD			Percentage %	%
Pharmaceutical raw materials	10,839.0	14,645.2	11,052.7	68.36	75.47
Intermediaries	329.2	0.0	0.0	0.00	0.00
Finished pharmaceutical	1,478.2	2,537.9	4,982.6	30.82	196.33
Other sales	2,596.2	505.3	132.0	0.82	26.12
Net sales income	15,242.6	17,688.4	16,167.3	100.00	91.40

In 2005, the Company's export sales increased by 1.24% (in HUF) compared to the previous year as a result of the fact that the sale of pharmaceutical specialties considerably increased due to the above-mentioned change of customers, while the quantity and value of raw materials sold decreased.

III. BUSINESS POLICY

Employment Policy

Personnel Management

In 2004, the previous owner of the Company started collective lay-offs, which were continued in 2005. On 1st January last year, the number of employees was 522, and we planned to reduce the number to 439. By the date of the sale of the Company, the plan was close to realization: the Company had 450 employees as a result of the collective lay-off of workers (they did not include anyone on permanent leave). The new owner brought with him a new strategy, pursuant to which we executed short, definite-term employment contracts with new workers in December. As a result, by December of 2005, the number of employees increased to 500. In addition to our employees, we borrowed an average of 32 employees during the year.

In the future, based on our adjusted strategy, we expect to reduce the number of borrowed employees and increase the number of skilled manual workers.

Wage Management

In 2005, the Company's wage management featured two tendencies: because of the loss of income, we tried to reduce the wage costs, which was possible due to the lay-offs. But at the same time, we provided a higher-than-average pay-rise for those employees whose income had been lower than the average earning in the same professions on the labour market. In 2005, therefore, our employees received a min. 4% pay-rise, with 5.35% being the average.

In 2006, we expect to devise solutions for the improvement of the employees' income situation, and, at the same time, the reduction of wage costs.

Procurement

The volume of purchasing did not increase in 2005.

The cost of fuels was an item whose increase considerably affected our management. The price increase of heating oil exceeded 60%.

The prices of certain groups of materials (solvents, petroleum products) changed in line with the tendencies on the world market. In 2005, we continued to inspect our suppliers.

With regard to the terms of payment, there was no improvement compared to the previous year.

Although the changes in the production schedule made the procurement less predictable, there were no major disturbances in procurement.

Production

Because production required more employees than what the Company had, we borrowed 26 manual workers during the year, mainly for morphine production.

In the Chemistry I plant, in the first half of the year, we used a part of the poppy-heads harvested in 2004 for the production of morphine. Due to the accident in the poppy-straw store, the poppy-heads harvested in 2005 were used for the production in the second half. We started to process the remaining part of the 2004 harvest in December of 2005, following the supervision of the instruction for the release of the poppy-heads.

89.5% of the capacity of the morphine production line was used during continuous shifts.

In the Chemistry II plant, the quantity of Phenobarbital produced was the same as in 2004.

Due to lack of a suitable production line, no Chloroquine and Hydroxy-Chloroquine were made.

The production of Glibornuride was suspended due to lack of demand.

In the Medicine Formulating and Packing Plant, we produced to demand, and the utilization of the capacity did not increase.

As to lease work, we only produced a small portion of the planned quantity because of lack of demand.

By the end of the year, the project plans for the expansion and alteration of the production lines initiated by the new owner were developed. Their implementation is due to take place in 2006, and it is expected to increase production volumes, improve technical standards, and provide production lines that are in compliance with the GMP. The projects are as follows: Codeine project, Hydroxy-Chloroquine project, and GYFK project.

Poppy-growing system

As a result of the high yield of poppy in the 2004 season, ICN accumulated a considerable stock of seed boxes which provided raw material for approximately one and a half years' morphine production. This fact as well as the upcoming factory sale largely affected the poppy-growing plans of 2005. The 10,000 hectares that were planned to be allocated for poppy-growing in 2005 was reduced to 7,000 hectares, and the two poppy-growing districts in the Trans-Danubian region, and, concurrently to that, the poppy inspection staff were given up.

In 2005, we started to purchase poppy in a new system, that is, according to morphine content (at a net price of 195 to 234 HUF/kg), which due to the large amount of washed-out morphine, meant less money for the growers. On average, they received 201 HUF for one kilogram of poppy seed box. The weighted average of morphine content was 10.04‰, which was considerably lower than the 14.2‰ in 2004.

In 2005, we implemented major technological improvements:

– We obtained a licence for Callisto, a post-emergence herbicide for poppy, which is an unprecedented product in the Company's history. Callisto enabled the completely motorized growing of poppy, which is based on the prevention of weeds.

  We made progress in the field of poppy-harvesting adapters as well: in 2005, as many as 44 adapters were in use nationwide (in 2004, farmers bought only 25). Last year, the percentage of the area and crop harvested by machines was 63%.

– The percentage of irrigated land also increased, to 35%.

The data of poppy-growing are shown in the following chart:

Data of production			
		2004	2005
contracted area	ha	15,976	7,555
sown area	ha	10,368	7,058
harvested area	ha	7,084	4,704
yield of poppy (seed box)	t	8,587	3,741
average yield	kg/ha	1,212	795

We planned to execute contracts for poppy-growing on 13,000 hectares in 2006. However, the 10% increase in the purchase price did not prove to be sufficient for this, which was why we managed to contract only 9,650 hectares to date (execution of the contracts are still underway).

We resumed production in the northern Trans-Danubian district, and have growers in the south-eastern Trans-Danubian region as well, where we again employ six poppy inspectors.

Quality Assurance Policy

The strict quality assurance and control system of the Company largely contributed to the fact that inspections by the customers and the authorities during the year had positive results.

Aventis/Sanofi/Chinoin inspected phenobarbital and codein-phosphate, the Japanese Nobelpharma was interested in phenobarbital-sodium, and the National Medicine Inspection Institute (OGYI) inspected the production of acenocumarol to decide whether a licence can be issued.

During the inspection by Aventis, a number of critical comments were recorded, mainly due to the condition of the buildings and production lines, which we hope to improve through the current changes whose aim is to make the production GMP-compliant. We keep our customer updated on the progress.

The inspection by OGYI did not reveal any major faults, and the product was granted a GMP certificate.

As a result of the above, we managed to maintain the position of our products on the market of active ingredients.

Research and Development

As a result of the previous owner's strategic decision, research and development was terminated in the field of active ingredients, and considerably cut back in the field of medicines as well.

Despite the above, the department of active ingredient technology, which took over certain R+D activities, managed to improve product quality by modifying the production technology of several active ingredients that had been produced for a long time, and thus the products retained their market position. CTD-format DMF's have been and are being made for several active ingredients, which are indispensable for the expansion of our market presence and competitiveness.

The department of pharmaceutical technology, in addition to performing development in the frame of lease work and testing the active ingredients of new suppliers, completed the development of Naproxen Na 220 mg film-coated tablets. In the case of a favourable decision, the preparation may undergo bioequivalency examination.

Environmental Protection

Due to the Company's activities, environmental protection is of high importance and considerably affects the Company's financial situation. The following section presents the Company's environmental activities and their financial implications:

The biological sewage farm was operating continuously all year round, and the total quantity of cleaned sewage was 1,209,295 cubic-meters. Of all emission limits, that of ammonium was exceeded between 20th Sept, 2005, and 2nd Nov 2005. The other limits were observed.

The sludge generated during the cleaning was disposed of by composting in the closed-cell composting facility that is located on the premises of the sewage farm. The cost of composting amounted to 29,464,769 HUF.

In compliance with the regulations of the environmental authorities, the compost made from the sludge was inspected every two months by an accredited laboratory. The cost of these examinations totalled 969,000 HUF.

In order the assess the possibilities of using the compost for agricultural purposes, we had the substance examined by the laboratory of the plant health and soil protection service for 63,200 HUF. The expert's opinion on the usability of the compost cost 30,000 HUF.

The environmental study and evaluation that were necessary for the reconstruction of the 2,000-cubic-meter heating oil tank were completed for 1,757,500 HUF.

Phases 2 and 3 of the enclosure of the contaminated areas were completed for 18,000,000 HUF.

Annual sampling from the monitoring network on the central premises, which consists of 20 soil and shallow layer-water monitoring wells, and from the four ground water monitoring wells located in the sewage farm was completed and the samples were examined by an accredited laboratory; a ground water monitoring well was established next to the composting plant; the ground water and soil monitoring system, which consists of three soil sampling locations, was examined; and a summary report was prepared. The above operations cost 5,700,000 HUF.

Pursuant to the applicable resolution of the environmental authority, the existing monitoring system on the central premises was added to by 23 soil and shallow layer-water monitoring wells. The related soil and water examinations and the summary report cost 19,095,000 HUF.

The damage restoration systems to be established on the contaminated areas SZ-I, SZ-VIII, and SZ-X were granted an establishment licence by the environmental authority in 2005, based on the licence application prepared in 2004.

Damage restoration is continued, and it is in different stages (implementation, licencing, call for offers, and examination by experts) in the different areas.

The Company provides the necessary funds.

The preliminary audit for the certification of the report on the emission of greenhouse gases (CO2) was conducted for 281,000 HUF.

The composting plant's emission to the air was examined by an accredited organization for 446,500 HUF.

Hazardous wastes generated during production and the performance of services were disposed of in Ecomissio Ltd's incinerator in Tiszavasvári. A total of 488,642 kg of wastes was incinerated, the cost of which was 27,595,661 HUF.

Communal wastes generated during the Company's activities, non-hazardous wastes generated during the demolition of buildings, and wastes generated during park maintenance were disposed of in the municipal landfill. Its cost was 1,806,432 HUF.

No hazardous wastes were stored in temporary storage in 2005.
No fines were imposed on the Company for hazardous wastes or noise pollution.

4,247,915 HUF was paid in 2005 as fine for the Company's air pollution in 2004. The main pollutant was NOx emitted by the boilers.
No fine has been imposed yet for this year, but we expect to have to pay approximately the same amount as last year.

2,619 HUF was paid in 2005 as fine for the previous year's sewage pollution, which was caused by the violation of the emission limit of ammonium-ion.
No fine has been imposed yet for this year, but we expect to have to pay a fine of under 50,000 HUF for the same violation.

Phase 1 of the detailed environmental assessment that is necessary for the issue of the uniform licence to use the environment has been concluded and the findings have been submitted to the authorities.

The cost of the above was 2,380,000 HUF. Phase 2 of the assessment is underway.

Risk Management

The risks and uncertainties accompanying the Company's operations are originated from the market tendencies typical of the industry, which, at the same time, provide opportunities for the introduction of new products and expansion in the markets.

There were no unusual financial risks inherent in the management, which was why the price, credit, liquidity and cash flow risks were not significant.

IV. COMPANY STRUCTURE

Registered office of the Company: 1025 Budapest, Csatárka u. 82-84.
Branch office: 4440 Tiszavasvári, Kabay János u. 29.

The transfer of the Company's registered seat to Tiszavasvári is underway, and the Company performs its business activities in Tiszavasvári.

Pursuant to the decision by the Company's foremost body, ICN Hungary Co. Ltd. is controlled by one person. The leader of the Company represents the Company and also signs this Report.

The internal supervision of the Company's management is performed by the Management, the Board of Supervisors, and the Company's auditor.

Board of Supervisors:

Sudir Valia, Chairman
(address: 173 Aalap, Hindu Colony, Dadar, Mumbay – 4000 014)

Sailesh Desai, Member
(address: B-402, 4. Floor, Avishkar, old Padra Road, Vadodara –390 015, Gujarat)

Sándorné Ondi, Member
(address: 4440 Tiszavasvári, Kárpát u. 17)

Auditor: PV AUDITOR Ltd's (4400 Nyíregyháza, Kandó Kálmán u. 12.) appointed employee: János Varga (4400 Nyíregyháza, Kandó Kálmán u. 12.)

Equity Capital, Shareholders

Issueded capital: 6,028,614,000 HUF.

Classes of Shares:

7,003,310 pieces of shares of a par value of 3 HUF each and granting general rights; 2,002,500 pieces of shares of a par value of 3,000 HUF each and granting general rights; and 34,792 pieces of registered shares of a par value of 3 HUF for small investors.

On 8th Aug, 2005, the previous majority shareholder, ICN Pharmaceuticals, Inc., sold its block of shares to the British Virgin Islands-based Sun Pharma Global Inc.

ICN HUNGARY COMPANY LIMITED

Ownership structure:

– Until 8th Aug 2005:

Shareholders	Number of shares				Par value (thousand HUF)				Percentage of ownership	
	2004		8th Aug 2005		2004		8th Aug 2005		2004	8 Aug 2005
	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	%	%
ICN Pharmaceuticals Inc.	6,968,918	2,082,500	7,003,310	2,002,500	20,906	6,247,500	21,010	6,007,500	99.9930	99.998
Minority shareholders	0	0	0	0	0	0	0	0	0.00	0.00
Employees	80,371	0	0	0	241	0	0	0	0.0038	0.00
Small investors	66,236	0	34,792	0	199	0	104	0	0.0032	0.0017
ICN Hungary Co. Ltd.	0	0	0	0	0	0	0	0	0.00	0.000
Total	**7,115,525**	**2,082,500**	**7,038,102**	**2,002,500**	**21,346**	**6,247,500**	**21,114**	**6,007,500**	**100.00**	**100.00**

– From 9 Aug 2005:

Shareholders	Number of shares				Par value (thousand HUF)				Percentage of ownership	
	2004		8th Aug 2005		2004		8th Aug 2005		2004	8 Aug 2005
	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,247,500	21,010	6,007,500	99.9983	99.998
Minority shareholders	0	0	0	0	0	0	0	0	0.00	0.00
Employees	0	0	0	0	0	0	0	0	0.00	0.00
Small investors	34,792	0	34,792	0	104	0	104	0	0.0017	0.0017
ICN Hungary Co. Ltd.	0	0	0	0	0	0	0	0	0.00	0.00
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00**	**100.00**

Capital structure:

Data in thousand HUF

Description	31 Dec 2004	31 Dec 2005	Difference 2005-2004	Index % 2005/2004
Subscribed capital	6,268,846	6,028,614	-240,232	96.17%
Capital reserve	2,135,974	371,152	-1,763,822	17.38%
Accumulated profit reserve	-2,016,436	-412,432	1,604,004	20.45%
Tied-up reserve	251,614	366,145	114,531	145.52%
Result according to the balance sheet	-46,287	-1,470,227	-1,423,940	3,176.33%
Own capital	**6,593,711**	**4,883,252**	**-1,709,459**	**74.07%**

In 2004, the Company redeemed 80,000 pieces of 3,000-HUF-par-value and 77,423 pieces of 3-HUF-par-value employees' shares. The amount at the redemption, that is 251,614,000 HUF, was deposited in the tied-up reserve in 2004, the registration by the Court of Registration took place in 2005, and the amount was given back to the accumulated profit reserve.

ICN Hungary Co. Ltd. is an affiliated company.

Parent company: Sun Pharma Global Inc.
(address: International Trust Building, P. O. Box No. - 659, Road Town, Tortola, British Virgin Islands)

The following persons are authorized to sign the annual report:

Harin Mehta, Chairman of the Board of Directors
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101 India)

Jayesh Shah, Member of the Board of Directors
(address: 29714 Orion Court, Farminston Hills, Michigan 48334 USA)

Katalin Szilágyi, Member of the Board of Directors
(address: 4440 Tiszavasvári, Kelp Ilona u. 3.)

Events after the accounting day

There were no events after the accounting day that would affect the evaluation of the actual circumstances, and the present report provides a reliable and truthful picture about the Company's assets, financial and income situation, and business operations.

There were no major trends after the accounting day that would affect the evaluation of the actual circumstances.

On behalf of the Board of Directors of ICN Hungary Co. Ltd.:

Tiszavasvári, 14th Feb 2006

Harin Mehta
Chairman of the Board of Directors / Company Director

P. V. AUDITOR Ltd. H- 4400 Nyíregyháza, Kandó K street 12.
Tax number: 11651394-3-15. Chamber registered number: 001697.

Independent Auditors' Report

(Free translation)

To the quotaholders shareholders of ICN Hungary Company Limited

We have audited the balance sheet of ICN Hungary Company Limited (the Company) as at 31 December 2005 – in which the balance sheet total is HUF 8,996,431 thousand, the loss per balance sheet is HUF 1,470,227 thousand and the related profit and loss account and notes for 2005 which are included in the financial statements of ICN Hungary Company Limited. The financial statements and the business report are the reponsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on the audit and to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements.

The financial statements of the Company for the year ended 31 December 2004 were audited by another auditor who issued a unqualified opinion on 14th February 2005.

We conducted our audit in accordance with Hungarian and International Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. Our work with respect to the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our audit opinion.

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the financial statements of ICN Hungary Ltd. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provisions of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the financial statements give a true and fair view of the financial position of ICN Hungary Ltd. as at 31 December 2005 and of the results of its operations for the year then ended. The business report is consistent with the disclosures in the financial statements.

Without qualifying our opinion we draw your attention to the fact that the combined balance of own funds decreased below the value of subscribed capital.

Nyíregyháza, 14th February 2006.

