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L. Kishore Babu
Chief Financial Officer

A. Narendra
Company Secretary

Auditors:
M/s. P.V.R.K. Nageswara Rao & Co.,
Chartered Accountants
109, Metro Residency
6-3-1247, Rajbhavan Road
Hyderabad - 500 082.

Bankers:
State Bank of Hyderabad
State Bank of India
The Lakshmi Vilas Bank Ltd.

Registered Office:
7-1-77/E/1/303, Divi Towers,
Dharam Karan Road,
Ameerpet, Hyderabad - 500 016.
Tel: 91-40-23731318 / 760 / 761
Fax: 91-40-23733242
E-mail: mail@divislaboratories.com
www.divislaboratories.com

Factory:
Unit I (Choutuppal)
Lingojigudem Village, Choutuppal Mandal
Nalgonda District (A.P.) - 508 252
Unit II (Chippada)
Chippada Village, Bheemunipatnam Mandal,
Visakhapatnam District (A.P.) - 531 162.

R & D Centres:
I. C-26, Industrial Estate,
Sanathnagar, Hyderabad - 500 018.
II. Lingojigudem Village, Choutuppal Mandal
Nalgonda District (A.P.) - 508 252.
III. Chippada Village,
Bheemunipatnam Mandal
Visakhapatnam District (A.P.) - 531 162.

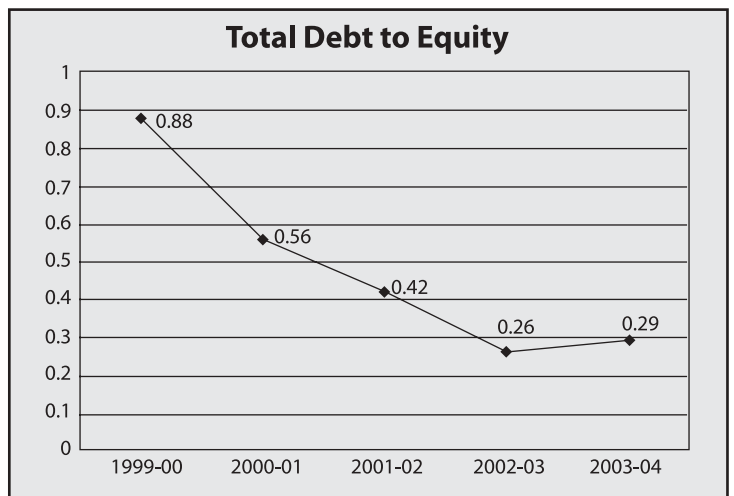
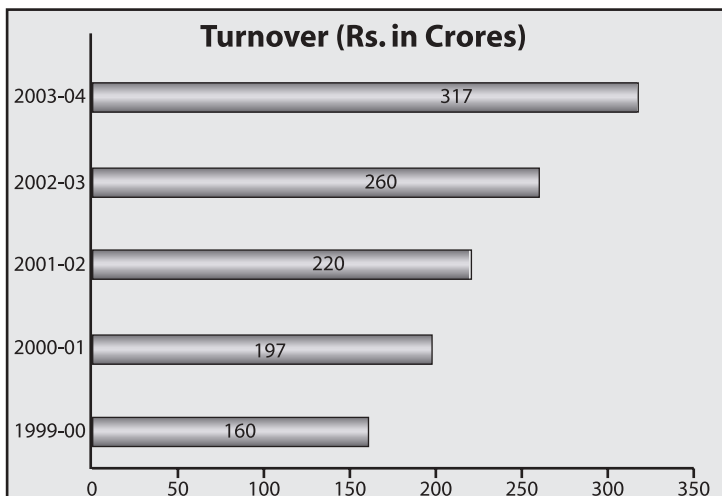
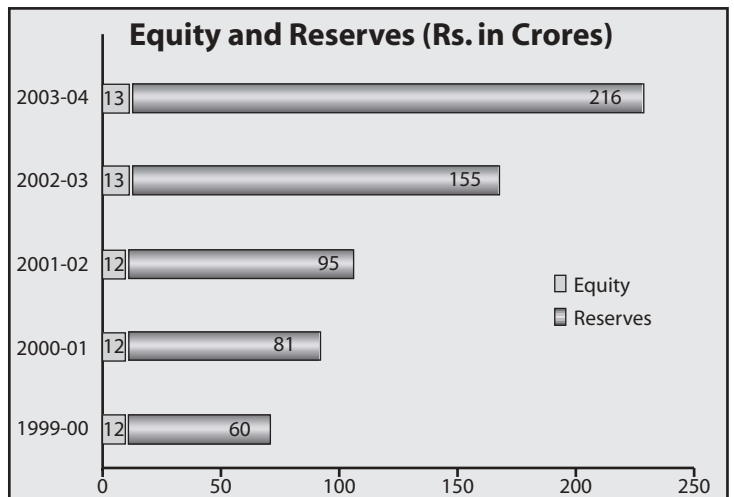
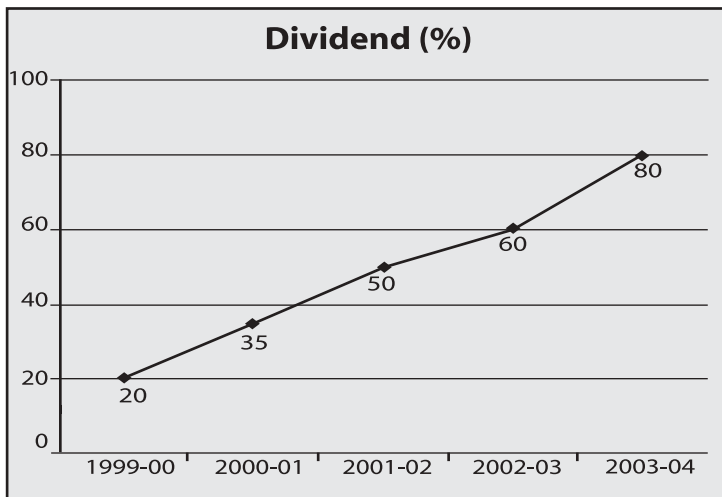
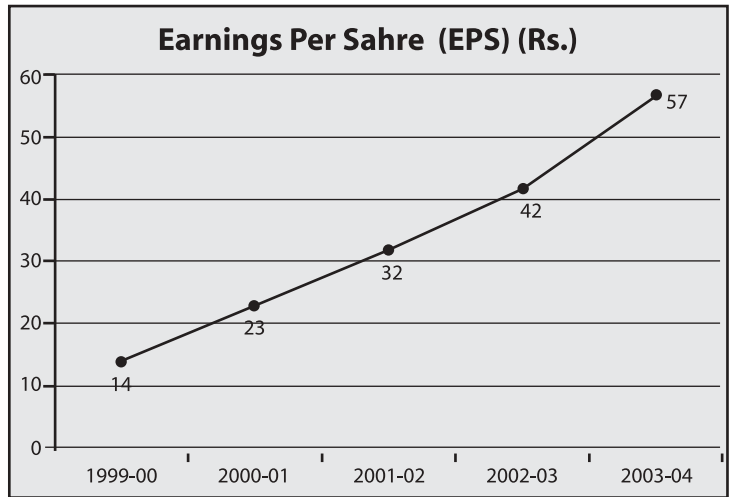
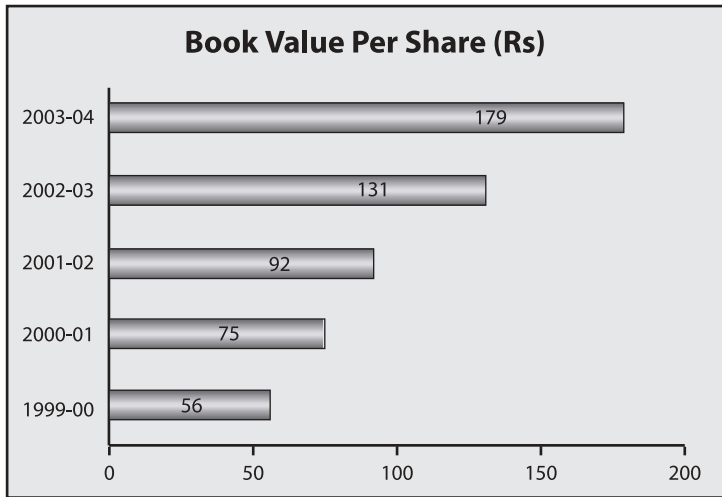
SUMMARY OF FINANCIALS FOR PAST 5 YEARS