János Varga
Partner
PV AUDITOR Ltd
Licence No.: 001697.
12 Kandó K street, 4400 Nyíregyháza

János Varga
Registered Auditor
Licence No.: 002059.
12 Kandó K street, 4400 Nyíregyháza

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" BALANCE Assets

THUF

No.		Item		Previous year 31/12/2004	Previous year(s)' modifications	Reference year 31/12/2005
a		b		c	d	e
01.	A	**FIXED ASSETS**	(2.+10.+18.)	4,971,504	0	5,085,259
02.	I.	INTANGIBLE ASSETS	(3. ... 9.)	423,145	0	369,502
03.		Capitalised value of foundation and restructuring costs				
04.		Capitalised value of research and development				366,145
05.		Concessions and similar rights and assets k				
06.		Intellectual property		423,145		3,357
07.		Goodwill				
08.		Advance payments on intangible assets				
09.		Revaluation of intangible assets				
10.	II.	TANGIBLE ASSETS	(11. ... 17.)	3,902,898	0	3,921,041
11.		Land and buildings and related concessions and similar rights		3,439,397		3,439,342
12.		Technical equipment, machinery and vehicles		259,162		172,450
13.		Other equipment, fittings and vehicles		183,841		122,951
14.		Breeding stock				
15.		Capital WIP, renovations		20,498		186,298
16.		Advance payments on Capital WIP				
17.		Revaluation of tangible assets				
18.	III.	FINANCIAL INVESTMENTS	(19. ... 25.)	645,461	0	794,716
19.		Long term investments in related companies		634,242		778,995
20.		Long term loans given to related companies				
21.		Other long term investments		0		0
22.		Long term loans given to other investees				
23.		Other long term loans given		11,219		15,721
24.		Securities representing long term loans				
25.		Revaluation of financial investments				
26.	B	**CURRENT ASSETS**	(27.+34.+40.+45.)	4,954,365	0	3,891,118
27.	I.	INVENTORIES	(28. ... 33.)	3,401,552	0	3,096,986
28.		Raw materials and consumables		2,051,971		959,755
29.		Work in progress and semi-finished products		719,429		1,352,759
30.		Animals				
31.		Finished goods		579,874		737,080
32.		Goods		48,839		46,694
33.		Advance payments on inventories		1,439		698
34.	II.	RECEIVABLES	(35. ... 39.)	1,238,330	0	705,003
35.		Trade accounts receivable		580,213		431,500
36.		Receivables from related companies		71,517		0
37.		Receivables from other investees				
38.		Bills of exchange receivables				
39.		Other receivables		586,600		273,503
40.	III.	MARKETABLE SECURITIES	(41. ... 44.)	251,614	0	0
41.		Investments in related companies				
42.		Other investments				
43.		Own shares, own quotas		251,614		0
44.		Securities representing loans held for sale				
45.	IV.	LIQUID ASSETS	(46.+47.)	62,869	0	89,129
46.		Cash in hand, cheques		1,042		1,689
47.		Bank deposits		61,827		87,440
48.	C	**PREPAID EXPENSES AND ACCRUED INCOME**	(49. ... 51.)	14,833	0	20,054
49.		Accrued income		6,704		18,282
50.		Prepaid expenses		8,129		1,772
51.		Deferred expenses				
52.		**TOTAL ASSETS**	**(1.+26.+48.)**	**9,940,702**	**0**	**8,996,431**

Date: TISZAVASVARI, FEBRUARY 7, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" BALANCE Liabilities

THUF

No.		Item		Previous year 31/12/2004	Previous year(s)' modifications	Reference year 31/12/2005
a		b		c	d	e
53.	D	**SHAREHOLDERS' EQUITY**	(54.+56.+57. ... 61.)	6,593,711	0	4,883,252
54.	I.	ISSUED CAPITAL		6,268,846		6,028,614
55.		Of line 54: ownership shares repurchased at face value				
56.	II.	ISSUED BUT NOT PAID CAPITAL	(-)			
57.	III.	CAPITAL RESERVES		2,135,974		371,152
58.	IV.	RETAINED EARNINGS FROM PREVIOUS YEAR		-2,016,436		-412,432
59.	V.	NON DISTRIBUTABLE RESERVES		251,614		366,145
60.	VI.	REVALUATION RESERVE				
61.	VII.	PROFIT PER BALANCE SHEET		-46,287		-1,470,227
62.	E	**PROVISIONS**	(63. ... 65.)	462,623	0	20,636
63.	1.	Provisions for expected liabilities				
64.	2.	Provisions for future expenses		462,623		20,636
65.	3.	Other provisions				
66.	F	**LIABILITIES**	(67.+71.+80.)	2,571,601	0	3,808,526
67.	I.	SUBORDINATED LIABILITIES	(68. ... 70.)	0	0	0
68.		Subordinated liabilities to related companies				
69.		Subordinated liabilities to other investees				
70.		Subordinated liabilities to other enterprises				
71.	II.	LONG TERM LIABILITIES	(72. ... 79.)	0	0	0
72.		Long term credits				
73.		Convertible bonds				
74.		Debt on the issue of bonds				
75.		Investment and development loans				
76.		Other long term loans				
77.		Long term liabilities to related companies				
78.		Long term liabilities to other investees				
79.		Other long term liabilities				
80.	III.	SHORT TERM LIABILITIES	(81. ... 89.)	2,571,601	0	3,808,526
81.		Short term credits				
82.		Of line 81: convertible bonds				
83.		Short term loans		0		0
84.		Advance payments received from customers		9,254		0
85.		Trade accounts payable		347,304		512,067
86.		Bills of exchange payable				
87.		Short term liabilities to related companies		2,045,220		3,173,490
88.		Short term liabilities to other investees		13,966		243
89.		Other short term liabilities		155,857		122,726
90.	G	**ACCRUED EXPENSES AND DEFERRED INCOME**	(91. ... 93.)	312,767	0	284,017
91.		Deferred revenues				
92.		Accrued expenses and deferred income		312,767		171,025
93.		Deferred income				112,992
94.		**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**	**(53.+62.+66.+90.)**	**9,940,702**	**0**	**8,996,431**

Date: TISZAVASVARI, FEBRUARY 7, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" STATEMENT OF INCOME
(with current cost method)

THUF

No.	Item		Previous year 31/12/2004	Previous year(s)' modifications	Reference year 31/12/2005
a	b		c	d	e
01.	Net domestic sales		2,671,798		1,126,147
02.	Net export revenues		3,192,783		3,232,404
I.	NET SALES REVENUES	(01+02)	5,864,581	0	4,358,551
03.	Direct cost of sales		5,163,330		4,071,783
04.	Cost of goods sold		896,850		404,387
05.	Value of services provided		0	0	0
II.	DIRECT COST OF SALES	(03+04+05)	6,060,180	0	4,476,170
III.	GROSS SALES INCOME	(I.-II.)	-195,599	0	-117,619
06.	Cost of sales		105,114		143,443
07.	Administration cost		945,214		380,709
08.	Other overheads		124,458		17,428
IV.	INDIRECT COST OF SALES	(06+07+08)	1,174,786	0	541,580
V.	OTHER INCOME		2,609,698		658,094
	— teherof: loss of value written back		231,702		18,622
VI.	OTHER EXPENDITURES		1,655,110		1,341,571
	— theeof: loss of value		245,426		920,342
A.	**TRADING PROFIT**	(+-III-IV+V-VI)	**-415,797**	0	**-1,342,676**
09.	Dividend received				
	— Of which: received from related companies				
10.	Gain on sale of investment				
	— Of which: received from related companies				
11.	Interest received and gain on financial investments		95,000		132,769
	— Of which: received from related companies				
12.	Other interest received		16,326		4,323
	— Of which: received from related companies				
13.	Other revenues from financial transactions		755,839		279,989
VII.	REVENUES FROM FINANCIAL TRANSACTIONS	(9+10+11+12+13)	867,165	0	417,081
14.	Loss on financial investments				
	— Of which: given to related companies				
15.	Interest paid		99,343		127,091
	— Of which: given to related companies				121,614
16.	Interest paid				
17.	Other expenditures of financial transactions		392,029		419,386
VIII.	EXPENDITURES OF FINANCIAL TRANSACTIONS	(14+15+16+17)	491,372	0	546,477
B.	**FINANCIAL PROFIT**	(VII.-VIII.)	**375,793**	0	**-129,396**
C.	**PROFIT ON ORDINARY BUSINESS**	(+-A+-B)	**-40,004**	0	**-1,472,072**
IX.	EXTRAORDINARY REVENUES		3,685		254,184
X.	EXTRAORDINARY EXPENDITURES		9,968		252,339
D.	**PROFIT ON EXTRAORDINARY EVENTS**	(IX.-X.)	-6,283	0	1,845
E.	**NET PROFIT BEFORE TAXATION**	(±C±D)	**-46,287**	0	**-1,470,227**
XI.	TAX LIABILITY				
F.	**PROFIT AFTER TAX**	(±E-XI)	**-46,287**	0	**-1,470,227**
18.	Dividends paid out of accumulated profit reserve				
19.	Dividends paid (approved) out of current year profits				
G.	**NET PROFIT PER BALANCE SHEET**	**(±F+22-23)**	**-46,287**	**0**	**-1,470,227**

Date: TISZAVASVARI, FEBRUARY 7, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

CASH-FLOW STATEMENT FOR THE YEAR 2005 ("A" TYPE)
(with current cost method)

THUF

No.		Designation		Previous year 31/12/2004	Reference year 31/12/2005
	I.	**Change in cash out of ordinary activity**	(lines 1-13.)	**2,509,966**	**-1,085,056**
		(operational cash flow)			
1	±	Profit or loss before tax		-46,287	-1,470,227
2	+	Depreciation charge		408,012	324,405
3	±	Loss in value/write back of loss in value		-13,725	-756,967
4	±	Difference between provisions made and used		-412,611	-441,627
5	±	Proceeds from sale of invested assets		-98,611	-715
6	±	Change in trade accounts payable		1,052,067	141,786
7	±	Change in other short term liabilities		4,737,032	-33,131
8	±	Change in accrued expenses		18,532	-28,750
9	±	Change in trade accounts receivables		-1,957,059	629,211
10	±	Change in current assets (except for: trade accounts and liquid assets)		-1,176,951	556,180
11	±	Change in prepaid expenses		-433	-5,221
12	-	Corporate tax paid (payable)			
13	-	Dividend paid (payable)			
	II.	**Change in cash provided by operating activities**	(lines 14-16.)	**-249,277**	**-257,718**
14	-	Purchase of invested assets		-268,277	-257,718
15	+	Sales of invested assets		19,000	0
16	+	Dividend received		0	0
	III.	**Change in cash used in investing activities**	(lines 17-27.)	**-2,895,270**	**1,369,034**
17	+	Share issue (capital increase)		0	240,232
18	+	Bond issue			
19	+	Borrowings		0	2,340,654
20	+	Repayment, cancellation of long term loans and bank deposits			
21	+	Cash received		2,018	
22	-	Share withdrawal			
23	-	Bond redemption		-9,211	
24	-	Loan repayment		-2,887,986	-1,211,852
25	-	Long term loans given and bank deposits			
26	-	Cash transferred		-91	
27	±	Change in liabilities towards the owners and in other long term liabilities			
IV.		**Movement in cash and cash equivalent**	**(±I±II±III. lines)**	**-634,581**	**26,260**

Date: TISZAVASVARI, FEBRUARY 7, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE YEAR ENDING ON 31 DECEMBER 2005

(Data shall be construed in T HUF)

1 **PRESENTATION OF THE COMPANY**

ICN Hungary Company Limited (hereinafter referred to as “Company”) is the member of the SUN Pharmaceutical Industries Ltd. international corporation based in India.

Our company limited was established by János Kabay in the North-Eastern part of Hungary, in Tiszavasvári, in 1927, as Alkaloida Chemical Factory.

Morphine was produced in the factory from green poppy. A couple of years later János Kabay took out the patent for his new technology utilising dry poppy heads, which has ever since been applied all over the world. The prosperous company was socialised in 1948 and developed dynamically. The production of fully manufactured medicines was launched in the 60s. The company entered into a great number of licence agreements for the preparation of diverse medicines with international companies (such as Zeneca, Sandoz, Bayer, Hoffmann-La Roche), some of which are still in force.

In the course of the privatisation following the change of the political regime in Hungary the majority of the company shares were acquired by the ICN Pharmaceuticals Inc. in 1996. The stakes were sold to Sun Pharma Global Inc., a company based in British Virgin Islands in August 2005. Currently SUN has 99.99% proportion of property in the Company. The company in Tiszavasvári is one of the five largest companies engaged in the pharmaceutical industry of Hungary having world wide reputation.

Core activities of ICN Hungary Co.:

- Active pharmaceutical ingredients (morphine alkaloids, codeine and its derivatives – regarding these the Company Limited is among the largest exporters of the world);
- Chlorochin salts used against malaria and phenobarbital used for tranquilizers;
- Intermediate products and finished preparations (some sixty different types of pharmaceutical preparations). Our medicines are used typically to the following scopes of therapies: cardio-vascular diseases, locomotive disorders, disorders of the digestive system and those of the nervous system.

Registered seat of the Company: **1025 Budapest,**
Csatárka u. 82-84

Branch office: 4400 Tiszavasvári
Kabay János u. 29.sz.

The translocation of the Company Seat to Tiszavasvári is in progress, as the business activities of the same are implemented in Tiszavasvári.

The ICN Hungary Co. has no subsidiary companies accordingly, no consolidated report is prepared.

ICN Hungary Co. has no authorities in any enterprise on the basis of which or in pursuance of the accounting standards it shall be considered as a corporation of joint administration or associate company.

The parameters of any enterprises being in holding relations with the company are included in Annex 3.

Our Company possesses no direct power or power ensuring majority control, nor does it have substantial influence in any business organisation.

Issued capital stock of the Company: 6,028,614 T HUF, which is composed of the following elements:

7,003,310 pieces of shares with the face value of three HUF each providing general rights, 2,002,500 pieces of shares with the face value of three thousand HUF each providing general rights, and 34,792 pieces of registered shares for small investors with the face value of 3 HUF each.

The former majority owner, the ICN Pharmaceuticals Inc., sold its equity stake forming its majority ownership on 8 August 2005 to the Sun Pharma Global Inc., based in British Virgin Islands.

Owners	Number of shares				Face value (T HUF)				Proportion of Property (%)	
	09/08/2005		31/12/2005		09/08/2005		31/12/2005		08/08/2005	31/12/2005
	3- HUF	3,000- HUF	3- HUF	3,000- HUF	3- HUF	3,000 -HUF	3 -HUF	3,000 -HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,007,500	21,010	6,007,500	99.9983%	99.998%
Minority owners	0	0	0	0	0	0	0	0	0.00%	0.00%
Employees	0	0	0	0	0	0	0	0	0.0000%	0.0000%
Small invertors	34,792	0	34,792	0	104	0	104	0	0.0017%	0.0017%
ICN Magyarország Rt.	0	0	0	0	0	0	0	0	0.00%	0.00%
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00%**	**100.00%**

Capital Structure:

Data in T HUF

Denomination	2004/12/31	2005/12/31	Deviation 2005-2004	Index % 2005/2004
Issued capital stock	6,268,846	6,028,614	-240,232	96.17%
Capital reserve	2,135,974	371,152	-1,763,822	17.38%
Profit reserve	-2,016,436	-412,432	1,604,004	20.45%
Tied up reserve	251,614	366,145	114,531	145.52%
Profit or Loss according to balance sheet	-46,287	-1,470,227	-1,423,940	3 176.33%
Equity capital	**6,593,711**	**4,883,252**	**-1,709,459**	**74.07%**

The enterprises involved in the administration of the ICN Hungary Co. do not prepare a consolidated report in Hungary.

2. ACCOUNTING POLICY

a) General Information

The Company shall prepare annual reports accordingly it shall perform accounting in accordance with the rules of double entry book-keeping.

The Company shall prepare ordinary annual report for the period under review similar to the previous year in Hungarian language in accordance with the accounting standards of Hungary.

The annual report shall cover the period between 1 January 2005 and 31 December 2005, and the balance date shall be 31 December 2005.

Date of reporting shall be 14 February 2006.

The annual report has been prepared in line with the Hungarian accounting standards with the application of the principle of selling costs.

The Company shall prepare "A" type balance sheet.

The Company shall prepare "A" type profit and loss statement based on the principle of the turnover cost method.

The Company is not subject to the preparation of consolidated statements.

The books include figures in Hungarian Forint and the data of the annual report – apart from the marked exceptions – shall be interpreted in thousand Hungarian Forint.

The person authorised to prepare the report and statement, and to control the rules of accounting shall be qualified as a certified accountant, and shall be registered in the List of Accounting Service Providers maintained by the Ministry of Finance, and shall bear all relevant licences entitling to the execution of the mentioned activities.

Name of the person being responsible for the preparation of the report: **Macsuga Tamásné,** (4440, Tiszavasvári, Nánási u. 2), recorded in the registry under entry: 143 607.

The correctness, reliability and truthfulness of the report for the year under review have been verified by the auditor. Name of the auditor who has checked the report: **Varga János** (4400 Nyíregyháza, Kandó Kálmán u. 12), number of membership at the chamber of auditors:

b) Major elements of the accounting policy

Under the Act C on Accounting of 2000 the Company (hereinafter referred to as "Act on Accounting") has executed its activities in accordance with the provisions of other statutes on accounting in force.

In line with the act on accounting the Company has developed its own regulations pertaining to the management of funds, inventory, evaluation of assets and sources, and to the calculation of prime costs.

The Company has specified in its accounting policy, that the application of completeness, authenticity, clearness, commensurability, continuity, consistence, cautiousness, gross accounting, individual evaluation, accrued and deferred items, the dominance of content over form, significance and the cost-profit comparison as principles of accounting shall be ensured in the course of business.

With respect to the report all and any information the omission or incorrect presentation of which may affect the decisions of the users shall be considered essential. Accordingly the Company shall consider items over 10 MHUF as significant.

An error the value of which is in excess of 1% of the aggregate amount of the balance or exceeding 500 million HUF shall be qualified as consequential (significant) error during the audit or self-checking.

There is no value limit defined in the Accounting Policy for the year-end revaluation of assets and sources incurred in foreign currency, consequently each item shall be revaluated in the books regardless of the value limit.

When the loss in value is defined a stock shall be qualified as a stock of low value in kind in the case of which the cost of lead through the ledger exceeds the amount of loss in value. For these sorts of stocks the accounting of the loss in value shall be made in proportion of the book value.

For the purchased stocks the closing stock shall be indicated at the latest purchase price.

The purchased stocks shall be indicated at reduced value which

- Do not conform to the relevant regulations (standards, requirements specified in the supply contract, etc.),
- Do not conform to the originally intended purposes (e.g. due to physical, chemical impacts, or become outdated, etc.) and
- The sale or usage is doubtful, shall be considered as excess stock (e.g. those that are not marketed any longer, or are not usable owing to the changeover of types, etc.)

The closing material stock shall be indicated in the balance sheet with depreciated value if the book value of such stocks (at the latest purchase prices) was permanently and significantly higher than that the actual market values thereof known at the time when the balance sheet was prepared.

In the case of stocks of private (own-) production (semi-finished and finished products, work in progress) the closing stock is indicated at actual indirect prime cost.

Depreciation is accounted for stocks of private (own-) production if

- The physical condition of the stock of private (own-) production deteriorated (due to damage, impairment of quality, destruction, etc.),
- The stock of private (own-) production cannot be used for their originally intended purposes (becoming unmarketable, marketable only with considerable reduction, at a discount, etc.),
- The (expectable) selling price of the stock of private (own-) production on the day of balance sheet preparation is lower than the cost of production.

In the case of the retrieval of depreciation the book value of the stock may not exceed the market value in accordance with Section 62, paragraphs (2)-(3) of the Act on accounting.

The following persons shall be authorised as signatories with respect to the annual report:

Harin Mehta, Chairman of the Board of Executives
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101, India.)

Jayesh Shah, Member of the Board of Executives
(address:29714, Orion Court, Farminston Hills, Michigan 48334, USA)

Szilágyi Katalin, Member of the Board of Executives
(address: 4440 Tiszavasvári, Kelp Ilona u.3.)

Principles of valuation at market value:

c) Intangible Assets

The purchase or production cost of intangible assets reduced with the accumulated depreciation shall be indicated at a value not higher than their known market values. Calculation of depreciation shall be made with the application of the linear method, on the basis of the rate of amortisation required for the accounting of the depreciation of intangible assets during their expectable service life.

In the case of intellectual products the rate of amortisation shall be defined individually, and the capitalised value of the development and research activities shall be accounted in 5 to 10 years as cost of depreciation.