(Rs. In Lakhs)

PARTICULARS	FINANCIAL YEARS ENDED ON				
	31.03.2000	31.03.2001	31.03.2002	31.03.2003	31.03.2004
INCOME					
SALES	15270.43	18798.89	20705.00	24651.97	30283.14
OTHER INCOME	768.18	938.37	1320.02	1320.10	1445.15
TOTAL INCOME	16038.61	19737.26	22025.02	25972.07	31728.29
Profit before Interest, Depreciation and Tax (EBDIT)	3235.08	4485.12	5730.49	8264.33	11856.85
Finance Charges	1009.89	1002.99	704.59	444.94	336.39
Depreciation	597.02	729.37	795.31	886.73	1324.21
Profit before tax (PBT)	1628.17	2752.76	4230.59	6932.66	10196.25
Provision for Taxation	12.41	124.67	573.31	1442.32	2911.94
Profit After Tax (PAT)	1615.76	2628.09	3657.28	5490.34	7284.31
Equity Dividend	20%	35%	50%	60%	80%
Dividend payout	230.98	404.22	577.45	769.12	1025.50
Equity Share Capital	1154.90	1154.90	1154.90	1281.87	1281.87
Reserves & Surplus	5961.04	8143.69	9511.13	15510.31	21637.74
Net Worth	6499.80	8620.19	10666.03	16792.18	22919.61
Gross Fixed Assets	10883.68	12354.81	13131.59	19004.98	22360.32
Net Fixed Assets	8805.05	9546.86	9586.63	14592.55	16632.43
Total Assets	15488.98	18610.85	20515.59	29251.75	38342.38
KEY INDICATORS					
Earnings per share (Absolute) - Rs.	13.99	22.76	31.67	42.83	56.83
Cash Earnings Per Share - Rs.	19.16	29.07	38.55	49.75	67.16
Gross Turnover Per share - Rs.	138.87	170.90	190.71	202.61	247.52
Book Value per share- Rs.	56.28	74.64	92.35	131.00	178.80
Total Debt to Equity	0.88	0.56	0.42	0.26	0.29
EBDIT / Gross Turnover %	20.17	22.72	26.02	31.82	37.37
Net Profit Margin %	10.58	13.98	17.66	22.27	24.05
RONW %	24.86	30.49	34.29	32.70	31.78



KEY PERFORMANCE INDICATORS



DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in placing before you the Fourteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

(Rs. in Lacs)

	<u>2003-04</u>	<u>2002-03</u>
Sales	30283.14	24651.97
Other income	1445.15	1320.10
Total Income	31728.29	25972.07
PBDIT	11856.85	8264.33
Finance Charges	336.39	444.94
Depreciation	1324.21	886.73
Profit before tax	10196.25	6932.66
Provision for tax	2464.37	1222.65
Deferred Tax Liability	447.57	219.67
Profit after tax	7284.31	5490.34
Profit brought forward from previous year	8616.71	4594.03
Total available for Appropriation	15901.02	10984.37
Appropriations		
Proposed Dividend	1025.50	769.12
Corporate Dividend Tax	131.39	98.54
General Reserve	750.00	600.00
Balance carried to Balance Sheet	13994.13	8616.71
Earnings per Share (EPS)		
a) Basic/Diluted –		
Weighted Average	56.83	47.16
b) Absolute	56.83	42.83

DIVIDEND

Your Directors recommend a dividend of Rs.8.00 per equity share of Rs.10/- each for the year 2003-04 subject to approval of the Members at the ensuing Annual General Meeting.

PERFORMANCE AND OPERATIONS REVIEW

During the year, your Company achieved a turnover of Rs.30283.14 lakhs as against Rs.24651.97 lakhs during the previous year reflecting a growth of 23%. Other Income earned during the year stood at Rs.1445.15 lakhs as against Rs.1320.10 lakhs in the previous year. Profit after Tax (PAT) grew by 33% to

Rs.7284.31 lakhs from Rs. 5490.34 lakhs during the previous year. Earnings Per Share, in absolute terms, increased to Rs.56.83 per share as against Rs. 42.83 last year.

This year has seen synchronization and stabilization of operations in Unit-2 which went into commercial operations late last year. Your company has added 8 products to its product portfolio in diverse therapeutic segments, of which 3 are in custom synthesis and 5 are in generics and future generics. Exports constituted 88% of total turnover and exports to advanced markets comprising Europe and America accounted for 59% of Company's business.

TAXATION

Income-tax provision this year (including prior year adjustment) has nearly doubled to Rs.2464.37 as against Rs.1222.65 lakhs during the previous year. This is due to the phased withdrawal of income-tax exemption on export profits for companies other than registered Export Oriented Units (EOUs). An amount of Rs.447.57 lakhs has been provided during the year towards Deferred Tax Liability as required under Accounting Standard AS-22 relating to "Accounting for Taxes on Income". Deferred Tax Liability provision during the previous year was 219.67 lakhs.

FINANCE

During the year, your Company has cleared the outstanding loans to IDBI. Your company has availed Unsecured Loans from banks to the tune Rs.1000 lakhs during the year of which an amount of Rs.500 lakhs is outstanding at the end of the year. Your company has also availed higher working capital limits, a bulk of these in foreign currency at competitive rates to cater to increased business requirements. Your Company has been regular in payments of interest and other obligations with the Banks.

CAPITAL EXPENDITURE

During the year, your company has invested an amount of Rs.3596.18 lakhs towards capital expenditure at its Manufacturing facilities at Choutuppal (Unit-1) and Chippada (Unit-2). At Unit-1, we have undertaken expansion of Production Blocks I and V, completion of the new QC Building, addition of Laboratory and Analytical instruments, installation of Foam sprinkler systems in the Production Blocks and upgradation of service/utility facilities.

At Unit-2, we have added two production blocks with the related production equipment/machinery, a finished product facility and additional Laboratory instruments for QC. A new facility with about 1250 sq. mt. of area is being created with the associated instrumentation and 60 work stations for the Research Centre (DRC-Vizag).

RESEARCH AND DEVELOPMENT

R&D has been a thrust area of your company. Your company's R&D operates from 4 research centres with over 150 scientists and the entire R&D activity co-ordinated by the Director (R&D). We continue to invest in R&D to enhance our capabilities to provide



DIRECTORS' REPORT

future sources of revenue through the development of new products as well as process efficiencies. We are also in the process of filing patents for some products both in India and USA.

FUTURE OUTLOOK

The total number of Drug Master Files submitted to US-FDA are 12. Four of the Active Pharma Ingredients also have Certificate of Suitability (CoS) from Europe. Your company has plans to file about 20 DMFs within the next few years.

During May, 2004, your company has been successfully inspected by US-FDA without any comments/observations. The current FDA inspection includes the pre-approval for Levetiracetam. The previous inspection of the Facility of the company in the year 2000 was for 6 DMFs for marketing its products in USA.

Large generic houses in US and other advanced markets are focusing on sourcing their future generic APIs from independent API manufacturers who can play a complementary role. This strategy coupled with the unique positioning and performance of your company in Naproxen, Naproxen Sodium, Dextromethorphan and other generics has made Divi's the preferred choice for sourcing future generics by the generic majors in advanced markets.

DIRECTORS

Dr. P. Gundu Rao and Dr. K. Satyanarayana retire by rotation at this Annual General Meeting and are eligible for re-appointment.

IDBI has withdrawn the nomination of Sri S. Vasudev on satisfaction of its loans. In view of the considerable banking and commercial experience of Sri Vasudev, your Board has, at its meeting held on 27th January, 2004, inducted him as Additional Director. Tenure of appointment of Sri Vasudev would expire at the ensuing Annual General Meeting and being eligible, Sri Vasudev has offered himself for re-appointment.

DIRECTORS' RESPONSIBILITY REPORT

As required under Section 217 (2AA) of the Companies Act, 1956, Directors of your company hereby state and confirm that:

- a) the applicable accounting standards have been followed in the preparation of the annual accounts
- b) the accounting policies selected were applied consistently and the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2004 and its profit for the year ended on that date;
- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) the annual accounts have been prepared on a going concern basis.

AUDITORS

The Auditors, M/s. PVRK Nageswara Rao & Co., Chartered Accountants, Hyderabad retire at the ensuing Annual General Meeting and, being eligible, offer themselves for reappointment.

CORPORATE GOVERNANCE, MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Corporate Governance and Management Discussion & Analysis is included as a part of the Annual Report.

RELATED PARTY TRANSACTIONS

As a matter of policy, your Company carries out transactions with related parties on an arms-length basis. Statement of these transactions is given in the Notes to Accounts attached in compliance of Account Standard No.AS-18.

FIXED DEPOSITS

No deposits are outstanding at the end of the year.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION

Particulars required under Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the annexure to this report.

CERTIFICATIONS / AWARDS

Your company has received Shreshtha Suraksha Puraskar – Silver Trophy (Safety Award) for the year 2002 from National Safety Council of India.

HUMAN RESOURCES

Your company continues to have cordial and harmonious relationship with the employees.

Particulars of employees required to be furnished under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in the Annexure attached and forms part of the Report.

ACKNOWLEDGEMENTS

Your Directors gratefully acknowledge the continued assistance and co-operation extended by Government authorities, financial institutions and banks to the company. The Board expresses its appreciation of the understanding, dedication and support extended by the employees of the Company. Your Directors also sincerely acknowledge the confidence and faith reposed by the shareholders in the Company.

For and on behalf of the Board of Directors

Hyderabad
17th May, 2004

Murali K. Divi
Chairman and Managing Director

ANNEXURE TO DIRECTORS' REPORT

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies
(Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

FORM - A

Form for disclosure of particulars with respect to
Conservation of Energy :

A. CONSERVATION OF ENERGY

Power and Fuel consumption

	2003-04	2002-03
1. Electricity		
(a) Purchases:		
Units	32404668	20239316
Total Amount Rs.	111414957	74251595
Rate/Unit Rs.	3.44	3.67
(b) Own generation:		
Through diesel Generator Units	1311571	2033055
Units per Lt. of diesel	3.25	3.37
Cost/Unit Rs.	6.69	5.71
2. Coal (D/C grade)		
Quantity (Kgs)	19173413	15238070
Total Cost Rs.	38645163	30715848
Average rate Rs.	2.02	2.02

B. CONSUMPTION PER UNIT OF PRODUCTION:

Products Electricity (Units) Coal (D/C Grade) Others (Specify)	}	Since the Company manufactures different types of active pharmaceutical ingredients and intermediates, it is not practicable to give consumption per unit of production.
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FORM - B

Form for disclosure of particulars with respect to
technology absorption

RESEARCH AND DEVELOPMENT (R&D):

1. Specific areas in which : Process development for Active R&D is carried out by Pharmaceutical Ingredients and the Company. intermediates.
2. Benefits derived as a : Developed new products and result of the above R&D achieved cost and process efficiencies on existing products.
3. Future plan of action : To develop processes for newer products and intermediates.
4. Expenditure on R&D

		2003-04	2002-03
		Rs.	Rs.
a)	Capital	7978222	9411469
b)	Recurring	67919679	59286945
c)	Total	75897901	68698414
d)	Total R&D Expenditure as a percentage of Sales	2.51%	2.79%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts in brief, made : No technology absorption is towards technology involved. The company has its own absorption and R&D Centre which has been adaptation and developing and improving processes for manufacture of Active Pharmaceutical Ingredients and drug intermediates.
2. Benefits derived as a : Processes for several new products result of the above have been developed. Process efforts: optimisation has been achieved in Production, which resulted in lower cost of production and substantial exports.
3. Information regards : There is no import of technology. import of technology during the last 5 years:

ANNEXURE TO DIRECTORS' REPORT

FORM - C

...FORM - C

Foreign Exchange earnings and outgo:

	2003-04 Amount Rs.	2002-03 Amount Rs.
(a) Foreign Exchange earnings:		
i) FOB Value of Exports	2587240100	2200928875
ii) Contract Research Fee	26965838	8193760
iii) Interest	112932	—
(b) Foreign Exchange outgo:		
i) Remittance in Foreign Currency:		
Dividend (Net of Tax)	1081200	—
ii) CIF value of imports:		
Raw Materials	554939520	595890617
Capital Goods	21046163	20383282
Spares	2579829	1491085

	2003-04 Amount Rs.	2002-03 Amount Rs.
iii) Expenditure in Foreign Currency towards:		
Memberships and Subscriptions	306264	73669
Books and Periodicals	276523	362471
Traveling Expenses	4214231	4060190
Laboratory Chemicals	542643	363226
Consultancy Charges	4133977	3068415
Sales Commission	11799919	8244472
Foreign Bank Charges	1791631	1668338
Finance Charges	3133819	3739314
Others	1590189	1277337

ANNEXURE TO DIRECTORS' REPORT

Information pursuant to Section 217 (2A) of the Companies Act, 1956
read with the Companies (Particulars of Employees) Rules, 1975

Name	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration (Rs.lacs)	Last employment
Sri Murali K. Divi	53	M. Pharm.	Chairman & Managing Director	10.10.1994	29	373.60	Managing Director, Cheminor Drugs Ltd.
Sri N.V.Ramana	46	B.Sc.(Chem)	Executive director	26.12.1994	19	43.62	President, Enmark Exim Services
Sri Madhusudana Rao Divi	60	M.E. (Structural Engg.)	Director (Projects)	14.10.1994	35	32.89	Executive Director, Sadah General Trading and Construction Co., Kuwait

Note: 1. Remuneration includes salary, allowances, company contribution to Provident Fund, Commission and Perquisites
2. All the above appointments are contractual.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The management of Divi's Laboratories accepts responsibility for the integrity and objectivity of these financial statements as well as for various estimates and judgments used therein. These estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the statements reflect, in a true and fair manner, the state of affairs and profits for the year. This report may also contain certain statements that the company believes are or may be considered to be 'forward looking statements' which are subject to certain risks and uncertainties.

Industry and Structure

The Global pharma business is estimated at US \$433 billion of which the active ingredient business accounts for about 5 to 7%. According to IMS Health, the period from 2002 to 2007 is expected to show growth of business in the range of 8 to 11% and the future looks good, although challenging. The pharmaceutical sector has demonstrated its strength in comparison with other industries, after being ranked second for the second year running in the 'Financial Times' FT500 Survey by market capitalisation.

Company infrastructure

Your Company operates from its Headquarters and Registered Office at Hyderabad. The company has two manufacturing facilities:

- Unit-1 at village Lingojigudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad.
- Unit-2 at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist. about 30 KM from the Port City of Visakhapatnam on the east coast.

The company has 4 Research Centers with the broad functional focus as under:

DRC – Hyderabad: Located at Sanathnagar, Hyderabad with a focus and thrust on custom synthesis, contract research for MNC companies as also future generics involving route design, route selection, establishing gram scale process and structural confirmation.