Extraordinary depreciation shall be accounted for intellectual products, if they become useless, become damaged or are destructed, if they cannot be used any longer for research and development activities, if the activities are restricted, terminated or the development activity is closed without results.

Expectable useful life of intangible assets is the following:

Intellectual products	3 to 5 years
Capitalised value of research and development	5 to 10 years

d) Tangible Assets

Tangible assets are included in the balance sheet at purchase value, or at production cost deduced with cumulated depreciation. Calculation of depreciation is made by means of the linear method, on the basis of the rate of amortisation requisite for the depreciation of the value of the assets in the course of their expectable useful lives. The expectable useful lives of assets are the following:

Real assets	50 to 100 years
Technological equipment	7 to 10 years
Other equipment	3 to 10 years

The expectable useful life time of tangible assets is defined with regard to the time of their continuous serviceability. The residual value in the case of tangible assets is specified individually on the basis of the opinion of the technical department.

Assets of an individual value of less than 50 000 HUF are considered as low value tangible assets.

The fundamental criteria of the alteration of accounting and retrieval of the budgeted depreciation and extraordinary depreciation are defined in accordance with the provisions of Sections 53, 57, and 58 of the Act on accounting.

e) Invested Financial Assets

Investments meaning proportion of property are valuated at purchase price until their market values permanently decline under their registered value. In this case the market price at the time of balancing shall form basis for the valuation, or– if such is not available – the proportion possessed by the Company in the shareholders' equity as per the statement.

f) Inventory

The purchased stocks are reported at cost price or the net market value whichever the lower. The value of the stocks of own production shall include the direct materials costs and the labour costs as well as the proportional ratio of distributed indirect costs.

The comparison of the booked prices with the market prices shall extent to the raw materials, packaging, and goods in the case of purchased stocks, and shall fully extend to the stocks of own production.

The itemized comparison in value shall be made by the purchasing and sales departments.

The provisions of Section 56 of the Act on accounting shall be observed when the depreciation of stocks and the retrieval of depreciation are accounted. Accordingly, the stock value reported at balancing is reduced, if the original value of the purchased stock is higher than the real market value thereof, or if the production cost of the stock of own production is higher than the expectable selling price.

g) Receivables

On the basis of the classification of the customer as debtor the Company accounts devaluation for the outstanding receivables at the balance date of the financial year (including sums lent, or amounts paid in advance, as well as receivable type items existing between accrued and deferred revenues) – on the basis of information available on the day of balancing – in the amount of the – loss type - deviation between the book value of the receivables and the amount of the receivables anticipated to be refunded, if the mentioned difference appears permanently and is of material value.

If on the basis of the classification of the customer as debtor, the amount of the receivables anticipated to be repaid significantly exceeds the book value of the receivables, the difference shall be deduced with the devaluation accounted earlier by means of retrieval. Through the retrieval of the devaluation the booked value of the receivables will not be in excess of the value of registration.

The original registration value of the receivables, or the retrieved and cumulated devaluation accounted in the financial year are itemised according to the balance sheet in Section 6 below.

h) Securities

The securities reported among the current assets are indicated in the balance sheet at cost price until their value decreases permanently below the registration value.

i) Accounting of Securities and Transactions in Foreign Currency

Transactions in foreign currency shall be accounted at the middle exchange rate being valid on the day of the transaction and announced by the bank keeping the company's bank account (in 2005, Raiffeisen Bank Rt.). The profit or loss on the exchange rate due to the exchange rate difference on the day of the effectuation of payment and the actual date of the business transaction shall be reported in the financial statement.

The valuation of assets and sources registered in liquid assets of foreign currency is made in the balance sheet as follows:

The currency supplied recorded in the balance sheet under the currency cash desk line, the foreign exchange on the foreign currency account, additionally all receivables for outstanding payments and liabilities in foreign currency – as classified in accordance with Sections 54-55 of the Act on accounting -, shall be indicated in the balance sheet after conversion into HUF in accordance with middle exchange rate announced by the mentioned financial institute on the balance day of the financial year. No value limit of effects of the exchange rate difference that could be significant in terms of profit or loss regarding the valuation of assets and liabilities in foreign money value on the balance day is defined by our Company.

The difference of the booked values of foreign exchange in the currency cash desk, and on the foreign currency account, as well as the receivables in foreign currency, the invested financial assets, securities, and liabilities prior to valuation on the balance day and that of the value in HUF on the day of valuation:

a) shall be accounted as loss on exchange rate, if it is loss when cumulated, under the line Other expenses on financial transactions,

b) shall be accounted as profit on exchange rate, if it is profit when cumulated, under the line Other incomes from financial activities.

j) Revenues

The turnover (net sales) shall be accounted on the day of effectuation, excluding value added tax.

k) Provisions

Our Company forms provisions against the income before tax for the payment liabilities to third parties deriving from past transactions and transactions and contracts in progress (pending liabilities, future liabilities, early retirement, payment liabilities owing to proceedings in progress), that – according to the information available on the balancing – are expected or are sure to occur, but whose amount or due dates are uncertain at the time of balancing, but the coverage is not otherwise ensured by our Company for such liabilities.

l) Corporate Tax

A Corporate tax shall be accounted in the income statement in pursuance of the tax regulations being in force in the year under review. Our Company shall not pay corporate tax in the tax year concerned owing to the business performance of the year under review.

m) Valuation at Real Value

The ICN Hungary Co. shall not avail itself of the opportunity of valuation at real value, thus there exists neither valuation difference not valuation reserve for real valuation in the balance sheet, and the income statement includes no valuation difference either.

3. FINANCIAL STATUS AND LIQUIDITY

No financial event occurred following the balance date that would materially influence the report of the Company dated on 31 December 2005.

The pace of payments is stabilised and the rate of receivables being overdue for 0 to 30 days decreased significantly compared to the previous reporting period.

Hereafter we are presenting the variations of the Lines of the Balance Sheet projected in the view of changes that occurred in 2005.

Similar to the previous years the audit and the self check found no incorrectness in the year under review, and the balance sheet includes no adjustments pertaining to the previous periods. There is no item in the balance sheet that could be indicated as entry in more than one line in the balance sheet.

The data of the balance sheet – apart from the rearrangements required by the alterations in the provisions of the relevant statutes – are comparable to the relevant data of the previous reporting period.

There are no invisible or unclosed transactions by the balance date, such as pending or certain future liabilities.

There exists no financial liability not indicated in the balance sheet that would be significant in terms of the evaluation of the financial status.

Composition of assets

Data in T HUF

Denomination	31/12/2004	31/12/2005	Deviation 2005-2004	Index % 2005/2004
Intangible assets	423,145	369,502	-53,643	87.32%
Tangible assets	3,902,898	3,921,041	18,143	100.46%
Invested financial assets	645,461	794,716	149,255	123.12%
Investments	**4,971,504**	**5,085,259**	**113,755**	**102.29%**
Stocks	3,401,552	3,096,986	-304,566	91.05%
Receivables	1,238,330	705,003	-533,327	56.93%
Securities	251,614	0	-251,614	0.00%
Liquid assets	62,869	89,129	26,260	141.77%
Current assets	**4,954,365**	**3,891,118**	**-1,063,247**	**78.54%**
Accrued and deferred assets	**14,833**	**20,054**	**5,221**	**135.20%**
Total of assets	**9,940,702**	**8,996,431**	**-944,271**	**90.50%**

In the case of tangible assets the increment of uncompleted investments resulted in an increase, amounting to HUF 288 million.

The revaluation of the equity stakes possessed by the Company in the Reanal Co. resulted in an increase in terms of invested financial assets. The revaluation of the mentioned shares was the direct consequence of the considerable rise of the market value of the investment.

The decrease in receivables is related to the improvement of the financial situation, as the Customer's readiness to settle their outstanding arrears also improved significantly, consequently the rate of liquid assets grew.

Composition of sources

Data in T HUF

Denomination	31/12/2004	31/12/2005	Deviation 2005-2004	Index % 2005/2004
Issued capital stock	6,268,846	6,028,614	-240,232	96.17%
Capital reserve	2,135,974	371,152	-1,764,822	17.38%
Profit reserve	-2,016,436	-412,432	1,604,004	20.45%
Tied up reserves	251,614	366,145	114,531	145.52%
Profit or loss according to the balance sheet	-46,287	-1,470,227	-1,423,940	3176.33%
Equity capital	**6,593,711**	**4,883,252**	**-1,710,459**	**74.06%**
Provisions	**462,623**	**20,636**	**-441,987**	**4.46%**
Deferred liabilities	0	0	0	0.00%
Long-term liabilities	0	0	0	0.00%
Short-term liabilities	2,571,601	3,808,526	1,236,925	148.10%
Liabilities	**2,571,601**	**3,808,526**	**1,236,925**	**148.10%**
Accrued and deferred liabilities	**312,767**	**284,017**	**-28,750**	**90.81%**
Total of Sources	**9,940,702**	**8,996,431**	**-944,271**	**90.50%**

The change in the equity capital was caused on the source side by the balance of effects with opposite sign in the accumulated profit reserve and the capital reserve with opposite signs, as well as by the loss according to the balance sheet.

The increase in the short-term liabilities was attributable to the short-term loans received from the parent company.

Development of equity capital and liabilities

Data in T HUF

Denomination	31/12/2004	Appropriation	Redemption of shares / release of tied up reserves	Utilisation of capital reserve for the negative profit reserve	Posting as tied up reserve/ release - R&D	Profit or loss according to balance sheet	31/12/2005
Issued capital stock	6,268,846	—	-240,232	—	—	—	6,028,614
Capital reserve	2,135,974	—	—	-1,764,822	—	—	371,152
Profit reserve	-2,016,436	-46,287	251,614	1,764,822	-366,145	—	-412,432
Tied up capital	251,614	—	-251,614	—	366,145	—	366,145
Profit or loss according to balance sheet	-46,287	46,287	—	—	—	-1,470,227	-1,470,227
Total	**6,593,711**	**0**	**-240,232**	**0**	**0**	**-1,470,227**	**4,883,252**

In terms of the elements of the equity capital the following changes occurred in 2005:

— **Issued capital stock**
Redemption of the shares of employees with the face value of 240,232 T HUF (80,000 pieces of 3,000-HUF and 77,423 pieces of db 3-HUF)

— **Capital reserve**
In pursuance of the resolution of the Board of Supervisors the capital reserve was used to set-off the negative profit reserve

— **Profit reserve**
Posting of capital reserve, release of the previous year's profit, namely 251,614 T HUF tied up reserve and transit thereof to the profit reserve line, and the net value of the experimental development decreasing the profit reserve, which is transited to the tied up reserves

— **Profit or Loss according to the balance sheet**
The figures required for the analysis of the financial situation of the Company are included in Annexes 6-7-8.

4. SUPPLEMENT TO THE DATA OF THE REPORT

The Company prepares balance sheet type "A", respectively sales cost method-based profit and loss statement type "A". The balance sheet and the profit and loss statement contain no further breakdown in addition to the breakdown prescribed in the Accountancy Act.

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE YEAR ENDING ON 31 DECEMBER 2005

1. Intangible assets

31/12/2005	**369 ,502 HUF th**
31/12/2004	**423,145 HUF th**

The development of the value of the intangible assets during the year is illustrated by those contained in annex No. 1.

During the course of 2005, the value of the intangible assets of the Company was not considerably increased by the below purchases:

Description	**Thousand HUF**
	31/12/2005
Poppy variety ownership	366,145
Various softwares	3,357

We discuss the details of the ownership of the poppy variety on page 24 (page 147).

The accounting method of the depreciation of the intangible assets has not changed compared to the past year.

2. Tangible assets

31/12/2005	**3,921,041 HUF th**
31/12/2004	**3,902,898 HUF th**

The value of the tangible assets developed during the course of the year according to those contained in annex No.2:

In 2005, the Company effected no considerable investment. Concerning the existing assets we carried out additional installations, which were absolutely necessary for operation.

The method of accounting for depreciation in the case of tangible assets has not changed compared to last year.

3. Leased assets

Our Company signed no leasing contract last year and has got no leased assets.

4. Financial investments

31/12/2005	**794,716 HUF th**
31/12/2005	**645,461 HUF th**

The development of the company's share is illustrated by annex No. 3.

The composition of the shares changed during the course of the year. Postabank's shares have been bought back by the government on the arbitrament. The balance of permanent loans (HUF 15,721 thousand) includes the stock of employee loans due over a year.

5. Inventory

31/12/2005	**3,096,986 HUF th**
31/12/2004	**3,401,552 HUF th**

Raw Materials	2,051,971	959,755	46.77%
Semi-finished goods and work in progress	719,429	1,352,759	188.03%
Live stock	0	0	0.00%
Finished goods	579,874	737,080	127.11%
Goods	48,839	46,694	95.61%
Advance payments for stock, goods	1,439	698	48.51%
Total	**3,401,552**	**3,096,986**	**91.05%**

Within the inventory, HUF 788,819 thousand (in 2004 HUF 124 thousand) were accounted for in 2005 as devaluation concerning the purchased stocks, and HUF 120,204 thousand (in 2004 HUF 131,025 thousand) as devaluation concerning self manufactured stock.

Decrease in the stock value of the raw materials is caused first of all by the record volume of the poppy head harvest from prior year that was processed during 2005, increase in the stock value of semi-finished goods and work in progress was caused by the value of morphine processed from poppy-head, as well as increase of the stock value of lose tablets.

6. Receivables

31/12/2005	**705,003 HUF th**
31/12/2004	**1,238,330 HUF th**

Trade receivables

31/12/2005	**431,500 HUF th**
31/12/2004	**580,213 HUF th**

In 2004, our Company charged devaluation worth HUF 114,308 thousand for overdue receivables, which does not concern the companies belonging to the ICN group. On 31 December 2005 this amount represented HUF 11,320 thousand as buyer's devaluation.

From the total amount of the receivables from related parties we recorded HUF 71,517 thousand in 2004. There are no any assets at related parties.

Classification of receivables

		HUF th
Description	**31/12/2004**	**31/12/2005**
Due receivables	568,739	258,894
Overdue receivables	197,299	183,041
of which: between 0-90 days	75,104	171,056
between 91-180 days	1,628	7,866
between181-360 days	7,846	2,077
over days	112,721	2,042
Összesen	**766,038**	**441,935**

The change in the devaluation of the receivables during the year developed as below:

	31/12/2004 HUF th	31/12/2005 HUF th
Opening	**231,702**	**114,308**
Growth in devaluation	114,308	11,320
Devaluation writeback	231,702	18,623
Bad debt writte-off	—	95,884
Closing	**114,308**	**11,121**

WRITE -OFF RECEIVABLE 2005		**eFT**
CUSTOMER	**AMOUNT USD 0'000**	**ORIGINAL AMOUNT**
MAC-VIN	0	391
KELET-ÉPÍTÖ	0	903
FÚZIÓ-PHARMA GYÓGYSZERNAGYKER	0	94,541
TOTAL	**0**	**95,835**
ICN YUGOSLAVIA	0	29
ICN SPAIN	0	20
ICN TOTAL	**0**	**20**
Ttotal	**0**	**95,855**
DEVALUATION 2005.		**eFT**
BUYER	**AMOUNT USD**	**ORIGINAL AMOUNT**
VALEANT PHARMA	0	7,173
MEDIPLUS SRL	0	1,565
NORMAUS CO. LTD	0	513
TAMISA TRADING SRL	0	434
ACIDUM-2 KFT.	0	306
ELEX UNIVERZAL BT.	0	250
KOVÁCS JÁNOS	0	207
NAGY SÁNDOR	0	183
VARGA LÁSZLÓNÉ	0	168
AVENTIS VENEZUELA	0	123
EGYÉB	0	199
TOTAL	**0**	**11,121**

The devaluation worth HUF 114,308 thousand accumulated in 2004,was reversed in 2005 and was made a new devaluation on the basis of ageing. Bad debt worth HUF 95.835 thousand was written off, from which the most significant amount was the receivable (worth HUF 94,541 thousand)against Fúzió Pharma Company Limited by Shares. The write-off of bad debt did not effect the balance of the company, as in 2004 devaluation was charged on the total amount.

The Company has no overdue receivable against related party on 31/12/2005. Existing debts were settled at changing of owner.

Within the devaluation charged, the Company charges devaluation exclusively for overdue receivables similarly to the last year.

Other receivables

31/12/2005	**273,503 HUF th**
31/12/2004	**586,600 HUF th**

Other receivables	**2004**	**2005**
Advance payments for services	3,298	2,222
Other receivables	—	2,369
Advance payment for salary to employee	2,778	365
Prescribed debt of quit employees	1,416	217
Advance payments against rendering accounts	591	139
Supply	403	408
Refundable VAT	526,298	213,943
Down payment for travelling	407	—
Luncheon vouchers	373	—
Purchases with managers' Visa Card	47	—
Loan	3,528	—
Advance payments for capsule poppy	2,702	—
Refunadble product fee	1,928	—
Wage accounting	244	—
Pension Fund accounting	161	—
Taxes	34,115	15,974
Short term employee loan	8,311	876
Accounting	—	36,990
Total	**586,600**	**273,503**

From among the balances of the other receivables the below deserve attention:

- Consolidated balance of general ledger numbers 466-468 containing tax reclaim for the 3rd-4th quarters was high because of retention of VAT.

7. Securities

31/12/2005	**0 HUF th**
31/12/2004	**251,614 HUF th**

On 31 December 2004, our Company disposed of short-term securities worth HUF 251,614 thousand, these were employees' shares bought back, which were withdrawn in 2005. The company has no security investment at present.

8. Cash and Bank

31/12/2005	**89,129 HUF th**
31/12/2004	**62,869 HUF th**

The Company has in principle three account-keeping banks in 2005. Raiffeisen, a CIB Bank Rt. and Calyon Bank Magyarország Rt.

The account turnover is considerable on both the HUF and foreign exchange accounts. Cash has slightly increased.

9. Prepayments and deferred incomes

31/12/2005	**20,054 HUF th**
31/12/2004	**14,833 HUF th**

Description	**31/12/2004**	**31/12/2005**	**Index %**
Services, sold energy	0	18,282	0.00%
Interest on deposits tied up	6,704	0	0.00%
Deferred income	**6,704**	**18,282**	**0.00%**
Register registration fee	4,025	0	0.00%
Labour lending	0	0	0.00%
Meal tickets	0	0	0.00%
Insurance fee	3,465	0	0.00%
Subscription fees	639	1,772	277.31%
Expenses	8,129	1,772	21.80%
Deferred expenses	**0**	**0**	**0.00%**
Total	**14,833**	**20,054**	**135.20%**

Increase in the prepayments and deferred income occured due to opposite effect of two elements: value of deferred income has increased, subscription fees have decreased.

10. Shareholder's equity	**31/12/2005**	**4,883,252 HUF th**
	31/12/2004	**6,593,711 HUF th**

We mentioned the changes in owner's equity in 2005 in 3. Financial status and liquidity.