Plant R&D – Unit 1: The process development and scale up

R&D is located at Unit-1 at Choutuppal. This team takes gram scale technologies from DRC or from customers and goes through various stages of development, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant. The team also review efficiency of processes each month and gives process support where required.

DRC – Vizag: Operates from Unit-2 with a team of 30 scientists undertaking similar research as DRC-Hyderabad.

Plant R&D – Unit 2: This is the second process development and scale up team located at Unit-2 at Chippada. This team takes gram scale technologies from DRC-Vizag or from customers and goes through various stages of development, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant. The team also review efficiency of processes each month and gives process support where required.

Internal Control systems

The company has an effective internal control system in place and this is continually reviewed for effectiveness and is augmented by written policies and guidelines, careful selection of qualified personnel and a continuous programme of internal audit. We believe that the company's overall system of internal control is adequate given the size and nature of operations and effective implementation of internal control self assessment procedures.

The Company has triple Certifications ISO-9001 (Quality Systems), ISO-14001 (Environment Management Systems) and OHSAS-18001 (Occupational Health and Safety systems) for both of its manufacturing facilities and adheres to cGMP and Standard Operating Practices in its manufacturing/ operating activities. The Company encourages and recognizes improvements in work practices.

The internal control system of the company is also reviewed by the Audit Committee of the Board periodically, and suggestions and recommendations of the Committee are carried out.

Opportunities and Threats

With the onset of full compliance to patent regime under WTO required to be in place in India from 2005, there will be a more conducive atmosphere for out-sourcing by big pharma companies which will, in turn, result in major opportunities to Indian pharma companies committed to intellectual property rights (IPR) and playing a complementary role to the innovators.

MANAGEMENT DISCUSSION AND ANALYSIS

The company has three leverages in order to counter competition from its peers in Europe and US:

- Creation of equivalent capacity at a much lower cost
- Operating the infrastructure at competitive costs
- Being able to develop processes in the R&D using highly skilled scientists and professionals at competitive costs and speed.

The European and US competitors may have a natural advantage due to proximity to customers. With its customer centric communication, frequent travel by senior management and gearing of transportation logistics of high value goods, the company matches itself with its peers.

Risks and Concerns

From the very inception of commercial operations, your company committed itself to Intellectual Property Rights and does not violate patents. With exports constituting a dominant part of its business and import of some raw materials, the company has a significant exposure to foreign exchange, especially to US Dollar and Euro. The company constantly strives to protect itself from foreign exchange and other business risks and concerns and takes appropriate measures from time to time to address them. The company's current and fixed assets are adequately insured against various risks. With the various regulatory approvals for its facilities, its commitment to IPR and a diverse product portfolio and a unique de-risked business model, the company is looking to strongly position itself for the emerging opportunities on India's commitment to comply to WTO on IPR from 2005.

Operational Performance

Analysis of profitability for the last two years is given hereunder:

(Rs. in Lacs)

	2003-04	2002-03
Net Sales	30283.14	24651.97
Other income	1445.15	1320.10
Total Income	31728.29	25972.07
PBDIT	11856.85	8264.33
Finance charges	336.39	444.94
Depreciation	1324.21	886.73
Profit before tax	10196.25	6932.66
Provision for tax	2464.37	1222.65
Deferred Tax Liability	447.57	219.67

Profit after tax	7284.31	5490.34
Earnings per Share (EPS)		
a) Basic/Diluted – (Weighted Average)	56.83	47.16
b) Absolute	56.83	42.83
Proposed Dividend	1025.50	769.12
Dividend pay-out	14.08%	14.00%
Total Debt to Equity	0.29	0.26
Book Value per Share in Rs.	179	131

Sales turnover

Your Company achieved a turnover net of taxes/duties of Rs. 30283.14 lakhs as compared to Rs. 24651.97 lakhs during the previous financial year, reflecting a growth of 23%.

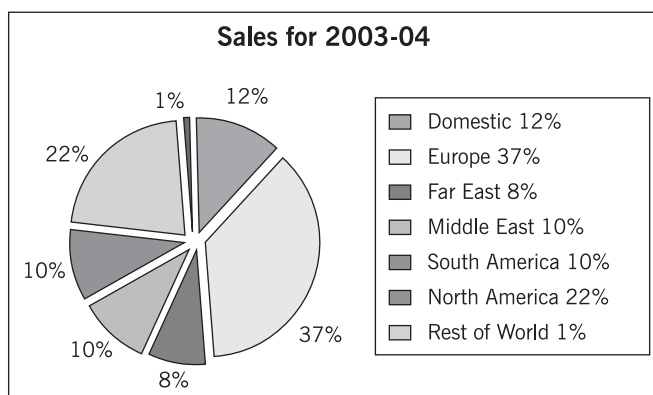
Your Company product portfolio has over 77 products covering :

- Generic products such as Naproxen, Diltiazem, Dextromethorphan Hbr., Nabumetone, Iopamidol, Methyl Dopa, Phenylephrine and their intermediates.
- New Chemistries comprising:
 - Custom Synthesis of APIs and Intermediates for MNC Pharma majors overseas.
 - Peptide building blocks and Nucleotides (protected amino acids)
 - Carotenoids

Your company has added 8 products to its product portfolio, of which 3 are in custom synthesis and 5 are in generics and future generics.

Exports

Exports constituted 88% of turnover during the year as against 91% during the previous year.



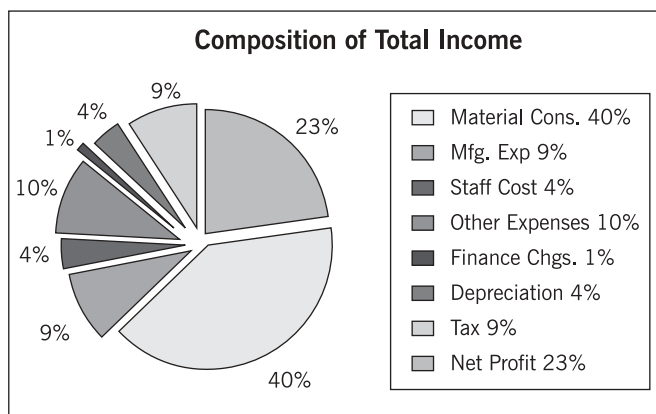
MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other Income mainly comprised sale/transfer of some of the export benefits available to the company under the DEPB Scheme of the Government of India. Other Income for the year amounted to Rs.1445.15 lakhs as against Rs. 1320.10 lakhs for the previous year. Income on Export benefits for the year came to at Rs.1036.68 lakhs as against Rs. 1093.41 lakhs during the last year. Lower income on Export benefit was the result of i) reduction in DEPB rates by the Government of India consequent to lowering the peak rate of customs duties for import of inputs and ii) reduction in realization prices of DEPB credits due to the removal of Special Additional Duty on Imports.

Distribution of Total Income

Composition of Total Income for the year are reflected in the graph below:



Material costs

Raw material consumption for the year was Rs.17469.40 lakhs net of inter-unit transfers as against Rs. 13105.06 lakhs for the previous year. Closing Inventory of Raw materials was Rs. 1834.13 lakhs as against Rs. 2489.58 lakhs.

Work-in-Process at the year end amounted to Rs. 6964.83 lakhs and finished goods (net of duties) to Rs.1448.54 lakhs as against Work-in-Process of Rs.2289.83 lakhs and Finished Goods of Rs. 1235.94 lakhs respectively during the previous year. Increase in the levels of Work-in-Process is due to the commercial operations at two manufacturing facilities, strategies of production on campaign basis, manufacture of new products and gearing up for the increased level of operations.

The company achieved cost reduction in terms of material consumption due to plant and process efficiencies, continuous R & D on the products and optimum product mix.

Manufacturing Expenses

Manufacturing expenses, as a proportion of total income, have increased from 8% to 9% as Unit-2 went through a process of stabilization of operations and also on account of increase in prices of fuel.

Salaries and Wages

Although the expense on salaries has gone up by over 50% in absolute terms over the previous year, it constitutes about 4% of income as against 3% during the previous year. The increase in salaries is on account of the deployment of staff at Unit-2 besides revision in remuneration of the company's staff in January, 2004.

Other Expenses

Other Expenses, as a proportion of total income, increased from 9% to 10% during the year, major components being managerial remuneration, R&D expenses, Freight and handling charges, Vehicle maintenance, Factory upkeep, sales commission and general expenses. Increase in some of these expenses is on account of full stream operations from both the units as against operations from predominantly a single unit during the last year.

Finance charges

Interest and Finance charges have been lower at Rs.336.39 lakhs as against Rs. 444.94 lakhs during the previous year due to repayment of term loans having higher coupon rate, availing foreign currency denominated working capital facilities and better working capital management.

Profits before Depreciation, Interest and Taxes (EBITA)

EBITA for the year grew by 43% to Rs.11856.85 lakhs as against Rs. 8264.33 lakhs during the previous year.

Depreciation

Deprecation charge for the current year came to Rs.1324.21 lakhs as compared to Rs. 886.73 lakhs during the last year.

There was addition to Fixed Assets during the year to the tune of Rs. 3370.80 lakhs as against Rs. 5900.33 lakhs in the previous year.

Taxation

Your company had to provide for Income-tax of Rs.2464.37 lakhs for the current year as against Rs. 1222.65 lakhs during the last year. This year, the company is eligible for tax exemption to the extent of 30% of export profits under Section 80 HHC of the Income-tax Act. This exemption stands totally withdrawn for the financial year 04-05 and onwards.

MANAGEMENT DISCUSSION AND ANALYSIS

Your company has also provided for Deferred Tax Liability of Rs. 447.57 lakhs for the year as against Rs. 219.67 lakhs during the previous year.

Profit after Tax

Profit after Tax during the year grew by 33% to Rs. 7284.31 lakhs as compared to Rs. 5490.34 lakhs during the previous year.

Earnings Per Share

EPS for the year has increased to Rs.56.83 per share as compared to Rs. 42.83 (in absolute terms) during the last year.

Dividend

Your Board has recommended a dividend of Rs. 8.00 per share for the year 2003-04 as against the dividend payment of Rs.6.00 per share during the previous year. Dividend pay-out works out to 14% of the profits earned. An amount of Rs.131.39 lakhs has been provided towards Corporate Dividend Tax during the year for the proposed dividend.

Financial condition

i) Secured Loans:

While the outstanding Rupee loans to IDBI have been cleared during the year, balance of long term loans represent a Foreign Currency loan of Rs.260.34 lakhs from SBI, Osaka, Japan. The company has availed higher working capital limits, for the growing business requirements, of which a major component is packing credit in foreign currency at very competitive rates.

ii) Fixed Assets

Addition to Fixed Assets during the year amounted to Rs.3370.80 lakhs. At Unit-1, we have undertaken expansion of Production Blocks I and V, completed the new QC Building, added Laboratory and analytical instruments, installed foam sprinkler systems in 4 production blocks and upgradation of services/utilities. At Unit-2, we have added two production blocks with related production equipment, a finished product facility, added Laboratory instruments for QC. A new building with about 1250 sq. mt. of area is being constructed with the associated instrumentation and 60 work stations for the Research Centre (DRC-Vizag).

iii) Inventories

Major items of Inventories as of 31st March, 2004:

(Rs. In Lakhs)

	2003-04	2002-03
Raw Materials	1834.13	2489.58
Work-in-Process	6964.83	2289.83
Finished Goods	1680.31	1557.48

Increase in the levels of Work-in-Process is due to the commercial operations at two manufacturing facilities, manufacture of new products and gearing up for the increased level of operations.

iv) Debtors

Debtors as of 31st March, 2004 amounted to Rs. 8674.89 lakhs as against Rs.5664.72 lakhs during the previous year. The company has provided for doubtful debts of Rs.6.32 lakhs and charged off an amount of Rs.10.73 lakhs towards bad debts during the year.

v) Loans and Advances

Loans and advances as of 31st March, 2004 amounted to Rs.988.89 lakhs as against Rs. 1304.13 lakhs during the previous year.

vi) Current Liabilities

Current Liabilities and provisions as of 31st March, 2004 amounted to Rs.6601.38 lakhs as against Rs. 6340.52 lakhs during the previous year.

vii) Total Debt to Equity

Debt-equity ratio as of 31st March, 2004 works out to 0.29, based on total debt, as against 0.26 during the previous year.

Community Development activities

Your Company is proud to be associated with various community development activities in the villages around the company's Manufacturing Facilities. Your Company contributed for the several community development programs either on its own or through voluntary / Government organizations.

CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate governance is about commitment to values and about ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, its policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company, is an important part of corporate governance. This improves public understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors and to enhance the trust and confidence of the stakeholders.

The importance of corporate governance has always been recognized by your company and is manifest in its vision. In accordance with the Listing Agreement, a certificate from the Auditors of the Company for compliance of Corporate Governance by the Company during the financial year 2003-04 has been inserted elsewhere in this Annual Report. A report, in line with the requirement of the stock exchanges, on the practices followed by the company and other voluntary compliances is given below:

2. BOARD OF DIRECTORS

A fundamental requirement for Board membership is independence, knowledge and experience based upon the absence of relationships and interest that could compromise, or could be perceived as compromising the ability of a Director to exercise judgement in the best interests of the Company.

2.1 Composition

The Board of Directors consists of ten Directors, consisting of five each Executive and Non-executive.

Sri. Murali K. Divi, the Promoter of the Company, is the Executive Chairman and Managing Director of the Company. The Board is classified broadly as follows:

Sl. No	Name of the Director	Status	Category
1.	Sri Murali K. Divi	Chairman & Managing Director	Promoter & Executive Director
2.	Sri N.V. Ramana	Executive Director	Executive Director
3.	Sri Madhusudana Rao Divi	Director (Projects)	Executive Director

4.	Dr. P. Gundu Rao	Director (R&D)	Executive Director
5.	Sri Kiran S. Divi	Director (Business Devpt.)	Executive Director
6.	Dr. K. Satyanarayana	Director	Non Executive Independent Director
7.	Sri S.Vasudev	Director	Non Executive Independent Director
8.	Sri G.Venkat Rao	Director	Non Executive Independent Director
9.	Prof. C.Ayyanna	Director	Non Executive Independent Director
10.	Dr.G.Suresh Kumar	Director	Non Executive Independent Director

2.2 Board Meetings & Procedures

The Board meets in executive session at least four times in a year at quarterly intervals and more frequently if deemed necessary, to transact its business. The Company Secretary, in consultation with the Chairman and Managing Director, will prepare the agenda for the meeting. Information and data that are important to the Board's understanding of the business in general and relating to matters tabled for discussion. The Agenda and relevant enclosures are distributed to the members of the Board sufficiently in advance of the meeting. Sensitive material, however, is presented for discussion at the meeting only. The meetings of the Board of Directors are generally held at Company's Registered Office at Hyderabad, and are generally scheduled well in advance.

2.3 Number & Dates of Board Meetings held during the year.

During the year the Board has met five times, as against minimum requirement of 4 meetings. The dates on which the meetings were held are : 22nd May, 2003, 21st June, 2003, 30th July, 2003, 24th October, 2003 and 27th January, 2004.