11. Provision	**31/12/2005**	**20,636 HUF th**
	31/12/2004	**462,623 HUF th**

For year 2005 the Company accumulated the below provisions:

Thousand HUF

Description	31/12/2004	31/12/2005	Index %
Pending lawsuits	156,418	18,638	11.92%
Early retirement	96,205	1,998	2.08%
Company divestment related expenses	210,000	0	0.00%
Total	**462,623**	**20,636**	**4.46%**

At the end of 2005, the balance of the provisions is represented only by amounts payable on early retirement and to be shown according to the Accountancy Act, by provisions accumulated for pending lawsuits. All lawsuits for which we accumulated provisions will be closed foreseeably in 2006.

12. Short term liabilities	**31/12/2005**	**3,808,526 HUF th**
	31/12/2004	**2,571,601 HUF th**

The decrease in the liabilities was caused by the liabilities given by the parent company.

The stock of the short-term loans is introduced by annex No. 4.

Other liabilities:

In HUF Thousand

Description	31/12/2004	31/12/2005	Index%
Travelling abroad	—	241.00	0.00
Distraint	747.00	774.00	103.61
Transfer deposit of employees	55,238.00	57,571.00	104.22
Income tax	—	23,832.00	0.00
TB kötelezettségek elöirása	57,373.00	359.00	0.63
Luncheon voucher	—	3,691.00	0.00
Social security liabilities	39,658.00	35,966.00	90.69
Insurance	—	292.00	0.00
Other	2,841.00	—	0.00
Total	**155,857.00**	**122,726.00**	**78.74**

Considerable decrease can be seen as for Social security liability in 2005 but opposite this increase can be seen as for income tax liabilities.

13. Accruals	**31/12/2005**	**284,017 HUF th**
	31/12/2004	**312,767 HUF th**

Description	31/12/2004	31/12/2005	Index%
Accrued income	0	0	0.00%
Accruals of costs and expenses	312,767	171,025	54.68%
Deferred revenue	0	112,991	0.00%
Total	**312,767**	**284,016**	**90.81%**

The details are shown in the below chart.

Data in HUF th

Description	31/12/2004	31/12/2005	Index%
Accruals of costs and expenses	**312,767**	**171,025**	54.68%
Interest on loan	30,252	58,235	192.50%
Bonus	—	8,233	0.00%
Maintenance	30,409	12,079	39.72%
Environmental protection cost	40,616	10,115	24.90%
Audit	6,000	2,000	33.33%
Energy supply	9,430	23,425	248.41%
Wages, staff reduction related costs	113,127	—	0.00%
Leasing fee	1,467	7,100	483.98%
Safety technology cost	7,399	6,216	84.01%
IT costs	1,167	1,976	169.32%
Other service	6,264	6,285	100.34%
Vocational training contribution	5,587	—	0.00%
Post expenses	148	119	80.41%
Inventor's and participant's fee	6,475	7,326	113.14%
Fuel cost	—	1,000	0.00%
Personnel leasing	9,260	4,500	48.60%
Travel	1,385	—	0.00%
Wage accounting	1,700	2,300	135.29%
Transportation	18,125	2,483	13.70%
Export commission	8,125	2,668	32.84%
Marketing	1,373	—	0.00%
Material costs	2,078	—	0.00%
R+D assignments	12,380	4,965	40.11%
Penalties	—	10,000	0.00%
Deferred revenue	**0**	**112,991**	**0.00%**
Deferred revenue	0	112,991	0.00%

14. Net sales

31/12/2005	**4,358,551 HUF th**
31/12/2004	**5,864,581 HUF th**

Data in HUF th

Description	31/12/2004	31/12/2005	Index%
Domestic	2,671,798	1,126,147	42.15%
Export	3,192,783	3,232,404	101.24%
Total	**5,864,581**	**4,358,551**	74.32%

Net domestic sales revenues decreased by HUF 1,545,651 thousand in 2005 as in 2005 part of Finished pharmaceuticals sold domestic is sold to ICN Polfa in Poland, that is regarded to be export. Regarding this export sales increased compared to last year, however because of decrease in volume of API products sales total export sales slightly increased.

In 2005, export sales developed as below broken down by geographically separated markets.

	31/12/2004		31/12/2005	
Description	**th USD**	**th HUF**	**th USD**	**th HUF**
Europe	14,529	2,622,443	13,352	2,669,459
of which: EU	9,272	1,673,569	10,491	2,097,438
America	2,883	520,434	2,261	451,956
Asia	224	40,397	504	100,796
Africa	20	3,616	21	4,193
Australia	33	5,893	30	6,002
Total	**17,689**	**3,192,783**	**16,167**	**3,232,405**

The company has not got any export subvention in this period.

15. Other income

31/12/2005	**658,094 HUF th**
31/12/2004	**2,609,698 HUF th**

Details as below

Other income — **Data in HUF th**

Description	31/12/2004	31/12/2005
Revenue from sale of intangible and tangible	208,788	-199
Revenue related to previous years	100,663	3,794
Writeback of receivable devaluation from previous year	231,702	18,622
Other	1,995,425	15,943
Rounding	7,138	5,335
Received delay interest,compensation	128	153,986
Provision writeback	50,012	460,613
Reclaimed product fee	15,842	—
Total	**2,609,698**	**658,094**

In other incomes in Others line the sale of the manufacturing right of the products to ICN Polfa Rzsesow worth HUF 1,594,015 HUF th and to Valeant Pharma Magyarország Kft worth HUF 385,482 th.

In 2005 HUF 132,161 th from received delay interest is the interest of repurchase of Postabank investment by the government.

16. Breakdown of costs by types of costs

Description	31/12/2004	31/12/2005
Capitalised value of self produced assets	149,029	—
Change in self-produced inventory	540,089	790,353
Correction of change of stocks/ devaluation	—	120,861
Material related expenses	**4,272,371**	**3,870,590**
Material costs	2,349,555	2,633,025
Services rendered	1,025,966	833,178
Cost of goods sold	896,850	404,387
Intermediated services	—	—
Staff expenses	**2,277,088**	**1,698,647**
Wages and salaries	1,375,878	1,186,363
Personal related expenses	381,319	80,993
Social security contribution	519,891	431,291
Depreciation and amosrtisation	**408,012**	**324,405**
Other costs	**41,435**	**35,322**

16 b. For those who prepare profit and loss statement type B

Description	31/12/2004	31/12/2005
Cost of sales	5,163,330	4,071,783
Cost of goods sold	896,850	404,387
Intermediated services	—	—
Direct costs of sales	**6,060,180**	**4,476,170**
Management costs	945,214	380,709
Sales, marketing costs	105,114	143,443
Other overhead	124,458	17,428
Indirect costs	**1,174,786**	**541,580**

17. Other expenditure

	31/12/2005	**1,341,571 HUF th**
	31/12/2004	**1,655,110 HUF th**

Description	31/12/2004	31/12/2005
Devaluation Inventory and receivable	245,457	920,342
Extraordinary depreciation of tangible assets	44,275	—
Net value of assets sold	307,400	516
Taxes	55,193	20,974
Fines	16,184	16,407
Non-invoiced discount	—	—
Compensation for damages	180,206	33,447
Other	—	16,718
Scrapping	46,907	31,047
Late interest	40,195	9,220
Amortisation of irrecoverable receivables	—	—
Accumulation of provisions	462,623	20,636
Refunding to OEP	75,810	9,400
Rounding	6,252	—
Lawsuit costs	1,750	717
Other expenditures	173,258	262,147
Total	**1,655,510**	**1,341,571**

18. Result of financial operations	**31/12/2005**	**-129,396 HUF th**
	31/12/2004	**375,793 HUF th**

Adatok e Ft-ban

Description	31/12/2004	31/12/2005
Income from fin.transactions	—	—
Other received interest	16,326	4,323
Received dividens and shares	—	—
Interest, int.related revenue, exchange gain	95,000	132,769
Exchange gain on sale of shares	—	—
Interest on invested fin. Assets	—	—
Receivables, liabilities, exchange	755,839	279,989
Revenues from financial trans.	**867,165**	**417,081**
Other expenses related to fin. trans.	—	—
Interest payable	392,029	127,091
Exchange loss on fin. Investments	—	-144,753
Devaluation of shares, securities	—	—
Receivables,liabilities, exchange	99,343	564,139
Expenses on financial transactions	**491,372**	**546,477**
Profit (loss) of financial transactions	**375,793**	**-129,396**

19. Extraordinary profit (loss)	**31/12/2005**	**1,845 HUF th**
	31/12/2004	**-6,283 HUF th**

Extraordinary expenditure

Description	31/12/2004	31/12/2005
Goods given to parties free of charge	—	—
Own share bought back (withdrawal)	9,211	251,614
Supprt redered	92	—
Book value of released receivables	665	725
Total	**9,968**	**252,339**

Extraordinary income

Description	31/12/2004	31/12/2005
Market value of assets received as present	2,018	4,698
Own share bought back	—	240,232
Value of gone receivables	1,667	9,254
Total	**3,685**	**254,184**
Extraordinary profit and loss	**-6,283**	**1,845**

20. TAXATION

Correlations between the outcome forming basis of accounting and taxation:

Data in T HUF

Corporate Tax	2004	2005
Income before tax	**-46,287**	**-1,470,227**
Items deducible from income before tax		
Amount accountable in accordance with Section 17 of the Act on Accounting from the deferred loss of the previous tax years, deduced in the tax year	401,174	—
Provision recognised in the tax year, exceeding the acknowledged rate	50,012	460,613
Depreciation accounted as per the act on taxation, and the registration value defined when the asset was derecognised	740,415	308,722
Dividends received	—	—
Cooperation agreement with educational institutes, 12 % of the minimal wage per student	5,075	5,144
Subsidies received	—	—
Irrecoverable receivables, retrieval of depreciation	231,702	18,622
Depreciation as per tax law	27,194	738
Amount of legal consequences accounted as revenue	85,873	—
Direct costs of accounted R&D	53,034	8,790
25% of local tax accounted as expenditure in 2004, 50% thereof accounted in 2005	9,628	9,299
Donations to foundations	—	—
Non-repayable subsidies, assets taken over /the retrieved amount shall be considered as revenue in the tax year when the accrued and deferred liability is terminated/	—	29
Employment of disabled persons, less than 20 persons	—	—
Total	**1,604,107**	**811,957**
Items increasing the income before tax		
Provisions	462,623	20,636
Amortisation accounted as cost, the amount accounted as expenditure when the asset is derecognised	765,045	324,967
Amount of depreciation accounted as expenditure for receivables	243,308	243,022
Costs related to activities other than business	88,202	21,657
Binding judgements	8,294	15,689
Amount of irrecoverable receivables depreciated in the tax year	82,166	—
Subsidies	756	—
Total	**1,650,394**	**625,971**
Tax base	—	—
Corporate tax	—	—
Income after tax	**-46,287**	**-1,470,227**
Profit or loss according to balance sheet	**-46,287**	**-1,470,227**

There was no overall audit by the Tax Authority at our Company in 2005.

The tax authority shall be entitled to carry out the auditing of the accounts and books any time within 5 years following the year of taxation under review, and may levy additional tax or fines.

The management of the Company has no information of any circumstances that may imply the possibility that any such liabilities of the kind could be imposed on the Company.

21. TRANSACTIONS WITH ASSOCIATED COMPANIES IN THE FRAMEWORK OF PARTICIPATION

The following transactions were executed by the Company during the year under review in the framework of participation with associated companies:

31/12/2005 Data in HUF

Associated Company	Customer turnover	Supplier turnover	Customer/Supplier turnover
ICN Polfa Rzeszow S.A.	589,606,697	—	589,606,697
VALEANT PHARMA MAGYARORSZÁG KFT	345,699,725	145,625	345,554,100
Valeant Puerto Rico,LLC	28,751,520	—	28,751,520
VALEANT CZECH PHARMA S.R.O.	24,301,993	3,574,935	20,727,058
Valeant Pharmaceuticals, Switz.	10,695,882	—	10,695,882
Csatárka Irodaház Kft.	499,375	—	499,375
VALEANT PHARMACEUTICALC LTD UK	—	1,355,009	-1,355,009
VALEANT PHARMACEUTICALS INT.USA	—	271,335,875	-271,335,875
Total	**999,555,192**	**276,411,444**	**723,143,748**

We had no business transactions with the companies belonging to the associated companies of the new Owner in 2005.

22. LIABILITIES AND PENDING LIABILITIES

a) Summary on the environmental protection activities implemented in 2005:

The biological sewage treatment plant was in continual service during the whole year. The volume of the purified sewage was 1,209,295 m3. The ammonium ion emission limit was exceeded in the period between 20.9.2005 and 2.11.2005, the rest of the emission limits were not exceeded.

The sewage sludge produced in the course of the sewage treatment was disposed of by means of compost preparation, in the closed cellular composting plant located on the premises of the sewage treatment plant.

Cost of composting was: HUF 29,464,769.

In pursuance of the regulations of the environment protection authorities, the 2 monthly periodical inspection of the compost produced from the sewage sludge was done by an authorised laboratory, at an expense of HUF 969,000.

For the investigation whether the compost can be used for agricultural purposes we had the material inspected by the laboratory of the plant health and soil conservation service at an expense of HUF 63,200, and we had a study done by competent experts regarding the usability of the compost at an expense of HUF 30,000.

The inspection of the environmental condition required for the reconstruction of the 2000 m3 fuel oil tank and the assessment report have been done at an expense of HUF 1,757,500.

Stages II and III of the demarcation of the contaminated areas have been completed at an expense of HUF 18,000,000.

The sampling from the monitoring system comprising 20 ground water and shallow subsurface water observation wells located on the central premises, as well as the periodical annual sampling from the 4 ground water observation wells on the area of the sewage treatment plant and the inspection of the mentioned samples by the authorised laboratory, and the establishment of 1 ground water observation well next to the composting plant, the investigation of the soil monitoring system comprising ground water and 3 soil sampling points and the summarising reports have all been duly performed, at an aggregate expense of HUF 5,700,000.

In accordance with the relevant resolution of the environment protection authority, as the expansion of the monitoring system on the central premises 23 ground and shallow subsurface water observation wells were established. The related soil and water inspections as well as the summarising report altogether with the mentioned establishment works were performed at the expense of HUF 19,095,000.

In accordance with the water rights construction permit documentation prepared in 2004 pertaining to the remediation system to be established on the contaminated areas marked SZ-I,SZ-VIII, SZ-X, the environment protection authority issued the water right construction permit in 2005.

The remediation works are in progress, and the individual areas have made different progress in the stage of implementation: execution, permission, request for quotation and expert's studies.

The requisite funds are provided by the company.

The pre-audit for the certification of the report to be made concerning the emission of gases causing greenhouse-effects /CO2/ was performed at the expense of HUF 281,000.

The emission of air pollutants at the composting plant was measured by an accredited measurement institute, the cost of which was HUF 446,500.

The hazardous wastes produced in the course of production and service provision activities have been disposed in the incineration furnace operated by ECOMISSIO Ltd. in Tiszavasvári. 488,642 kg or waste was burnt, at the expense of HUF 27,595,661.

The communal waste produced in the course of the operation of the Company, the building waste classified as non-hazardous, the wastes deriving from the maintenance of the park have been disposed at the landfill operated by the town. The cost of these was HUF 1,806,432.

The temporary storage of hazardous wastes was not needed in 2005.

No fines for hazardous wastes or for the exceeding of the specified noise limit were imposed on the Company in 2005.

A fine for air pollution of HUF 4,247,915 pertaining to 2004 was paid in 2005.

The main component NOx emitted by the boilers.

Such fine has not yet been imposed for 2005, but the rate of it is expected to be similar to that one levied in the previous year.

We paid sewage fine for 2004 in 2005, the amount of which was HUF 2,619 for the exceeding of the prescribed ammonium ion limit. Such fine has not yet been imposed for 2005, but the rate of it is expected to be about 50 T HUF due to the exceeding of ammonium ion emission limit.

Stage I of the scrutinizing environment protection review requisite for the obtaining of the unified environment usage permit was performed, and the documents were duly submitted to the competent authorities.

The cost of the mentioned procedure was HUF 2,380,000. Stage II of the review is currently in progress.

b) Liabilities related to Research and Development:

Our Company concluded a contract on 3 August 2001 with the Gyógynövénykutató Intézet Rt for the development of a new poppy species or generic notion with at least 2% morphine content. The research is completed, and the new poppy of generic notion as “Botond” is registered.

Our contractual obligations on condition that the research-development target is fulfilled: to crop an area of at least 4000 ha annually for 5 years. Our company committed itself to pay a royalty of 0.051 USD + VAT/kg after the produced poppy heads. Should we fail to produce the poppy with the mentioned generic notion in any of the mentioned years, a penalty of 43,500.-USD should be paid as compensation to the Institute.

The poppy of the mentioned generic notion developed for us shall be cropped in the year 2007 first.

23. BUSINESS ADMINISTRATION, MANAGEMENT AND BOARD OF SUPERVISORS

The executive officers, the members of the executive board, the business administration and the members of the board of supervisors received no emoluments for their activities in 2005.

24. WAGE FIGURES AND STAFF NUMBER

The development of wages and personal allowances, and the contributions related thereto in 2005:

Staff group	Average statistical headcount persons	Wage costs	Contributions of wages	Personal allowances	Staff costs altogether
		T HUF			
Full-time, blue collar	315	586,169	204,225	49,090	839,484
Full-time white collar	137	572,818	199,574	47,972	820,363
Part time employees	5	10,470	3,648	877	14,995
Others not in staff	—	19,306	6,726	1,617	27,649
Total	**457**	**1,188,763**	**414,173**	**99,555**	**1,702,491**

25. CASH-FLOW STATEMENT

The Cash-Flow statement for 2005 is included in Annex 5.

On behalf of the Board of Executives of the ICN Hungary Company Limited:

Tiszavasvári, 14 February 2006

Harin Mehta
Chairman of the Board of Executives/Company Manager

ICN HUNGARY COMPANY LIMITED

REPORT BY THE BOARD OF DIRECTORS ABOUT ICN HUNGARY CO. LTD'S BUSINESS OPERATIONS IN I. QUARTER IN 2006

I. MAIN CHARACTERISTICS OF THE MANAGEMENT IN I. QUARTER IN 2006

The Company, acting upon the accounting system of the parent company, prepares annual report for the period between 01 January 2006 and 31 March 2006, date of balance will be 31 March in the future.

In 2006, the Company achieved a net sales income of 705.7 million HUF, which was 16.2% of the previous year. Net sales income is lower compared with time-proportionate net sales of the previous year. The reason for it is that turnover is lower at the beginning of the year, companies concentrate on changes, develop strategy for the year, finalise business plan then there is a boom in turnover.

Within the above amount, domestic sales represented 244.7 million HUF, while export sales totalled 461 million HUF.