Attendance at the Board Meetings during the financial year 2003-04, last Annual General Meeting and Number of other directorship and Chairmanship/ Membership of Committees of each Director in various companies:



CORPORATE GOVERNANCE

Sl. No.	Name of the Director	Attendance Particulars			No. of other Directorships and Committee member/Chairmanship		
		No. of Board Meetings held	No. of Board Meetings attended	Last AGM	Other Directorships	Committee Memberships	Committee Chairmanships
1.	Sri Murali K. Divi	5	5	Yes	2	-	-
2.	Sri N.V. Ramana	5	5	Yes	1	-	-
3.	Sri Madhusudana Rao Divi	5	2	Yes	-	-	-
4.	Dr. P. Gundu Rao	5	4	No	-	-	-
5.	Sri Kiran S. Divi	5	4	Yes	1	-	-
6.	Dr. K. Satyanarayana	5	3	Yes	-	-	-
7.	Sri S. Vasudev	5	4	No	-	-	-
8.	Sri G. Venkat Rao	5	5	Yes	1	-	-
9.	Prof. C. Ayyanna	5	2	No	-	-	-
10.	Dr. G. Suresh Kumar	5	5	Yes	-	-	-

No Director holds membership of more than 10 committees of Boards nor is a Chairman of more than 5 Committees of Boards of all the companies in which he is a Director.

2.4 Changes

Sri S. Vasudev, Nominee of IDBI hitherto, has been appointed as Additional Director of the company with effect from 27th January, 2004, subsequent to withdrawal of nomination by IDBI on satisfaction of their loans.

Sri. S Vasudev holds a postgraduate degree in Chemical Engineering from Madras University. He started his career with Reserve Bank of India and was deputed to the Industrial Development Bank of India (IDBI). He worked with IDBI for 25 years and has gained wide experience in term lending finance. Later he worked with Apollo Hospitals Group as their Vice President (Finance) from 1988-89 in charge of Hotels, Hospital and Financial Services divisions. He has also worked as a Consultant with the Asian Development Bank, Manila.

He is not a Director in any other Companies. He is a member of Audit Committee and Remuneration Committee of the company.

3. COMMITTEES OF BOARD

a) Audit Committee

The primary objective of the Audit Committee of the company is to monitor and provide effective supervision of the management's financial reporting process with a view to ensure accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting.

The Audit Committee was met four times on 22nd May, 2003, 30th July, 2003, 24th October, 2003 and 27th January, 2004 during the year 2003-04.

The Committee consists three independent Directors and the attendance of each member of the Committee are given below:

Name	Designation	Committee meetings attended
Sri G. Venkat Rao	Chairman	4
Sri S. Vasudev	Member	3
Dr. G. Suresh Kumar	Member	4

The Company Secretary acts as Secretary to the Committee.

The meetings of the Audit Committee were also attended by the Executive Director, the Chief Financial Officer and representatives of the Statutory Auditors as invitees for the relevant meetings.

Terms of reference of the Audit Committee include the following:

- To oversee the Company's financial information disclosure, review the adequacy of internal control systems.
- To hold periodic discussions with the Statutory Auditors of the Company concerning the accounts of the company, internal control systems, scope and observations of the Auditors.
- To review the un-audited financial statements before submission to the Board.
- To investigate into any matter in relation to items specified in Section 292A of the Companies Act, 1956 or as may be referred to it by the Board and for this purpose to seek any relevant information contained in the records of the Company and also seek external professional advice, if necessary.

CORPORATE GOVERNANCE

- e) To make recommendations to the Board on any matter relating to the financial management of the Company, including the Audit report.

b) Remuneration Committee

The purpose of the Remuneration committee of the company shall be to discharge the Board's responsibilities relating to remuneration of the Company's Executive Directors. The committee has overall responsibility for approving and evaluating and recommending plans, policies and programs relating to remuneration of Executive Directors of the Company.

The Committee consists of Independent Directors and has met at once during the year on 21st June, 2003 and the attendance of each member of the Committee is given below:

Name	Designation	Committee meetings attended
Dr. K. Satyanarayana	Chairman	1
Sri S. Vasudev	Member	1
Prof. C. Ayyanna	Member	1

Details of remuneration to Directors

Executive Directors:

(Amount in Rs.)

Sl. No.	Name	Salary	PF	Perquisites	Commn.	Total
1.	Sri Murali K. Divi	3600000	432000	1309775	32018090	37359865
2.	Sri N. V. Ramana	3000000	360000	1001521	—	4361521
3.	Sri Madhusudana Rao Divi	2400000	288000	601295	—	3289295
4.	Dr. P. Gundu Rao	1440000	27720	449052	—	1916772
5.	Sri Kiran S. Divi	1500000	180000	300730	—	1980730
Total		11940000	1287720	3662373	32018090	48908183

Non-Executive Directors:

The Company does not pay any remuneration to Non-Executive Directors except sitting fees for attending the meeting of the Board/Committee and reimbursement of travelling and out of pocket expenses for attending such meetings. The details of sitting fee paid to Non-Executive Directors during the year 2003-04 are given below:

Sl. No.	Name of the Non-Executive Director	Designation	Sitting Fees (Rs.)
1.	Dr.K. Satyanarayana	Director	8000
2.	Sri S.Vasudev	Director	16000
3.	Sri G.Venkat Rao	Director	18000
4.	Prof. C.Ayyanna	Director	6000
5.	Dr.G.Suresh Kumar	Director	18000

c) Shareholders / Investors' Grievance Committee

The Board has constituted a "Shareholders/Investors' Grievance Committee" comprising Executive Director, One Independent Non-Executive Director and Chief Financial Officer of the Company. The Committee, inter-alia, approves issue of duplicate certificates and overseas and reviews all matters connected with the securities transfers. The Committee also looks into redressing of shareholders' complaints like non transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, etc.

During the year the committee has met 7 times at 22nd May, 2003, 21st June, 2003, 30th July, 2003, 24th October, 2003, 27th January, 2004, 13th March, 2004 and 22nd March, 2004 and considered the share transfers, issue of duplicate shares, rematerialization of shares and other investor grievances.

The constitution of the Committee and the attendance of each member of the Committee is given below:

Name	Designation	Committee meetings attended
Dr. G. Suresh Kumar	Chairman	7
Sri N. V. Ramana	Member	7
Sri L. Kishore Babu	Member	7

Sri A.Narendra, Company Secretary is Compliance Officer of the Company for attending to Complaints/Grievances of the members.

Complaints / Grievances received and attended

During the year under review, complaints received from investors were replied / resolved to the satisfaction of the investors as follows:

Sl. No.	Subject Description	Opening	In-warded	Out-warded	Closing
1.	Share Certificate/ Annual Report & others	0	11	11	0
2.	Dividend Related	0	69	69	0

4. GENERAL BODY MEETINGS

Particulars of last three Annual General Meetings:

AGM	Year ended	Venue	Date	Time
13 th	31.03.2003	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004	18.08.2003	10 A.M
12 th	31.03.2002	Surana Udyog Auditorium, FAPCCI Premises, Red Hills, Hyderabad-500 004.	29.07.2002	10 A.M.
11 th	31.03.2001	Surana Udyog Auditorium, FAPCCI Premises, Red Hills, Hyderabad-500 004.	27.08.2001	10 A.M.

No special resolutions were put through postal ballot last year.

5. DISCLOSURES

A) Disclosures On Materially Significant Related Party Transactions

The Company does not have any related party transactions, which may have potential conflict with the interest of the Company. Other related party transactions have been reported at item No.12 of Notes to Accounts. The Register of Contracts containing transactions, in which Directors are interested, is placed before the Board regularly.

b) Cases of Non-Compliances / Penalties:

There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence, the question of penalties or strictures being imposed by SEBI or the Stock Exchanges does not arise.

6. MEANS OF COMMUNICATION

Quarterly, half-yearly and annual financial results of the Company are communicated to the Stock Exchanges immediately after the same are considered by the Board and are published in prominent English and Telugu newspapers usually Business Standard and Andhra Bhoomi. They are also put on the Company's website viz., www.divislaboratories.com.

7. MANAGEMENT DISCUSSION AND ANALYSIS

This information is set out in a separate section included in this annual report.

8. GENERAL SHAREHOLDER INFORMATION

1. Annual General Meeting

Date : 9th August, 2004
Time : 10.00 AM

2. Venue : KLN Prasad Auditorium,
FAPCCI Premises,
11-6-841, Red Hills,
Hyderabad – 500 004

3. Financial Calendar : 1st April, 2003 to
31st March, 2004

4. Book Closure date : 31st July, 2004 to
9th August, 2004
(Both Days inclusive)

5. Dividend payment date: On or before 8th September, 2004

6. Listing on Stock Exchange(s):

- The Hyderabad Stock Exchange Limited,
6-3-654 Adjacent to Erramanjil Bus Stop,
Somajiguda, Hyderabad – 500 082
- The Stock Exchange, Mumbai,
1st Floor, New Trading Ring, Rotunda Bldg.,
P.J. Towers, Dalal Street, Fort, Mumbai – 400 001
- The National Stock Exchange Limited,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051

The Company has paid listing fees for 2003-04 to all the above Stock Exchanges.

7. Stock Code:

HSE : DLA
BSE : 532488
NSE : DIVISLAB

8. ISIN No. : INE361 B 01016

9. Market Price data :

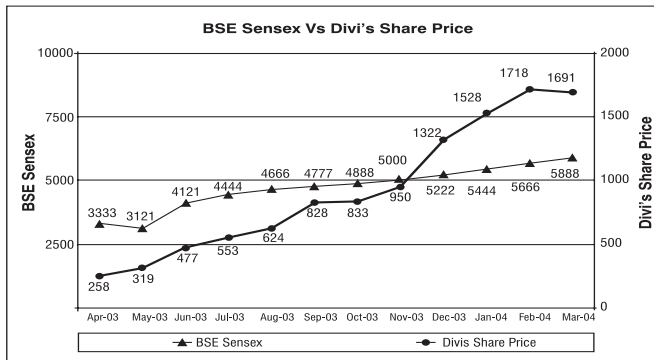
Monthly high and low quotations as well as the volume of shares traded at Mumbai and National Stock Exchanges for the financial year 2003-04 are as follows:

Month	Mumbai Stock Exchange			National Stock Exchange		
	Low	High	Volume	Low	High	Volume
Apr-03	221	294	3408985	221	295	9372234
May-03	274	387	3936511	252	386	12903569
Jun-03	375	582	2326392	373	581	7852482
Jul-03	496	607	1933636	499	608	8458313
Aug-03	539	710	762018	538	710	2856992
Sep-03	695	970	2353763	685	970	7833827
Oct-03	738	932	684913	735	930	2751527
Nov-03	815	1095	663254	801	1099	2529961
Dec-03	1001	1617	618812	1025	1618	2415554
Jan-04	1380	1643	278103	1381	1674	1129268
Feb-04	1356	1990	378545	1442	1993	1382400
Mar-04	1325	2045	672645	1334	2048	2794663

CORPORATE GOVERNANCE

No shares were traded from the Hyderabad Stock Exchange during year 2003-04.

Chart given below shows the stock performance in comparison to the broad-based index viz., BSE Sensex.



10. Depository Registrar and Share Transfer Agent:

M/s. Karvy Computershare Private Limited
 "Karvy House", Road No. 1, Avenue 4,
 Banjara Hills, HYDERABAD – 500 034
 Phone No. 040-23312454 /23320751 / 752
 Fax : 040-23311968
 Email: karvyhyd@karvy.com

11. Unclaimed Dividend Amounts

In spite of periodic reminders during the last year, the following dividend amounts continue to remain unclaimed as at 31st March, 2004:

Financial Year	No. of warrants unclaimed	Amount of Dividend unclaimed Rs.
1996-1997	85	129800
1998-1999	113	151200
1999-2000	131	208600
2000-2001	93	217350
2001-2002	104	377000
2002-2003	257	766776

Shareholders who did not encash their warrants or whose warrants are lost/misplaced are advised to get in touch with the Company Secretary or the Registrars and obtain duplicate dividend warrants.

12. Pursuant to the provisions of Section 205A of the Companies Act, 1956, dividend which remain unclaimed for a period of 7 years from the date of declaration will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend for transfer to the said Fund is given below:

Financial year ended	Date of declaration of dividend	Last date for claiming unpaid Dividend
31.03.1997	04.09.1997	03.09.2004
31.03.1999	16.07.1999	15.07.2006
31.03.2000	15.04.2000	14.04.2007
31.03.2001	04.06.2001	03.06.2008
31.03.2002	11.03.2002	10.03.2009
31.03.2003	18.08.2003	17.08.2010

Shareholders who have not so far encashed the dividend warrant (s) are requested to seek issue of duplicate dividend warrant (s) by writing to the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited immediately. **Shareholders are requested to note that no claims shall lie against the Company or the said Fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.**

13. Share Transfer System

The Shareholders' Committee approves transfer of shares in physical mode.

The Company's Registrar transfers the shares within 30 days of receipt of request. Dematerialization is done within 20 days of receipt of request along with the shares through the Depository Participant of the shareholder.

The Shareholders' committee / Grievance Committee generally meets once in a fortnight for approving share transfers and for attending to any grievances or complaints from members.

CORPORATE GOVERNANCE

14. Distribution of shareholding

Category	As on 31 st March 2004				As on 31 st March 2003			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	7338	88.21	7897360	6.16	6234	84.79	1008647	7.87
5001 – 10000	527	6.33	4651960	3.63	647	8.80	589393	4.60
10001 – 20000	215	2.58	3412320	2.66	240	3.26	383768	2.99
20001 – 30000	70	0.84	1830360	1.43	78	1.06	201798	1.57
30001 – 40000	28	0.34	1033860	0.81	22	0.30	81950	0.64
40001 – 50000	32	0.38	1484250	1.16	29	0.39	140460	1.10
50001 – 100000	37	0.44	2764200	2.15	32	0.44	252554	1.97
100001 and above	72	0.88	105112690	82.00	70	0.96	10160130	79.26
TOTAL	8319	100.00	128187000	100.00	7352	100.00	12818700	100.00

15. (i) Shareholding pattern

Category	As on 31.03.2004		As on 31.03.2003	
	No. of shares	% to share capital	No. of shares	% to share capital
Indian Promoters	6927500	54.04	6936200	54.11
Foreign Investment Institutions	2004998	15.64	469252	3.66
Mutual Funds & UTI	829124	6.47	1476590	11.52
Private Corporate Bodies & Banks	562435	4.39	697247	5.43
NRIs / OCBs	230291	1.79	222803	1.74
Indian Public	2197183	17.14	2591722	20.22
Others				
- Clearing Members	14986	0.12	373736	2.92
- Directors	51050	0.40	51150	0.40
- others	1133	0.01	—	—
Total	12818700	100.00	12818700	100.00

(ii) Shareholding profile as on March 31, 2004

Mode of Holding	As on 31.03.2004				As on 31.03.2003			
	No. of Holders	%	No. of shares	%	No. of Holders	%	No. of shares	%
Demat	7566	90.97	4904235	38.26	5614	76.36	3895278	30.39
Physical	751	9.03	7914465	61.74	1778	23.64	8923422	69.61
Total	8317	100.00	12818700	100.00	7404	100.00	12818700	100.00

CORPORATE GOVERNANCE

(iii) Dematerialization of shares and liquidity

The Company's shares have been mandated for compulsory trading in demat form. Valid demat requests received by the Company's Depository Registrar are confirmed within the statutory period.

The International Securities Identification Number (ISIN) allotted for the Company by NSDL and CDSL is INE361 B 01016. In case a member wants his shares to be dematerialized, he may send the shares along with the request through his depository participant (DP) to the Registrars, M/s. Karvy Computershare Private Limited.