Within sales, the percentage of export decreased from 74.2% to 65.3%, while domestic sales increased from 25.8% to 34.7%. The decrease of export was partly caused by the sales of Morphine, that was not sold in the I. quarter of 2006, as Morphine is processed. Increase in domestic sales can be explained with storage at the beginning of the year.

Other incomes in 2006 included, among others, retrieval of devaluation of receivables.

Major data of management

Data in million HUF

Description	Year				Index
	2004	2005	2006		2006/2005
	in million HUF			Percentage %	%
Net sales income	5,864.6	4,358.6	705.7	98.18	16.19
– domestic	2,671.8	1,126.2	244.7	34.04	21.73
– export	3,192.8	3,232.4	461.0	64.13	14.26
Other income	2,609.7	658.0	13.1	1.82	1.99
– domestic	1,015.7	658.0	13.1	1.82	1.99
– export	1,594.0	—	—	0.00	0.00
Operating income	**8,474.3**	**5,016.6**	**718.8**	**100.00**	**14.33**
Net sales income	5,864.6	4,358.6	705.70	98.18	16.19
Result according to the balance sheet	**-46.52**	**-1,470.2**	**-309.80**	**-43.10**	**21.07**
Wage costs	1,375.9	1,186.4	278.50	38.75	23.47
Number of full-time employees	548.0	452.0	455.00	63.30	100.66
Research+development	123.8	17.4	3.20	0.45	18.39
Invested assets	4,971.5	5,085.3	5,174.00	719.81	101.74
Equity capital	**6,593.7**	**4,883.3**	**4,573.50**	**636.27**	**93.66**

The previous owner of the Company made up for the Company's loss of capital over the past few years by the increase of capital in 2001. This increased the Company's subscribed capital to 5,919 million HUF, which did not change either in 2002 or 2003. In 2004, the subscribed capital rose to 6,268.8 million HUF, owing to the issue of employees' shares. The Company's own capital increased from 4,394.7 million HUF to 6,593.7 million HUF, due to the fact that the 2,135.8 million HUF which was transferred by the owner in 2003 and subscribed in 2004 was put in the capital reserve. As a result of the loss in 2005, the Company's own capital fell to 4,883.3 million HUF, that fell to 4,573.5 million HUF in I. quarter in 2006 due to loss-making management.

The Company concluded the I. quarter of 2006 business year with a loss of 309.8 million HUF.

The financial data in the accounting period covered by this report did not come up to the expectations.The most important reasons for this were the non-profitable production of psychotropic products and the settling of accounts of the related devaluation, as well as the low selling price of finished pharmaceutical products.

With consideration for the losses of the previous years, the Management of the Company gradually decreased the number of employees between 1999 and 2002 and outsourced certain activities.

In 2005, the number of employees decreased due to natural fluctuation, early retirements, and the collective lay-offs that were started in 2004. At the end of the period accounted number of employees increased from 452 (31 December 2005) to 455 (31 March 2006).

As for the period accounted there was no pay-rise.

On the whole, wage costs in the period accounted was 23.5% of the total wage cost in the previous year.

II. MARKET SITUATION

In 2005, the Company achieved an operating income of 5,016.6 million HUF, which decreased to 718.8 million HUF in the I. quarter of 2006. The income is lower compared with the time-proportionate income of the previous year. The reason for it was depression at the beginning of the year and default in Morphine sales.

ICN HUNGARY COMPANY LIMITED

Distribution of sales by area

Data in million HUF

Description	Year				Index
	2004	2005	2006		2006/2005
	in million HUF			Percentage %	%
Net sales income	5,864.6	4,358.6	705.7	98.18	16.19
– domestic	2,671.8	1,126.2	244.7	34.04	21.73
– export	3,192.8	3,232.4	461.0	64.13	14.26
Other income	2,609.7	658.0	13.1	1.82	1.99
Operating income	**8,474.3**	**5,016.6**	**718.8**	**100.00**	**14.33**

Composition of sales by product groups

Data in million HUF

Description	Year				Index
	2004	2005	2006		2006/2005
	in million HUF			Percentage %	%
Bulk Drug (API)	2,733.8	2,283.7	257.4	36.47	11.27
Intermediaries	—	—	—	0.00	0.00
Finished pharmaceutical prod.	1,907.2	1,457.2	329.7	46.72	22.63
Other sales	1,223.6	617.7	118.6	16.81	19.20
Net sales income	**5,864.6**	**4,358.6**	**705.7**	**100.00**	**16.19**

The Company's long term goals continue to be the increase of the sale of finished pharmaceutical products and the increase of the export of pharmaceutical raw materials.

The composition of domestic sales by product groups is shown in the following chart:

Data in million HUF

Description	Year				Index
	2004	2005	2006		2006/2005
	in million HUF			Percentage %	%
Bulk Drug (API)	90.3	73.9	22.3	9.11	30.18
Intermediaries	—	—	—	0.00	0.00
Finished pharmaceutical prod	1,449.1	461.0	103.8	42.42	22.52
Other sales	1,132.4	591.3	118.6	48.47	20.06
Net sales income	**2,671.8**	**1,126.2**	**244.7**	**100.00**	**21.73**

The Company's market share did not change in the period accounted.

In 2003, organizational structure underwent major changes; promotional, trading, and sales activities have been assigned to the newly-founded Valeant Pharma Hungary Ltd., and in 2005, the majority of finished pharmaceutical to be sold on the domestic market were sold to ICN Polfa.

The data of domestic sales between 2004-2005 are therefore not comparable. Data of sales in the I. quarter of 2006 slightly fall away from time-proportionate data of 2005.

Composition of export sales by product groups

Data in million HUF

Description	Year				Index
	2004	2005	2006		2006/2005
	in million HUF			Percentage %	%
Bulk Drug (API)	2,643.5	2,209.8	235.1	51.00	10.64
Intermediaries	—	—	—	0.00	0.00
Finished pharmaceutical prod.	458.1	996.2	225.9	49.00	22.68
Other sales	91.2	26.4	—	0.00	0.00
Net sales income	**3,192.8**	**3,232.4**	**461.0**	**100.00**	**14.26**

Composition of export sales by product groups

Data in thousand USD

Description	Year				Index
	2004	2005	2006		2006/2005
	in thousand USD			Percentage %	%
Bulk Drug (API)	14,645.2	11,052.7	1.110.3	51.00	10.05
Intermediers	—	—	—	0.00	0.00
Finished pharmaceutical	2,537.9	4,982.6	1,066.9	49.00	21.41
Other sales	505.3	132.0	—	0.00	0.00
Net sales income	**17,688.4**	**16,167.3**	**2,177.2**	**100.00**	**13.47**

Export sales of the Company in the I. quarter of 2006 was 14.26 % of sales in 2005 (in HUF), this falls away from the output of time-proportionate output of the previous year. The difference is by far the most as for bulk drug (API) and default in Morphine sales abovementioned.

III. BUSINESS POLICY

Employment Policy

Personnel Management
Due to bringing forward manufacturing some products at the end of 2005 we had to prepare for employing 50 people temporarily. As for this at the beginning of 2006 number of employees was 500, from which 9 employees were away durative (in labour law headcount).

Due to technical reconstruction and investments started by the new Owner transferring of a lot of employees was necessary.

By the end of March 2006 number of employees fell- as temporary employees left- to 448, from which 11 employees were away durative.

In the first three months in the production area we had a lack in men workforce which was made up by renting temporary personnel.

We should prepare in the future for increase workers' efficiency and loading. To reach mobility we should improve our employees' qualification and abilities. By the time technical investments are over, headcount of departments should be specified and developed due to which we will not need for renting as an outer service or in a smaller rate.

Wage Management
Loss –making operation of the Company had an effect on wage management, due to this there was no wage improvement in the I. quarter of 2006. Negotiations on wages with Trade Union have not been finished yet, but to reach profitability the aim is not to increase wage costs. If we see wage costs in the first three months we can see a downward tendency, cause of which employees', who were employed temporarily, employment relation was ceased and we went on with a normal operation. Wage costs in January were 95 million HUF, in March they were 85 million HUF.

In 2006, we expect to devise solutions for the improvement of the employees' income situation, and, at the same time, the reduction of wage costs.

Purchasing

The volume of purchasing did not increase in the first three months in 2006.

The cost of fuels was an item increase of which considerably affected our management. The price increase of heating oil exceeded 10%. Beside this rate of HUF eased off that had a negative effect on Purchasing.

The prices of certain groups of materials (solvents, petroleum products) changed in line with the tendencies on the world market. In 2006, we continued to inspect our suppliers, which had been started before.

With regard to the terms of payment, there was no improvement compared to the previous year.

Although the changes in the production schedule made the procurement less predictable, there were no major disturbances in procurement.

Production

In the Chemistry I plant, after reviewing operation guide on storage of poppy head we processed the remaining part of poppy head bought before.

8,029 kg of Morphine was manufactured in continuous operation on the Morphine production line.

Buspiron and Noroximorfon active agents were manufactured in the Pilot Plant.

Before starting manufacturing because of drug safety a fence had to be built as well as a monitoring system with cameras and an entry system had to be located.

After finishing reconstruction in Codeine Plant Oxicodon was manufactured.

Defense and entry system was located that is a requirement as for drug manufacturing.

In the Chemistry II plant, Phenobarbital was manufactured. There was no any Chloroquine, Hydroxy-Chloroquine or Glibornuride manufacturing because of reconstructions in the plant.

The plant originally was built to manufacture Glibornuride and due to reconstruction it will be able to manufacture more products: Chloroquine, Hydroxy-Chloroquine, Glibornuride and Phenobarbital.

In the Finished Pharmaceutical Plant, because of reconstruction works the planned market demands have been produced in shifts in advance.

Due to the abovementioned reconstruction works it is expected to increase production volumes, improve technical standards, and provide production lines that are in compliance with the GMP.

Poppy-growing system

The I. quarter of 2006 regarding poppy-growing was influenced by not too good poppy-growing in 2005 as well as growing conditions specified for 2006. Because of these some grower drew back from poppy-growing, and they did not found conditions attractive. So by the end of March 2006 (end of sowing-time) instead of planned 13,000 hectare 'only' 9,881 hectare was contracted for, that itself was not little.

Unfortunately weather in February and March was too wet that is why inland inundation was high (on March 6th there was snow with 20 cm height on lands) growers could not sow at all. Sowing of seeds was successful only on 5,586 hectare contracted. Those who managed to sow could do that between 24 March and beginning of April that was over optimal time and it means that we cannot expect to have surpassing yield this year.

The data of poppy-growing are shown in the following chart:

Data of production 2006:			
Contracted area	ha	9,881	100%
Sown area	ha	5,586	57%
From which Alfa type	ha	3,168	57%
Minoan type	ha	2,418	43%

Quality Assurance Policy

Quality assurance system of the Company has been started being setting to the system of SUN. We can expect this are to be stronger, as SUN has already met FDA requirements through audits. GMP investments have been started. After finishing these we can expect expansion of market regarding bulk drug and finished pharmaceutical products.

Research and Development

As a result of the previous owner's strategic decision, research and development was terminated in the field of active ingredients, and considerably cut back in the field of medicines as well.

Despite the above, the department of active ingredient technology, which took over certain R+D activities, managed to improve product quality by modifying the production technology of several active ingredients that had been produced for a long time, and thus the products retained their market position. CTD-format DMF's have been and are being made for several active ingredients, which are indispensable for the expansion of our market presence and competitiveness.

The department of pharmaceutical technology, in addition to performing development in the frame of lease work and testing the active ingredients of new suppliers, completed the development of Naproxen Na 220 mg film-coated tablets. In the case of a favourable decision, the preparation may undergo bioequivalency examination.

Development of Oxycodon retard tablets has been started as well as a reproduction research on a tablet with Codeine content –Bikoden- to be able to manufacture by wagework.

Environmental Protection

Due to the Company's activities, environmental protection is of high importance and considerably affects the Company's financial situation. The following section presents the Company's environmental activities and their financial implications in the I. quarter of 2006:

The biological sewage farm was operating continuously all year round, operating was made to be hard because of extremely cold and freezing. The total quantity of cleaned sewage was 292.790 cubic-meters.

Sludge regarded as dangerous waste coming from treatment was started composting in March as we had to store it in January and February because of cold weather. Cost of composting: 2,257,000 HUF.

Dehydration of sludge was made with a rented centrifuge in the given period, cost of rent: 1,911,000 HUF.

108,718 t of dangerous waste was burnt in the given period with cost of 7,770,163 HUF.

The following returns and reports have been prepared regarding the previous year for the Environment Authority:

- Return on dangerous and not dangerous waste
- Return on air polluting sources and organic solvent emissive sources
- Datasheet on preventing water under ground (tank parks and wastewater plant)
- Annual report and return on water quality of wastewater emission into aboveground water
- Air- and water load fees have been calculated to be paid for APEH for 2006(air load fee: 16,738,124 HUF, Water load fee: 3,984,916 HUF)

We have had report on carbon-dioxide emission regarding last year created and audited by SGS Hungária Ltd, and we have been registered in the national system. (We have extra quota with weight of 5533 t on emission data in 2005)

Thorough environment review documents required for getting uniform environment use permission have been created and submitted to environment authority. Cost of it: 5,090,000 HUF.

We have contracted with UTB Envirotec Ltd. on modelling treating groundwater in the wastewater plant exploited from polluted area SZ-I. as well as on replacement of groundwater with industrial water and creating request for modifying water law permission.

Calculations by us, request for offers and settings have been made on the following things:

- drilling extractive and swallowing wells on the polluted are SZ-I.
- continuing and finishing separating pollution
- testing rate of pollution in the area next to the burning plant
- blocking drinking water well No. VI., seeking for 2 old drinking water wells and excavation of them

Risk Management

The risks and uncertainties accompanying the Company's operations are originated from the market tendencies typical of the industry, which, at the same time, provide opportunities for the introduction of new products and expansion in the markets.

There were no unusual financial risks inherent in the management, which was why the price, credit, liquidity and cash flow risks were not significant.

IV. COMPANY STRUCTURE

Registered office of the Company: 1025 Budapest, Csatárka u. 82-84.
Branch office: 4440 Tiszavasvári, Kabay János u. 29.

The transfer of the Company's registered seat to Tiszavasvári is underway, and the Company performs its business activities in Tiszavasvári.

Pursuant to the decision by the Company's foremost body, ICN Hungary Co. Ltd. is controlled by one person. The leader of the Company represents the Company and also signs this Report.

The internal supervision of the Company's management is performed by the Management, the Board of Supervisors, and the Company's auditor.

Board of Supervisors:

Sudir Valia, Chairman
(address: 173 Aalap, Hindu Colony, Dadar, Mumbai – 400 014)

Sailesh Desai, Member
(address: B-402, 4. Floor, Avishkar, Old Padra Road, Vadodara –390 015, Gujarat)

Sándorné Ondi, Member
(address: 4440 Tiszavasvári, Kárpát u.17)

Auditor: PV AUDITOR Ltd's (4400 Nyíregyháza, Kandó Kálmán u. 12.) appointed employee: **János Varga** (4400 Nyíregyháza, Kandó Kálmán u. 12.)

Equity Capital, Shareholders

Issued capital: 6,028,614,000 HUF.

Classes of Shares:

7,003,310 pieces of shares of a par value of 3 HUF each and granting general rights; 2,002,500 pieces of shares of a par value of 3,000 HUF each and granting general rights; and 34,792 pieces of registered shares of a par value of 3 HUF for small investors.

On 8th Aug, 2005, the previous majority shareholder, ICN Pharmaceuticals, Inc., sold its block of shares to the British Virgin Islands-based, Sun Pharma Global Inc.

Ownership structure:

Shareholders	Number of shares				Par value (thousand HUF)				Percentage of ownership	
	31/12/2005		31/03/2006		31/12/2005		31/03/2006		31/12/2005	31/03/2006
	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	3 HUF	3,000 HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,007,500	21,010	6,007,500	99.9983	99.998
Minority shareholders	—	—	—	—	—	—	—	—	0.00	0.00
Employees	—	—	—	—	—	—	—	—	0.0000	0.00
Small investors	34,792	—	34,792	—	104	—	104	—	0.0017	0.0017
ICN Hungary Co. Ltd.	—	—	—	—	—	—	—	—	0.00	0.00
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00**	**100.00**

Capital structure:

Data in thousand HUF

Description	31/12/2005	31/03/2006	Difference 2006-2005	Index % 2006/2005
Subscribed capital	6,028,614	6,028,614	—	100.00%
Capital reserve	371,152	371,152	—	100.00%
Accumulated profit reserve	-412,432	-1,869,934	-1,457,502	453.39%
Tied-up reserve	366,145	353,420	-12,725	96.52%
Result according to the balance sheet	-1,470,227	-309,784	1,160,443	21.07%
Own capital	**4,883,252**	**4,573,468**	**309,784**	**93.66%**

In the period accounted, changes in capital structure can be seen as for profit, accumulated profit reserve as well as for tied-up reserve due to applied depreciation of R+D.

ICN HUNGARY COMPANY LIMITED

ICN Hungary Co. Ltd. is an affiliated company.

Parent company: Sun Pharma Global Inc.
(address: International Trust Building, P. O. Box No. - 659, Road Town, Tortola, British Virgin Islands)

The following persons are authorized to sign the annual report:

Harin Mehta, Chairman of the Board of Directors
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101 India.)

Jayesh Shah, Member of the Board of Directors
(address: 29714 Orion Court, Farminston Hills, Michigan 48334 USA)

Katalin Szilágyi, Member of the Board of Directors
(address: 4440 Tiszavasvári, Kelp Ilona u. 3.)

Events after the accounting day

There were no events after the accounting day that would affect the evaluation of the actual circumstances, and the present report provides a reliable and truthful picture about the Company's assets, financial and income situation, and business operations.

There were no major trends after the accounting day that would affect the evaluation of the actual circumstances.

On behalf of the Board of Directors of ICN Hungary Co. Ltd.:

Harin Mehta
Tiszavasvári, 12 July 2006 Chairman of the Board of Directors / Company Director

P. V. AUDITOR Ltd. **H- 4400 Nyíregyháza, Kandó K street 12.**
Tax number: 11651394-3-15. **Chamber registered number: 001697.**

Independent Auditors' Report

(Free translation)

To the quotaholders shareholders of ICN Hungary Company Limited

We have audited the balance sheet of ICN Hungary Company Limited (the Company) as at 31 March 2006 – in which the balance sheet total is HUF 9,642,659 thousand, the loss per balance sheet is HUF 309,784 thousand and the related profit and loss account and notes for the quarter ended 31 March 2006 which are included in the financial statements of ICN Hungary Company Limited. The financial statements and the business report are the reponsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on the audit and to assess whether or not the accounting information disclosed in the business report is consistent with that contained in the financial statements.

We state that on basis of the audit we issued an opinion without any restrictions.

We conducted our audit in accordance with Hungarian and International Standards on Auditing and with applicable laws and regulations in force in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. Our work with respect to the business report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our audit opinion.

During our work we have audited the components and disclosures along with the underlying accounting records and supporting documentation in the financial statements of ICN Hungary Ltd. in accordance with Hungarian and International Standards on Auditing and, on the basis of our audit work, we have gained sufficient and appropriate evidence that the financial statements have been prepared in accordance with the provisions of the accounting law and with accounting principles generally accepted in Hungary. In our opinion, the financial statements give a true and fair view of the financial position of ICN Hungary Ltd. as at 31 March 2006 and of the results of its operations for the quarter then ended. The business report is consistent with the disclosures in the financial statements.

Without qualifying our opinion we draw your attention to the fact that the combined balance of own funds decreased below the value of subscribed capital.

Nyíregyháza, 12th July 2006.

János Varga
Partner
PV AUDITOR Ltd
Licence No.: 001697.
12 Kandó K street, 4400 Nyíregyháza

János Varga
Registered Auditor
Licence No.: 002059.
12 Kandó K street, 4400 Nyíregyháza

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" BALANCE Assets

THUF

No.		Item		Previous year 31/12/2005	Previous year(s)' modifications	Reference period 31/03/2006
a		b		c	d	e
01.	A	**FIXED ASSETS**	(2.+10.+18.)	5,085,259	0	5,173,965
02.	I.	INTANGIBLE ASSETS	(3. ... 9.)	369,502	0	367,036
03.		Capitalised value of foundation and restructuring costs				
04.		Capitalised value of research and development		366,145		353,420
05.		Concessions and similar rights and assets k				
06.		Intellectual property		3,357		13,616
07.		Goodwill				
08.		Advance payments on intangible assets				
09.		Revaluation of intangible assets				
10.	II.	TANGIBLE ASSETS	(11. ... 17.)	3,921,041	0	3,995,887
11.		Land and buildings and related concessions and similar rights		3,439,342		3,451,170
12.		Technical equipment, machinery and vehicles		172,450		224,729
13.		Other equipment, fittings and vehicles		122,951		153,463
14.		Breeding stock				
15.		Capital WIP, renovations		186,298		113,225
16.		Advance payments on Capital WIP				53,300
17.		Revaluation of tangible assets				
18.	III.	FINANCIAL INVESTMENTS	(19. ... 25.)	794,716	0	811,042
19.		Long term investments in related companies		778,995		795,616
20.		Long term loans given to related companies				
21.		Other long term investments		0		0
22.		Long term loans given to other investees				
23.		Other long term loans given		15,721		15,426
24.		Securities representing long term loans				
25.		Revaluation of financial investments				
26.	B	**CURRENT ASSETS**	(27.+34.+40.+45.)	3,891,118	0	4,461,185
27.	I.	INVENTORIES	(28. ... 33.)	3,096,986	0	3,484,658
28.		Raw materials and consumables		959,755		608,377
29.		Work in progress and semi-finished products		1,352,759		1,894,351
30.		Animals				
31.		Finished goods		737,080		933,015
32.		Goods		46,694		46,608
33.		Advance payments on inventories		698		2,307
34.	II.	RECEIVABLES	(35. ... 39.)	705,003	0	705,547
35.		Trade accounts receivable		431,500		500,657
36.		Receivables from related companies		0		0
37.		Receivables from other investees				
38.		Bills of exchange receivables				
39.		Other receivables		273,503		204,890
40.	III.	MARKETABLE SECURITIES	(41. ... 44.)	0	0	0
41.		Investments in related companies				
42.		Other investments				
43.		Own shares, own quotas		0		0
44.		Securities representing loans held for sale				
45.	IV.	LIQUID ASSETS	(46.+47.)	89,129	0	270,980
46.		Cash in hand, cheques		1,689		337
47.		Bank deposits		87,440		270,643
48.	C	**PREPAID EXPENSES AND ACCRUED INCOME**	(49. ... 51.)	20,054	0	7,509
49.		Accrued income		18,282		7,509
50.		Prepaid expenses		1,772		0
51.		Deferred expenses				
52.		**TOTAL ASSETS**	**(1.+26.+48.)**	**8,996,431**	**0**	**9,642,659**

Date: TISZAVASVARI, JULY 12, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" BALANCE Liabilities

THUF

No.	Item			Previous year 31/12/2005	Previous year(s)' modifications	Reference period 31/03/2006
a	b			c	d	e
53.	**D**	**SHAREHOLDERS' EQUITY**	(54.+56.+57. … 61.)	4,883,252	0	4,573,468
54.	I.	ISSUED CAPITAL		6,028,614		6,028,614
55.		Of line 54: ownership shares repurchased at face value				
56.	II.	ISSUED BUT NOT PAID CAPITAL	(−)			
57.	III.	CAPITAL RESERVES		371,152		371,152
58.	IV.	RETAINED EARNINGS FROM PREVIOUS YEAR		-412,432		-1,869,934
59.	V.	NON DISTRIBUTABLE RESERVES		366,145		353,420
60.	VI.	REVALUATION RESERVE				
61.	VII.	PROFIT PER BALANCE SHEET		-1,470,227		-309,784
62.	**E**	**PROVISIONS**	(63. ... 65.)	20,636	0	20,636
63.	1.	Provisions for expected liabilities				
64.	2.	Provisions for future expenses		20,636		20,636
65.	3.	Other provisions				
66.	**F**	**LIABILITIES**	(67.+71.+80.)	3,808,526	0	4,683,848
67.	I.	SUBORDINATED LIABILITIES	(68. ... 70.)	0	0	0
68.		Subordinated liabilities to related companies				
69.		Subordinated liabilities to other investees				
70.		Subordinated liabilities to other enterprises				
71.	II.	LONG TERM LIABILITIES	(72. ... 79.)	0	0	0
72.		Long term credits				
73.		Convertible bonds				
74.		Debt on the issue of bonds				
75.		Investment and development loans				
76.		Other long term loans				
77.		Long term liabilities to related companies				
78.		Long term liabilities to other investees				
79.		Other long term liabilities				
80.	III.	SHORT TERM LIABILITIES	(81. ... 89.)	3,808,526	0	4,683,848
81.		Short term credits				
82.		Of line 81: convertible bonds				
83.		Short term loans		0		419,558
84.		Advance payments received from customers		0		5,914
85.		Trade accounts payable		512,067		371,576
86.		Bills of exchange payable				
87.		Short term liabilities to related companies		3,173,490		3,885,600
88.		Short term liabilities to other investees		243		434
89.		Other short term liabilities		122,726		766
90.	**G**	**ACCRUED EXPENSES AND DEFERRED INCOME**	(91. ... 93.)	284,017	0	364,707
91.		Deferred revenues				
92.		Accrued expenses and deferred income		171,025		253,820
93.		Deferred income		112,992		110,887
94.	**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**		**(53.+62.+66.+90.)**	**8,996,431**	**0**	**9,642,659**

Date: TISZAVASVARI, JULY 12, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

"A" STATEMENT OF INCOME
(with current cost method)

THUF

No.	Item		Previous year 31/12/2005	Previous year(s)' modifications	Reference period 31/03/2006
a	b		c	d	e
01.	Net domestic sales		1,126,147		244,644
02.	Net export revenues		3,232,404		461,014
I.	NET SALES REVENUES	(01+02)	4,358,551	0	705,658
03.	Direct cost of sales		4,071,783		621,080
04.	Cost of goods sold		404,387		41,430
05.	Value of services provided		0	0	0
II.	DIRECT COST OF SALES	(03+04+05)	4,476,170	0	662,510
III.	GROSS SALES INCOME	(I.-II.)	-117,619	0	43,148
06.	Cost of sales		143,443		42,237
07.	Administration cost		380,709		80,736
08.	Other overheads		17,428		3,181
IV.	INDIRECT COST OF SALES	(06+07+08)	541,580	0	126,154
V.	OTHER INCOME		658,094		13,141
	– teherof: loss of value written back		18,622		8,844
VI.	OTHER EXPENDITURES		1,341,571		128,486
	– theeof: loss of value		920,342		85,319
A.	**TRADING PROFIT**	(+-III-IV+V-VI)	**-1,342,676**	0	**-198,351**
09.	Dividend received				
	– Of which: received from related companies				
10.	Gain on sale of investment				
	– Of which: received from related companies				
11.	Interest received and gain on financial investments		132,769		
	– Of which: received from related companies				
12.	Other interest received		4,323		227
	– Of which: received from related companies				
13.	Other revenues from financial transactions		279,989		41,145
VII.	REVENUES FROM FINANCIAL TRANSACTIONS	(9+10+11+12+13)	417,081	0	41,372
14.	Loss on financial investments				
	– Of which: given to related companies				
15.	Interest paid		127,091		58,982
	– Of which: given to related companies		121,614		52,106
16.	Interest paid				
17.	Other expenditures of financial transactions		419,386		95,927
VIII.	EXPENDITURES OF FINANCIAL TRANSACTIONS	(14+15+16+17)	546,477	0	154,909
B.	**FINANCIAL PROFIT**	(VII.-VIII.)	**-129,396**	0	**-113,537**
C.	**PROFIT ON ORDINARY BUSINESS**	(+-A+-B)	**-1,472,072**	0	**-311,888**
IX.	EXTRAORDINARY REVENUES		254,184		2,104
X.	EXTRAORDINARY EXPENDITURES		252,339		0
D.	**PROFIT ON EXTRAORDINARY EVENTS**	(IX.-X.)	1,845	0	2,104
E	**NET PROFIT BEFORE TAXATION**	(±C±D)	**-1,470,227**	0	**-309,784**
XI.	TAX LIABILITY				
F	**PROFIT AFTER TAX**	(±E-XI)	**-1,470,227**	0	**-309,784**
18.	Dividends paid out of accumulated profit reserve				
19.	Dividends paid (approved) out of current year profits				
G	**NET PROFIT PER BALANCE SHEET**	**(±F+22-23)**	**-1,470,227**	**0**	**-309,784**

Date: TISZAVASVARI, JULY 12, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

1	0	7	1	5	8	4	6	2	4	4	2	1	1	4	0	1

Statistical code

0	1	—	1	0	—	0	4	4	8	3	4

Company registration number

ICN Hungary Co. Ltd.

CASH-FLOW STATEMENT FOR THE QUARTER ENDING 31 MARCH 2006 ("A" TYPE)

THUF

No.		Designation		Previous year 31/12/2005	Reference period 31/03/2006
	I.	**Change in cash out of ordinary activity**	(lines 1-13.)	**-1,085,056**	**-847,427**
		(operational cash flow)			
1	±	Profit or loss before tax		-1,470,227	-309,784
2	+	Depreciation charge		324,405	85,558
3	±	Loss in value/write back of loss in value		-756,967	-59,854
4	±	Difference between provisions made and used		-441,627	0
5	±	Proceeds from sale of invested assets		-715	0
6	±	Change in trade accounts payable		141,786	-146,406
7	±	Change in other short term liabilities		-33,131	-121,960
8	±	Change in accrued expenses		-28,750	80,690
9	±	Change in trade accounts receivables		629,211	-544
10	±	Change in current assets (except for: trade accounts and liquid assets)		556,180	-387,672
11	±	Change in prepaid expenses		-5,221	12,545
12	-	Corporate tax paid (payable)			
13	-	Dividend paid (payable)			
	II.	**Change in cash provided by operating activities**	(lines 14-16.)	**-257,718**	**-102,390**
14	-	Purchase of invested assets		-257,718	-102,390
15	+	Sales of invested assets		0	0
16	+	Dividend received		0	0
	III.	**Change in cash used in investing activities**	(lines 17-27.)	**1,369,034**	**1,131,668**
17	+	Share issue (capital increase)		240,232	
18	+	Bond issue			
19	+	Borrowings		2,340,654	4,290,710
20	+	Repayment, cancellation of long term loans and bank deposits			
21	+	Cash received			
22	-	Share withdrawal			
23	-	Bond redemption			
24	-	Loan repayment		-1,211,852	-3,159,042
25	-	Long term loans given and bank deposits			
26	-	Cash transferred			
27	±	Change in liabilities towards the owners and in other long term liabilities			
	IV.	**Movement in cash and cash equivalent**	**(±I±II±III. lines)**	**26,260**	**181,851**

Date: TISZAVASVARI, JULY 12, 2006

Head of the company
(representative)

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE QUARTER ENDING ON 31 MARCH 2006

(Data shall be construed in T HUF)

1 PRESENTATION OF THE COMPANY

ICN Hungary Company Limited (hereinafter referred to as "Company") is the member of the SUN Pharmaceutical Industries Ltd. international corporation based in India.

The Company, acting upon the accounting system of the parent company, prepares annual report for the period between 01 January 2006 and 31 March 2006, date of balance will be 31 March in the future.

Our company limited was established by János Kabay in the North-Eastern part of Hungary, in Tiszavasvári, in 1927, as Alkaloida Chemical Factory.

Morphine was produced in the factory from green poppy. A couple of years later János Kabay took out the patent for his new technology utilising dry poppy heads, which has ever since been applied all over the world. The prosperous company was socialised in 1948 and developed dynamically. The production of fully manufactured medicines was launched in the 60s. The company entered into a great number of licence agreements for the preparation of diverse medicines with international companies (such as Zeneca, Sandoz, Bayer, Hoffmann-La Roche), some of which are still in force.

In the course of the privatisation following the change of the political regime in Hungary the majority of the company shares were acquired by the ICN Pharmaceuticals Inc. in 1996. The stakes were sold to Sun Pharma Global Inc., a company based in British Virgin Islands in August 2005. Currently SUN has 99.99% proportion of property in the Company. The company in Tiszavasvári is one of the five largest companies engaged in the pharmaceutical industry of Hungary having world wide reputation.

Core activities of ICN Hungary Co.:

- Active pharmaceutical ingredients (morphine alkaloids, codeine and its derivatives – regarding these the Company Limited is among the largest exporters of the world);
- Chlorochin salts used against malaria and phenobarbital used for tranquilizers;
- Intermediate products and finished preparations (some sixty different types of pharmaceutical preparations).

Our medicines are used typically to the following scopes of therapies: cardio-vascular diseases, locomotive disorders, disorders of the digestive system and those of the nervous system.

Registered seat of the Company: **1025 Budapest,**
Csatárka u. 82-84

Branch office: 4400 Tiszavasvári
Kabay János u. 29.sz.

The translocation of the Company Seat to Tiszavasvári is in progress, as the business activities of the same are implemented in Tiszavasvári.

The ICN Hungary Co. has no subsidiary companies accordingly, no consolidated report is prepared.

ICN Hungary Co. has no authorities in any enterprise on the basis of which or in pursuance of the accounting standards it shall be considered as a corporation of joint administration or associate company.

The parameters of any enterprises being in holding relations with the company are included in Annex 3.

Our Company possesses no direct power or power ensuring majority control, nor does it have substantial influence in any business organisation.

Issued capital stock of the Company: 6,028,614 T HUF, which is composed of the following elements:

7,003,310 pieces of shares with the face value of three HUF each providing general rights, 2,002,500 pieces of shares with the face value of three thousand HUF each providing general rights, and 34,792 pieces of registered shares for small investors with the face value of 3 HUF each.

The former majority owner, the ICN Pharmaceuticals Inc., sold its equity stake forming its majority ownership on 8 August 2005 to the Sun Pharma Global Inc., based in British Virgin Islands.

Owners	Number of shares				Face value (T HUF)				Proportion of Property (%)	
	31/12/2005		31/03/2006		31/12/2005		31/03/2006		31/12/2005	31/03/2006
	3- HUF	3,000- HUF	3- HUF	3,000- HUF	3- HUF	3,000 -HUF	3 -HUF	3,000 -HUF	%	%
Sun Pharma	7,003,310	2,002,500	7,003,310	2,002,500	21,010	6,007,500	21,010	6,007,500	99.9983%	99.998%
Minority owners	—	—	—	—	—	—	—	—	0.0000%	0.000%
Employees	—	—	—	—	—	—	—	—	0.0000%	0.000%
Small invertors	34,792	—	34,792	—	104	—	104	—	0.0017%	0.0017%
ICN Magyarország Rt.	—	—	—	—	—	—	—	—	0.0000%	0.000%
Total	**7,038,102**	**2,002,500**	**7,038,102**	**2,002,500**	**21,114**	**6,007,500**	**21,114**	**6,007,500**	**100.00%**	**100.00%**

Capital Structure:

Data in T HUF

Description	31/12/05	31/03/06	Deviation 2006-2005	Index % 2006/2005
Issued capital stock	6,028,614	6,028,614	—	100.00%
Capital reserve	371,152	371,152	—	100.00%
Profit reserve	-412,432	-1,869,934	-1,457,502	453.39%
Tied up reserve	366,145	353,420	-12,725	96.52%
Profit or Loss according to balance sheet	-1,470,227	-309,784	1,160,443	21.07%
Equity capital	**4,883,252**	**4,573,468**	**-309,784**	**93.66%**

The enterprises involved in the administration of the ICN Hungary Co. do not prepare a consolidated report in Hungary.

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE QUARTER ENDING ON 31 MARCH 2006

2 ACCOUNTING POLICY

a) General Information

The Company shall prepare **annual reports** accordingly it shall perform accounting in accordance with the rules of **double entry book-keeping.**

The Company shall prepare ordinary annual report for the period under review similar to the previous year in Hungarian language in accordance with the accounting standards of Hungary.

The Company, acting upon the accounting system of the parent company, prepares annual report for the period between 01 January 2006 and 31 March 2006, date of balance will be 31 March in the future.

Date of reporting shall be 12 July 2006.

The annual report has been prepared in line with the Hungarian accounting standards with the application of the principle of selling costs.

The Company shall prepare "A" type balance sheet.

The Company shall prepare "A" type profit and loss statement based on the principle of the turnover cost method.

The Company is not subject to the preparation of consolidated statements.

The books include figures in Hungarian Forint and the data of the annual report – apart from the marked exceptions – shall be interpreted in thousand Hungarian Forint.

The person authorised to prepare the report and statement, and to control the rules of accounting shall be qualified as a certified accountant, and shall be registered in the List of Accounting Service Providers maintained by the Ministry of Finance, and shall bear all relevant licences entitling to the execution of the mentioned activities.

Name of the person being responsible for the preparation of the report: **Macsuga Tamásné,** (4440, Tiszavasvári, Nánási u. 2), recorded in the registry under entry: 143 607.

The correctness, reliability and truthfulness of the report for the year under review have been verified by the auditor. Name of the auditor who has checked the report: **Varga János** (4400 Nyíregyháza, Kandó Kálmán u. 12), number of membership at the chamber of auditors:

b) Major elements of the accounting policy

Under the Act C on Accounting of 2000 the Company (hereinafter referred to as "Act on Accounting") has executed its activities in accordance with the provisions of other statutes on accounting in force.

In line with the act on accounting the Company has developed its own regulations pertaining to the management of funds, inventory, evaluation of assets and sources, and to the calculation of prime costs.

The Company has specified in its accounting policy, that the application of completeness, authenticity, clearness, commensurability, continuity, consistence, cautiousness, gross accounting, individual evaluation, accrued and deferred items, the dominance of content over form, significance and the cost-profit comparison as principles of accounting shall be ensured in the course of business.

With respect to the report all and any information the omission or incorrect presentation of which may affect the decisions of the users shall be considered essential. Accordingly the Company shall consider items over 10 MHUF as significant.

An error the value of which is in excess of 1% of the aggregate amount of the balance or exceeding 500 million HUF shall be qualified as consequential (significant) error during the audit or self-checking.

There is no value limit defined in the Accounting Policy for the year-end revaluation of assets and sources incurred in foreign currency, consequently each item shall be revaluated in the books regardless of the value limit.

When the loss in value is defined a stock shall be qualified as a stock of low value in kind in the case of which the cost of lead through the ledger exceeds the amount of loss in value. For these sorts of stocks the accounting of the loss in value shall be made in proportion of the book value.

For the purchased stocks the closing stock shall be indicated at the latest purchase price.

The purchased stocks shall be indicated at reduced value which

- Do not conform to the relevant regulations (standards, requirements specified in the supply contract, etc.),
- Do not conform to the originally intended purposes (e.g. due to physical, chemical impacts, or become outdated, etc.) and
- The sale or usage is doubtful, shall be considered as excess stock (e.g. those that are not marketed any longer, or are not usable owing to the changeover of types, etc.)

The closing material stock shall be indicated in the balance sheet with depreciated value if the book value of such stocks (at the latest purchase prices) was permanently and significantly higher than that the actual market values thereof known at the time when the balance sheet was prepared.

In the case of stocks of private (own-) production (semi-finished and finished products, work in progress) the closing stock is indicated at actual indirect prime cost.

Depreciation is accounted for stocks of private (own-) production if

- The physical condition of the stock of private (own-) production deteriorated (due to damage, impairment of quality, destruction, etc.),
- The stock of private (own-) production cannot be used for their originally intended purposes (becoming unmarketable, marketable only with considerable reduction, at a discount, etc.),
- The (expectable) selling price of the stock of private (own-) production on the day of balance sheet preparation is lower than the cost of production.

In the case of the retrieval of depreciation the book value of the stock may not exceed the market value in accordance with Section 62, paragraphs (2)-(3) of the Act on accounting.

The following persons shall be authorised as signatories with respect to the annual report:

Harin Mehta, Chairman of the Board of Executives
(address: A 603, Rashumi Avenue, Thakur Complex Kandivli (East) Mumbai – 400 101, India.)

Jayesh Shah, Member of the Board of Executives
(address:29714, Orion Court, Farminston Hills, Michigan 48334, USA)

Szilágyi Katalin, Member of the Board of Executives
(address: 4440 Tiszavasvári, Kelp Ilona u.3.)

Principles of valuation at market value:

c) Intangible Assets

The purchase or production cost of intangible assets reduced with the accumulated depreciation shall be indicated at a value not higher than their known market values. Calculation of depreciation shall be made with the application of the linear method, on the basis of the rate of amortisation required for the accounting of the depreciation of intangible assets during their expectable service life.

In the case of intellectual products the rate of amortisation shall be defined individually, and the capitalised value of the development and research activities shall be accounted in 5 to 10 years as cost of depreciation.

Extraordinary depreciation shall be accounted for intellectual products, if they become useless, become damaged or are destructed, if they cannot be used any longer for research and development activities, if the activities are restricted, terminated or the development activity is closed without results.

Expectable useful life of intangible assets is the following:

Intellectual products	3 to 5 years
Capitalised value of research and development	5 to 10 years

d) Tangible Assets

Tangible assets are included in the balance sheet at purchase value, or at production cost deduced with cumulated depreciation. Calculation of depreciation is made by means of the linear method, on the basis of the rate of amortisation requisite for the depreciation of the value of the assets in the course of their expectable useful lives. The expectable useful lives of assets are the following:

Real assets	50 to 100 years
Technological equipment	7 to 10 years
Other equipment	3 to 10 years

The expectable useful life time of tangible assets is defined with regard to the time of their continuous serviceability. The residual value in the case of tangible assets is specified individually on the basis of the opinion of the technical department.

Assets of an individual value of less than 50 000 HUF are considered as low value tangible assets.

The fundamental criteria of the alteration of accounting and retrieval of the budgeted depreciation and extraordinary depreciation are defined in accordance with the provisions of Sections 53, 57, and 58 of the Act on accounting.

e) Invested Financial Assets

Investments meaning proportion of property are valuated at purchase price until their market values permanently decline under their registered value. In this case the market price at the time of balancing shall form basis for the valuation, or– if such is not available – the proportion possessed by the Company in the shareholders' equity as per the statement.

f) Inventory

The purchased stocks are reported at cost price or the net market value whichever the lower. The value of the stocks of own production shall include the direct materials costs and the labour costs as well as the proportional ratio of distributed indirect costs.

The comparison of the booked prices with the market prices shall extent to the raw materials, packaging, and goods in the case of purchased stocks, and shall fully extend to the stocks of own production.

The itemized comparison in value shall be made by the purchasing and sales departments.

The provisions of Section 56 of the Act on accounting shall be observed when the depreciation of stocks and the retrieval of depreciation are accounted. Accordingly, the stock value reported at balancing is reduced, if the original value of the purchased stock is higher than the real market value thereof, or if the production cost of the stock of own production is higher than the expectable selling price.

g) Receivables

On the basis of the classification of the customer as debtor the Company accounts devaluation for the outstanding receivables at the balance date of the financial year (including sums lent, or amounts paid in advance, as well as receivable type items existing between accrued and deferred revenues) – on the basis of information available on the day of balancing – in the amount of the – loss type - deviation between the book value of the receivables and the amount of the receivables anticipated to be refunded, if the mentioned difference appears permanently and is of material value.

If on the basis of the classification of the customer as debtor, the amount of the receivables anticipated to be repaid significantly exceeds the book value of the receivables, the difference shall be deduced with the devaluation accounted earlier by means of retrieval. Through the retrieval of the devaluation the booked value of the receivables will not be in excess of the value of registration.

The original registration value of the receivables, or the retrieved and cumulated devaluation accounted in the financial year are itemised according to the balance sheet in Section 6 below.

h) Securities

The securities reported among the current assets are indicated in the balance sheet at cost price until their value decreases permanently below the registration value.

i) Accounting of Securities and Transactions in Foreign Currency

Transactions in foreign currency shall be accounted at the middle exchange rate being valid on the day of the transaction and announced by the bank keeping the company's bank account (in 2005, Raiffeisen Bank Rt.). The profit or loss on the exchange rate due to the exchange rate difference on the day of the effectuation of payment and the actual date of the business transaction shall be reported in the financial statement.

The valuation of assets and sources registered in liquid assets of foreign currency is made in the balance sheet as follows:

The currency supplied recorded in the balance sheet under the currency cash desk line, the foreign exchange on the foreign currency account, additionally all receivables for outstanding payments and liabilities in foreign currency – as classified in accordance with Sections 54-55 of the Act on accounting -, shall be indicated in the balance sheet after conversion into HUF in accordance with middle exchange rate announced by the mentioned financial institute on the balance day of the financial year. No value limit of effects of the exchange rate difference that could be significant in terms of profit or loss regarding the valuation of assets and liabilities in foreign money value on the balance day is defined by our Company.

The difference of the booked values of foreign exchange in the currency cash desk, and on the foreign currency account, as well as the receivables in foreign currency, the invested financial assets, securities, and liabilities prior to valuation on the balance day and that of the value in HUF on the day of valuation:

a) shall be accounted as loss on exchange rate, if it is loss when cumulated, under the line Other expenses on financial transactions,

b) shall be accounted as profit on exchange rate, if it is profit when cumulated, under the line Other incomes from financial activities.

j) Revenues

The turnover (net sales) shall be accounted on the day of effectuation, excluding value added tax.

k) Provisions

Our Company forms provisions against the income before tax for the payment liabilities to third parties deriving from past transactions and transactions and contracts in progress (pending liabilities, future liabilities, early retirement, payment liabilities owing to proceedings in progress), that – according to the information available on the balancing – are expected or are sure to occur, but whose amount or due dates are uncertain at the time of balancing, but the coverage is not otherwise ensured by our Company for such liabilities.

l) Corporate Tax

A Corporate tax shall be accounted in the income statement in pursuance of the tax regulations being in force in the year under review. Our Company shall not pay corporate tax in the tax year concerned owing to the business performance of the year under review.

m) Valuation at Real Value

The ICN Hungary Co. shall not avail itself of the opportunity of valuation at real value, thus there exists neither valuation difference not valuation reserve for real valuation in the balance sheet, and the income statement includes no valuation difference either.

3. FINANCIAL STATUS AND LIQUIDITY

No financial event occurred following the balance date that would materially influence the report of the Company dated on 31 March 2006.

The pace of payments is stabilised and the rate of receivables being overdue for 0 to 30 days decreased significantly compared to the previous reporting period.

Hereafter we are presenting the variations of the Lines of the Balance Sheet projected in the view of changes that occurred in the I. quarter of 2006.

Similar to the previous years the audit and the self check found no incorrectness in the year under review, and the balance sheet includes no adjustments pertaining to the previous periods. There is no item in the balance sheet that could be indicated as entry in more than one line in the balance sheet.

The data of the balance sheet – apart from the rearrangements required by the alterations in the provisions of the relevant statutes – are comparable to the relevant data of the previous reporting period.

There are no invisible or unclosed transactions by the balance date, such as pending or certain future liabilities.

There exists no financial liability not indicated in the balance sheet that would be significant in terms of the evaluation of the financial status.

Composition of assets

Data in T HUF

Denomination	**31/12/2005**	**31/03/2006**	**Deviation 2006-2005**	**Index % 2006/2005**
Intangible assets	369,502	367,036	-2,466	99.33%
Tangible assets	3,921,041	3,995,887	74,846	101.91%
Invested financial assets	794,716	811,042	16,326	102.05%
Investments	**5,085,259**	**5,173,965**	**88,706**	**101.74%**
Stocks	3,096,986	3,484,658	387,672	112.52%
Receivables	705,003	705,547	544	100.08%
Securities	—	—	—	0.00%
Liquid assets	89,129	270,980	181,851	304.03%
Current assets	**3,891,118**	**4,461,185**	**570,067**	**114.65%**
Accrued and deferred assets	**20,054**	**7,509**	**-12,545**	**37.44%**
Total of assets	**8,996,431**	**9,642,659**	**646,228**	**107.18%**

In the case of tangible assets the increment of uncompleted investments resulted in an increase, activated investments in the period accounted was 166.5 million HUF, as for unfinished investments it is 113 million HUF, advance payment for investments 53 million HUF.

As for invested financial assets the increase was caused by the increase value of Reanal Inc. shares as well as the decrease of Tivabusz Ltd. business shares.

Increasing stocks can be explained by increase in own manufactured stocks.

The receivable value is unchanged and low, as the Customer's readiness to settle their outstanding arrears also improved significantly, consequently the rate of liquid assets grew.

Composition of sources

Data in T HUF

Denomination	**31/12/2005**	**31/03/2006**	**Deviation 2005-2004**	**Index % 2005/2004**
Issued capital stock	6,028,614	6,028,614	—	100.00%
Capital reserve	371,152	371,152	—	100.00%
Profit reserve	-412,432	-1,869,934	-1,457,502	453.39%
Tied up reserves	366,145	353,420	-12,725	96.52%
Profit or loss according to the balance sheet	-1,470,227	-309,784	1,160,443	21.07%
Equity capital	**4,883,252**	**4,573,468**	**-309,784**	**93.66%**
Provisions	**20,636**	**20,636**	**—**	**100.00%**
Deferred liabilities	—	—	—	0.00%
Long-term liabilities	—	—	—	0.00%
Short-term liabilities	3,808,526	4,683,848	875,322	122.98%
Liabilities	**3,808,526**	**4,683,848**	**875,322**	**122.98%**
Accrued and deferred liabilities	**284,017**	**364,707**	**80,690**	**128.41%**
Total of Sources	**8,996,431**	**9,642,659**	**646,228**	**107.18%**

On the side of Sources change in equity capital comes from the negative value of profit according to the balance sheet.

The increase in the short-term liabilities was attributable to the short-term loans received from the parent company.

Accrued and deferred liabilities increased by 28.4%, caused by accrued wage for a month, as well as increase in energy costs and in interest payment liabilities.

Development of equity capital and liabilities

Data in T HUF

Denomination	**31/12/2005**	**Appropriation**	**Redemption of shares / release of tied up reserves**	**Utilisation of capital reserve for the negative profit reserve**	**Posting as tied up reserve/ release - R&D**	**Profit or loss according to balance sheet**	**31/03/2006**
Issued capital stock	6,028,614						6,028,614
Capital reserve	371,152						371,152
Profit reserve	-412,432	-1,470,227			12,725		-1,869,934
Tied up capital	366,145				-12,725		353,420
Profit or loss according to balance sheet	-1,470,227	1,470,227				-309,784	-309,784
Total	**4,883,252**	**—**	**—**	**—**	**—**	**-309,784**	**4,573,468**

In terms of the elements of the equity capital the following changes occurred in the I. quarter of 2006:

— **Issued capital stock**
No change.

— **Capital reserve**
No change.

— **Profit reserve**
Transit of profit or loss of previous year as well as transit of accrued depreciation of R+D decreasing tied up capital.

— **Profit or Loss according to the balance sheet**
This amount in the accounted period: -310 million HUF.

The figures required for the analysis of the financial situation of the Company are included in Annexes 6-7-8.

4. **SUPPLEMENT TO THE DATA OF THE REPORT**

The Company prepares balance sheet type “A”, respectively turn over cost method-based profit and loss statement type “A”. The balance sheet and the profit and loss statement contain no further breakdown in addition to the breakdown prescribed in the Accountancy Act.

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE QUARTER ENDING ON 31 MARCH 2006

1. Intangible assets	**31/03/2006**	**367,036 HUF th**
	31/12/2005	**369,502 HUF th**

The development of the value of the intangible assets during the year is illustrated by those contained in annex No. 1.

During the course of the I. quarter of 2006, the value of the intangible assets of the Company was not considerably increased by the below purchases:

	thousand HUF
Description	**31/03/2006**
Various softwares	11,172
Total	**11,172**

The accounting method of the depreciation of the intangible assets has not changed compared to the past year.

2. Tangible assets	**31/03/2006**	**3,995,887 HUF th**
	31/12/2005	**3,921,041 HUF th**

The value of the tangible assets developed during the course of the year according to those contained in annex No.2:

In the I. quarter of 2006 the Company continued investments and reconstruction started in 2005, changes is shown in Annex no. 2.

Renewing and expanding of tangible assets are in process.

The method of accounting for depreciation in the case of tangible assets has not changed compared to last year.

3. Leased assets

Our Company signed no leasing contract last year and has got no leased assets.

4. Financial investments	**31/03/2006**	**811,042 HUF th**
	31/12/2005	**794,716 HUF th**

The development of the company's share is illustrated by annex No. 3.

The composition of the shares did not change during the course of the I. quarter of 2006. The balance of permanent loans (15,426 thousand HUF) includes the stock of employee loans due over a year.

5. Inventory	**31/03/2006**	**3,484,658 HUF th**
	31/12/2005	**3,096,986 HUF th**

Data in HUF thousand

Description	**31/12/2005**	**31/03/2006**	**Index %**
Raw Materials	959,755	608,377	63%
Semi-finished goods and work in progress	1,352,759	1,894,351	140%
Live stock	—	—	0%
Finished goods	737,080	933,015	127%
Goods	46,694	46,608	100%
Advance payments for stock, goods	698	2,307	331%
Total	**3,096,986**	**3,484,658**	**112.52%**

Within the inventory in the I. quarter of 2006, HUF 35,667 thousand (in 2005 HUF 788,819 thousand) were accounted as devaluation concerning the purchased stocks, and HUF 84,850 thousand (in 2005 HUF 120,204 thousand) as devaluation concerning self manufactured stock.

Decrease in the stock value of the raw materials is caused first of all by the remaining poppy strw from prior years that was in a great part processed, increase in the stock value of semi-finished goods and work in progress was caused by the value of morphine processed from poppy-head, as well as increase of the stock value of lose tablets and finished pharmaceutical products.

6. Receivables	**31/03/2006**	**705,547 HUF th**
	31/12/2005	**705,003 HUF th**

Trade receivables	**31/03/2006**	**500,657 HUF th**
	31/12/2005	**431,500 HUF th**

In 2005, our Company charged devaluation worth HUF 11,320 thousand for overdue receivables, which does not concern the companie s belonging to the related companies. On 31 March 2006 this amount represented 469 thousand HUF as buyer's devaluation.

There are no any assets at related parties.

Classification of receivables

HUF th

Description	31/12/2005	31/03/2006
Due receivables	258,894	450,052
Overdue receivables	183,041	50,605
of which: between 0-90 days	171,056	47,821
between 91-180 days	7,866	975
between181-360 days	2,077	410
over days	2,042	1,399
Total	**441,935**	**500,657**

The change in the devaluation of the receivables during the year developed as below:

	31/12/2005 HUF th	31/03/2006 HUF th
Opening	**114,308**	**11,121**
Growth in devaluation	11,320	469
Devaluation writeback	18,623	8,843
Bad debt writte-off	95,884	—
Closing	**11,121**	**2,747**

WRITE -OFF RECEIVABLE 2005	HUF th
CUSTOMER	ORIGINAL AMOUNT
TOTAL	—
DEPRECIATION 2006	HUF th
BUYER	ORIGINAL AMOUNT
Acidum-2 Ltd	263
Borbély Zsolt	9
Danka Attila	1
Fazekas tamás	32
Gyöngyösi Zoltán	15
Kanyuk Tamás	48
Kovács János	207
Kulik András	8
Lajos István	13
Lajos János	10
Losonczi Péter	14
Nagy Sándor	139
Noramus Ltd. Cyprus	877
Szegedi Szabolcs	414
Tamisa Tr. Romania	450
Tóth benjámin	28
Varga Lászlóné	50
Zagyváné Gazdag Ibolya	2
Total	**2,475**

The devaluation worth 11,320 thousand HUF accumulated in 2005, was reversed in the I. quarter of 2006 and was made a new devaluation on the basis of ageing.

There were no bad debts in the accounted period.

The Company has no overdue receivable against related party on 31/12/2005.

Within the devaluation charged, the Company charges devaluation exclusively for overdue receivables similarly to the last year.

Other receivables

31/03/2006	**204 890 HUF th**
31/12/2005	**273 503 HUF th**

Other receivables	**31/12/2005**	**31/03/2006**
Advance payments for services	2,222	7,335
Other receivables	2,369	2,645
Advance payment for salary to employee	365	2,283
Prescribed debt of quit employees	217	218
Advance payments against rendering accounts	139	154
Supply	408	422
Refundable VAT	213,943	152,709
Down payment for travelling		
Luncheon vouchers	—	394
Purchases with managers' Visa Card		
Caution	—	170
Advance payments for capsule poppy		
Refunadble product fee		
Wage accounting	—	295
Pension Fund accounting		
Taxes	15,974	37,887
Short term employee loan	876	378
Accounting	36,990	—
Total	**273,503**	**204,890**

From among the balances of the other receivables the below deserve attention:

— consolidated balance of general ledger numbers 466-468 containing tax reclaim was relatively high in the accounted period.

7. Securities

31/03/2006	**0 HUF th**
31/12/2005	**0 HUF th**

The company has no security investment at present.

8. Cash and Bank

31/03/2006	**270,980 HUF th**
31/12/2005	**89,129 HUF th**

The Company had in principle three account-keeping banks in the I. quarter of 2006. Raiffeisen, a CIB Bank Rt. and Calyon Bank Magyarország Rt.
The account turnover is considerable on both the HUF and foreign exchange accounts.
Cash has increased in the period accounted.

9. Prepayments and deferred incomes

31/03/2006	**7,509 HUF th**
31/12/2005	**20,054 HUF th**

Data in Thousand HUF

Description	**31/12/2005**	**31/03/2006**	**Index %**
Services, sold energy	18,282	7,509	41.07%
Interest on deposits tied up			
Deferred income	**18,282**	**7,509**	**41.07%**
Registration fee	—	—	0.00%
labour lending	—	—	0.00%
Meal tickets	—	—	0.00%
Insurance fee	—	—	0.00%
Subscription fees	1,772	—	0.00%
Expenses	1,772	—	0.00%
Deferred expenses	**—**	**—**	**0.00%**
Total	**20,054**	**7,509**	**37.44%**

Increase in the prepayments and deferred income occured we can calculate with deferred income of services only.

10. Shareholder's equity

31/03/2006	**4,573,468 HUF th**
31/12/2005	**4,883,252 HUF th**

We mentioned the changes in owner's equity in the I. quarter of 2006 in 3. Financial status and liquidity.

11. Provisions

31/03/2006	**20,636 HUF th**
31/12/2005	**20,636 HUF th**

For the I. quarter of 2006 provisions are unchanged:

thousand HUF

Description	31/12/2005	31/03/2006	Index %
Pending lawsuits	18,638	18,638	100.00%
Early retirement	1998	1998	100.00%
Company divestment related expenses	—	—	0.00%
Total	**20,636**	**20,636**	**100.00%**

The balance of the provisions is represented only by amounts payable on early retirement and to be shown according to the Accountancy Act, by provisions accumulated for pending lawsuits. All lawsuits for which we accumulated provisions will be closed foreseeably in 2006.

12. Short term liabilities

31/03/2006	**4,683,848 HUF th**
31/12/2005	**3,808,526 HUF th**

The short term liabilities are formed from short term loans given by the parent company.

The stock of the short-term loans is introduced by annex No. 4.

Other liabilities:

In HUF Thousand

Description	31/12/2005	31/03/2006	Index%
Travelling abroad	241.00	—	0.00
Distraint	774.00	—	0.00
Transfer deposit of employees	57,571.00	—	0.00
Personal income tax	23,832.00	766.00	3.21%
Social security prescription	359.00	—	0.00
Luncheon voucher	3,691.00	—	0.00
Social security liabilities	35,966.00	—	0.00
Insurance	292.00	—	0.00
Other	—	—	0.00
Total	**122,726.00**	**766.00**	**0.62**

Considerable decrease can be seen in the I. quarter of 2006 only the Social security liability it can be seen on a decreased value.

13. Accruals

31/03/2006	**364,707 HUF th**
31/12/2005	**284,017 HUF th**

Description	31/12/2005	31/03/2006	Index%
Accrued income	—	—	0.00%
Accruals of costs and expenses	171,025	253,820	148.41%
Deferred revenue	112,991	110,887	0.00%
Total	**284,016**	**364,707**	128.41%

The details are shown in the below chart.

Data in HUF th

Description	31/12/2005	31/03/2006	Index%
Accruals of costs and expenses	**171,025**	**253,820**	148.41%
Interest on loan	58,235	26,713	45.87%
Bonus	8,233	8,233	0.00%
Maintenance	12,079	7,743	64.10%
Environmental protection cost	10,115	3,105	30.70%
Audit	2,000	2,000	100.00%
Energy supply	23,425	33,493	142.98%
One month salary cost	—	125,345	0.00%
Leasing fee	7,100	1,280	18.03%
Safety technology cost	6,216	—	0.00%
IT costs	1,976	—	0.00%
Other service	6,285	14,160	225.30%
Vocational training contribution	—	—	0.00%
Post expenses	119	—	0.00%
Inventor's and participant's fee	7,326	7,326	100.00%
Fuel cost	1,000	—	0.00%
Personnel leasing	4,500	3,942	87.60%
Travel	—	—	0.00%
Wage accounting	2,300	2,300	100.00%
Transportation	2,483	4,413	177.73%
Export commission	2,668	—	0.00%
Marketing	—	—	0.00%
Material costs	—	3,767	0.00%
R+D assignments	4,965	—	0.00%
Penalties	10,000	10,000	0.00%
Deferred revenue	**112,991**	**110,887**	**98.14%**
Deferred revenue	112,991	110,887	98.14%

14. Net sales

31/03/2006	**705,658 HUF th**
31/12/2005	**4,358,551 HUF th**

Data in HUF th

Description	31/12/2005	31/03/2006	Index%
Domestic	1,126,147	244,644	21.72%
Export	3,232,404	461,014	14.26%
Total	**4,358,551**	**705,658**	**16.19%**

Sales cannot be compared in the two periods, but sales in the I. quarter of 2006 is lower compared to the time-proportionate sales of previous year. The general reason for it is that there is a slow down at the beginning of the year regarding any companies.

In the I. quarter of 2006, export sales developed as below broken down by geographically separated markets.

	31/12/2005		31/03/2006	
Description	**th USD**	**th HUF**	**th USD**	**th HUF**
Europe	13,352	2,669,459	2,136	452,361
of which: EU	10,491	2,097,438	1,606	340,149
America	2,261	451,956	39	8,262
Asia	504	100,796	-1	-123
Africa	21	4,193	—	—
Australia	30	6,002	2	514
Total	**16,167**	**3,232,405**	**2,176**	**461,014**

The company has not got any export subvention in this period.

15. Other income

31/03/2006	**13,141 HUF th**
31/12/2005	**658,094 HUF th**

Details as below.

Other income — Data in HUF th

Description	31/12/2005	31/03/2006
Revenue from sale of intangible and tangible	-199	—
Revenue related to previous years	3,794	—
Writeback of receivable devaluation from previous year	18,622	8,844
Other	15,943	3,085
Rounding	5,335	1,007
Received delay interest,compensation	153,986	205
Provision writeback	460,613	—
Reclaimed product fee	—	—
Total	**658,094**	**13,141**

In 2005 HUF 132,161 th from received delay interest is the interest of repurchase of Postabank investment by the government.

At the end of the period accounted there was no any new provision, referring that provision was not used at the end of 2005 and conditions of composing provision has not changed so provision composed before did not change.

16. Breakdown of cost by types of cost

Description	31/12/2005	31/03/2006
Capitalised value of self produced assets	—	—
Change in self-produced inventory	790,353	737,527
Correction of change of stocks/ devaluation	120,861	84,680
Material related expenses	**3,870,590**	**1,127,940**
Material costs	2,633,025	904,055
Services rendered	833,178	182,455
Cost of goods sold	404,387	41,430
Intermediated services	—	—
Staff expenses	**1,698,647**	**393,301**
Wages and salaries	1,186,363	278,529
Personal related expenses	80,993	17,242
Social security contribution	431,291	97,530
Depreciation and amosrtisation	**324,405**	**85,558**
Other cost	**35,322**	**4,072**

16 b. For those who prepare profit and loss statement type turnover cost method

Description	31/12/2005	31/03/2006
Cost of sales	4,071,783	621,080
Cost of goods sold	404,387	41,430
Intermediated services	—	—
Direct cost of sales	**4,476,170**	**662,510**
Management cost	380,709	80,736
Sales, marketing cost	143,443	42,237
Other overhead	17,428	3,181
Indirect cost	**541,580**	**126,154**

17. Other expenditure

31/03/2006	**128,486 HUF th**
31/12/2005	**1,341,571 HUF th**

Description	31/12/2005	31/03/2006
Devaluation Inventory and receivable	920,342	85,319
Extraordinary depreciation of tangible assets		
Net value of assets sold	516	—
Taxes	20,974	219
Fines	16,407	—
Non-invoiced discount		
Compensation for damages	33,447	—
Other	16,718	4,284
Scrapping	31,047	35,667
Late interest	9,220	322
Amortisation of irrecoverable receivables	—	—
Accumulation of provisions	20,636	—
Refunding to OEP	9,400	—
Rounding	5,823	2,675
Lawsuit costs	717	—
Other expenditures	262,147	—
Total	**1,347,394**	**128,486**

18. Result of financial operations	**31/03/2006**	**-113,537 HUF th**
	31/12/2005	**-129,396 HUF th**

Data in thousand HUF

Description	31/12/2005	31/03/2006
Income from fin.transactions	—	—
Other received interest	4,323	227
Received dividens and shares	—	—
Interest, int.related revenue, exchange gain	132,769	—
Exchange gain on sale of shares	—	—
Interest on invested fin. Assets	—	—
Receivables, liabilities, exchange	279,989	41,145
Revenues from financial trans.	**417,081**	**41,372**
Other expenses related to fin. trans.	—	—
Interest payable	127,091	58,982
Exchange loss on fin. Investments	-144,753	-16,621
Devaluation of shares, securities	—	—
Receivables,liabilities, exchange	564,139	112,548
Expenses on financial transactions	**546,477**	**154,909**
Profit (loss) of financial transactions	**-129,396**	**-113,537**

19. Extraordinary profit (loss)	**31/03/2006**	**2,104 HUF th**
	31/12/2005	**1,845 HUF th**

Extraordinary expenditure

Description	31/12/2005	31/03/2006
Goods given to parties free of charge	—	—
Own share bought back (withdrawal)	251,614	—
Supprt redered	—	—
Book value of released receivables	725	—
Total	**252,339**	—

Extraordinary income

Description	31/12/2005	31/03/2006
Market value of assets received as present	4,698	2,104
Own share bought back	240,232	—
Value of gone receivables	9,254	—
Total	**254,184**	**2,104**
Extraordinary profit and loss	**1,845**	**2,104**

ICN HUNGARY COMPANY LIMITED

SUPPLEMENTARY ANNEX FOR THE QUARTER ENDING ON 31 MARCH 2006

20. TAXATION

Correlations between the outcome forming basis of accounting and taxation:

Corporate Tax	**2005**	**2006**
Income before tax	**-1,470,227**	**-309,784**
Items deducible from income before tax		
Amount accountable in accordance with Section 17 of the Act on Accounting from the deferred loss of the previous tax years, deduced in the tax year	—	—
Provision recognised in the tax year, exceeding the acknowledged rate	460,613	—
Depreciation accounted as per the act on taxation, and the registration value defined when the asset was derecognised	308,722	87,753
Dividends received	—	—
Cooperation agreement with educational institutes, 12 % of the minimal wage per student	5,144	1,598
Subsidies received	—	—
Irrecoverable receivables, retrieval of depreciation	18,622	8,844
Depreciation as per tax law	738	—
Amount of legal consequences accounted as revenue	—	—
Direct costs of accounted R&D	8,790	711
25% of local tax accounted as expenditure in 2004, 50% thereof accounted in 2005	—	—
Donations to foundations	—	—
Non-repayable subsidies, assets taken over /the retrieved amount shall be considered as revenue in the tax year when the accrued and deferred liability is terminated/	29	2,105
Employment of disabled persons, less than 20 persons	—	—
Total	**802,658**	**101,011**
Items increasing the income before tax		
Provisions	20,636	—
Amortisation accounted as cost, the amount accounted as expenditure when the asset is derecognised	324,967	85,558
Amount of depreciation accounted as expenditure for receivables	243,022	469
Costs related to activities other than business	21,657	2,436
Binding judgements	15,689	3
Amount of irrecoverable receivables depreciated in the tax year	—	—
Subsidies	—	—
Total	**625,971**	**88,466**
Tax base	**-1,646,914**	**-322,329**
Corporate tax	—	—
Income after tax	**-1,470,227**	**-309,784**
Profit or loss according to balance sheet	**-1,470,227**	**-309,784**

There was no overall audit by the Tax Authority at our Company in the I. quarter of 2006.

The tax authority shall be entitled to carry out the auditing of the accounts and books any time within 5 years following the year of taxation under review, and may levy additional tax or fines.

The management of the Company has no information of any circumstances that may imply the possibility that any such liabilities of the kind could be imposed on the Company.

21. TRANSACTIONS WITH ASSOCIATED COMPANIES IN THE FRAMEWORK OF PARTICIPATION

The following transactions were executed by the Company during the year under review in the framework of participation with associated companies:

31/03/2006 Data in HUF

Associated Company	Customer turnover	Supplier turnover	Customer/Supplier turnover
Reanal Inc.	—	750	-750
Total	—	**750**	**-750**

We had no business transactions with the companies belonging to the associated companies of the new Owner in the I. quarter of 2006.

22. LIABILITIES AND PENDING LIABILITIES

a) Summary on the environmental protection activities implemented in the I. quarter of 2006.:

The biological sewage treatment plant was in continual service during the whole year, operation was made to be hard because of freezing. The volume of the purified sewage was 292,790 m3. The sludge regarded to be dangerous waste was started being composted in March after storing in January and February due to cold weather. Cost of composting was 2,257,000 HUF.

Dehydration of sludge was made with a rented centrifuge in the given period, its cost was 1,911,000 HUF.

108,718 t of dangerous waste was burnt with the cost of 7,770,163 HUF.

The following returns and reports have been prepared regarding the previous year for the Environment Authority:

— Return on dangerous and not dangerous waste
— Return on air polluting sources and organic solvent emissive sources
— Datasheet on preventing water under ground (tank parks and wastewater plant)
— Annual report and return on water quality of wastewater emission into aboveground water
— Air- and water load fees have been calculated to be paid for APEH for 2006 (air load fee: 16,738,124 HUF, Water load fee: 3,984,916 HUF)

We have had report on carbon-dioxide emission regarding last year created and audited by SGS Hungária Ltd, and we have been registered in the national system. (We have extra quota with weight of 5533 t on emission data in 2005)

Thorough environment review documents required for getting uniform environment use permission have been created and submitted to environment authority. Cost of it: 5,090,000 HUF.

We have contracted with UTB Envirotec Ltd. on modelling treating groundwater in the wastewater plant exploited from polluted area SZ-I., as well as on replacement of groundwater with industrial water and creating request for modifying water law permission.

Calculations by us, request for offers and settings have been made on the following things:

— drilling extractive and swallowing wells on the polluted are SZ-I.
— continuing and finishing separating pollution
— testing rate of pollution in the area next to the burning plant
— blocking drinking water well No. VI., seeking for 2 old drinking water wells and excavation of them

State of abovementioned tasks is the following

UTB Envirotec Ltd. created study on review of capacity of wastewater plant at the cost of 1,900,000 HUF. Compiling of request for water law permission is in process.

We have contracted with ELGOSCAR-2000 Ltd. on drilling 44 extracting and swallowing wells required for remediation system of polluted area SZ-I. Its cost: 40,239,000 HUF. Locating wells has been made, developing mines for wells is in process. The contract covers testing on pollution as for area next to insulation area. Samplings have been made, laboratory tests are in process.

We have contracted with ELGOSCAR-2000 Ltd. on creating pollution separating schedule at the cost of 2,729,000 HUF setting with authority to be able to continue and finish in a cost saving way. Execution of it is in process.

We have contracted with ENVIROKOMPLEX Ltd. at the worth of 5,800,000 HUF on blocking drinking water well No. VI. and on finding 2 old drinking water wells and excavation of them. Execution is in process.

We contracted this June with Három Kör DELTA Ltd. at the worth of 9,500,000 HUF on testing 43 of ground and layer water monitoring wells in the factory, 11 piezo sampling areas, 5 groundwater monitoring wells in the wastewater plant and ground monitoring of the area next to the composting area. Samplings have been made, laboratory tests are in process.

Significant remediation tasks to be completed this year:

- Testing monitoring system in the second six months (planned cost: 7 million HUF)
- Continuing and finishing separating pollution (planned cost: 40 million HUF)
- Technical and controlling system of wells located in polluted area SZ-I. (planned cost: 30 million HUF)
- Designing and getting permission for remediation system of polluted area SZU-II. (planned cost: 3 million HUF)
- Operating system of remediation SZ-I (planned cost: 9 million HUF)

Remediation in the SZ-I area can be started by operating extractive system to be finished by this autumn. Building and putting remediation system in area SZU-II as soon as possible is a task to be done. Finishing all remediation works takes years.

Our Company concluded a contract on 3 August 2001 with the Gyógynövénykutató Intézet Rt for the development of a new poppy species or generic notion with at least 2% morphine content. The research is completed, and the new poppy of generic notion as "Botond" is registered.

Our contractual obligations on condition that the research-development target is fulfilled: to crop an area of at least 4000 ha annually for 5 years. Our company committed itself to pay a royalty of 0.051 USD + VAT/kg after the produced poppy heads. Should we fail to produce the poppy with the mentioned generic notion in any of the mentioned years, a penalty of 43,500.-USD should be paid as compensation to the Institute.

The poppy of the mentioned generic notion developed for us shall be cropped in the year 2007 first.

23. BUSINESS ADMINISTRATION, MANAGEMENT AND BOARD OF SUPERVISORS

The executive officers, the members of the executive board, the business administration and the members of the board of supervisors received no emoluments for their activities in I. quarter of 2006.

24. WAGE FIGURES AND STAFF NUMBER

The development of wages and personal allowances, and the contributions related thereto in the I. quarter of 2006:

Staff group	Average statistical headcount persons	Wage costs	Contributions of wages	Personal allowances	Staff costs altogether
		T HUF			
Full-time, blue collar	320	144,777	48,490	11,354	204,621
Full-time white collar	135	131,364	43,998	10,302	185,664
Part time employees	3	1,043	349	82	1,474
Others not in staff	—	1,535	514	120	2,169
Total	**458**	**278,719**	**93,351**	**21,859**	**393,928**

25. CASH-FLOW STATEMENT

The Cash-Flow statement for the I. quarter of 2006 is included in Annex 5.

On behalf of the Board of Executives of the ICN Hungary Company Limited:

Tiszavasvári, 12 July 2006

Harin Mehta
Chairman of the Board of Executives/Company Manager