The Company's Depository Registrars promptly intimate the DPs in the event of any deficiency and the shareholder is also kept abreast. Pending demat requests in the records of the Depositories, if any, are continually reviewed and appropriate action initiated.

As on March 31, 2004, 38.26% of the shares were in demat mode.

(iv) Plant Location

Unit I: Lingojugudem village,
Choutuppal Mandal,
Nalgonda Dist. (A.P.),
Pin 508 252

Unit II: Chippada village,
Bheemunipatnam mandal,
Visakhapatnam Dist. (A.P.),
Pin 531 162

16. Address for correspondence

The Company Secretary & Compliance Officer
Divi's Laboratories Limited
'Divi Towers', 7-1-77/E/1/303,
Dharam Karan Road, Ameerpet,
Hyderabad – 500 016, INDIA
Phone: 040-2373 1318, 760 / 761
Fax: 040-2373 3242
Email: mail@divislaboratories.com
Website: www.divislaboratories.com

For and on behalf of the Board of Directors

Hyderabad
17th May, 2004

Murali K. Divi
Chairman and Managing Director



CERTIFICATE

To

The Members of
Divi's Laboratories Limited

We have examined the compliance of the conditions of corporate governance by DIVI'S LABORATORIES LIMITED, for the year ended on 31st March, 2004, as stipulated in clause 49 of the Listing Agreements of the said Company with Stock Exchanges in India.

The compliance of the 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, the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that in respect of investor grievances received during the year ended 31st March, 2004, no investor grievances are pending against the Company as on 31.03.2004 as per the records maintained by the Company and Depository Registrar and Transfer Agents which are presented to the Shareholders/Investors Grievance Committee.

We further 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 P V R K NAGESWARA RAO & CO.,
Chartered Accountants

HYDERABAD
17.05.2004

P V R K NAGESWARA RAO
Partner
Membership No. 18840

AUDIT REPORT

To The Members of **DIVI'S LABORATORIES LIMITED**

- 1 We have audited the attached Balance Sheet of **DIVI'S LABORATORIES LIMITED** as at 31st March, 2004, the Profit and Loss Account and also 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 Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
 - 4 Further to our comments in the Annexure referred to above, we report that:
 - i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose 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 these 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 in Section 211 (3C) of the Companies Act, 1956 to the extent applicable.
 - v) On the basis of the written representations received from the directors, as on 31.03.2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 st March, 2004 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the notes and accounting policies thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - a) in the case of Balance Sheet of the state of affairs of the Company as at 31st March, 2004;
 - b) in the case of Profit and Loss Account of the Profit for the year ended on that date; and
 - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For P V R K NAGESWARA RAO & CO.,
Chartered Accountants

HYDERABAD
17.05.2004

P V R K NAGESWARA RAO
Partner
Membership No. 18840

ANNEXURE

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF AUDITORS' REPORT OF EVEN DATE ON THE ACCOUNTS OF DIVI'S LABORATORIES LIMITED FOR THE YEAR ENDED 31ST MARCH, 2004

1. (a) The company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets.
 - (b) As explained to us, the fixed assets have been physically verified by the management according to the phased programme designed to cover all the fixed assets on rotation basis. In respect of fixed assets verified according to this programme, which is considered reasonable, no material discrepancies were noticed on such verification. As regards capital works in-progress, the same will be verified by the management on completion of assets.
 - (c) The fixed assets disposed off during the year did not represent substantial part of fixed assets of the company which will affect the going concern status of the Company.
2. (a) The Inventories of the company have been physically verified by the Management during the year at reasonable intervals except stocks lying with others which have been verified with reference to confirmations, certificates and other relevant documents where available.
 - (b) The procedures of physical verification of Inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
 - (c) The Company has maintained proper records of inventories and the discrepancies noticed on physical verification of stocks as compared to book records, which in our opinion were not material, have been properly dealt with in the books of account.
3. (a) The Company has taken an interest free unsecured loan from a party covered in the register maintained under section 301 of the Companies Act, 1956 to the extent of Rs. 145.00 Lakhs and the same has been repaid during the year.
 - (b) In our opinion the rate of interest and other terms and conditions of loan taken from a party covered in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interests of the company.
 - (c) The Company is regular in repayment of the interest free unsecured loan taken from a party covered in the register maintained under section 301 of the Companies Act, 1956.
 - (d) There is no overdue amount of loan taken from a party covered in the register maintained under section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and for the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls with regard to purchase of inventory, fixed assets and for the sale of goods.
5. (a) According to the information and explanations given to us and as confirmed by the Company Secretary of the Company, we are of the opinion that the transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
 - (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rs.5,00,000/- in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. According to the information and explanations given to us, the Company has not accepted any deposits from the public covered by the directions issued by the Reserve Bank of India and the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder where applicable and issuance of Order by the Company Law Board in this regard does not arise.
7. As per the information and explanations given to us by the management, the Company's internal control procedures together with the internal checks conducted by the management staff during the year can be considered as an internal audit system commensurate with the size and nature of its business.
8. We have broadly reviewed without making a detailed examination of the records maintained by the Company pursuant to the order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed records have been made and maintained.
9. (a) According to the records of the Company and as per the information and explanations given to us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs duty, Excise duty, Cess and other material statutory dues applicable to it and in respect of these statutory dues, there are no outstanding dues as on 31.3.2004 which are outstanding for a period of more than six months from the date they became payable.
 - (b) According to the records of the Company and as per the information and explanations given to us, there are no dues of Sales Tax, Customs Duty, Wealth Tax and Cess which have not been deposited on account of any dispute as on 31.3.2004 except Income Tax and Excise Duty, the details of which are as given under:

ANNEXURE

Name of the Statute	Period to which the amount relates	Nature of dues	Amount Rs.	Forum where dispute is pending
Income Tax	2000-01 2001-02	Tax payable on completion of assessment	3909918 3554133	Commissioner of Income Tax, Appeals – II, Hyderabad
Excise duty	2002-03	Claim for CENVAT Credit on Capital Goods	6976130	Customs, Excise and Service Tax Appellate Tribunal, Bangalore
	1994-95	Claim for CENVAT Credit on Capital Goods	23200	Customs, Excise and Gold (Control) Appellate Tribunal, Bangalore

10. As per the information and explanations given to us and on an overall examination of the financial statements of the company for the current and immediately preceding financial year, we report that the Company does not have any accumulated losses at the end of the current financial year nor incurred cash losses in the current and immediately preceding financial year.
11. According to records of the Company, during the year the Company has not defaulted in repayment of dues to financial institution or bank or debenture holders.
12. As per the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities to any body during the year.
13. In our opinion, as the Company is not a chit fund or a nidhi or mutual benefit fund or society, the provisions of Clause 4 (xiii) of the Companies (Audit Report) Order, 2003 are not applicable to the Company for this year.
14. According to the records of the Company, the investments made in the nature of shares in Other companies are held in the name of the Company and necessary records recording the transactions and relevant entries have been maintained. However, during the current financial year, the Company has not made any transactions of dealing or trading in shares, securities, debentures and other investments.
15. As per the information and explanations given to us, the terms and conditions of the guarantees given for loans taken by others from financial institutions are not prejudicial to the interests of the Company. However, there are no guarantees outstanding as on 31st March, 2004.
16. According to records of the Company the term loans raised during the year have been applied for the purposes for which they were raised.
17. As per the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the company, we report that the long term funds raised during the year, have not been used to finance short term investments and the short term funds to the extent of Rs. 10.00 Crores raised during the year have been used for investment in fixed assets.
18. As per the information and explanations given to us, during the year the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.
19. The Company has not issued any debentures during the year, which requires the creation of security.
20. During the year the Company has not made any public issues for which the management has to disclose the end use of money raised through that public issue.
21. As per the representation given by the Company and relied on by us, no fraud on or by the Company has been noticed or reported during the year.

For P V R K NAGESWARA RAO & CO.,
Chartered Accountants

HYDERABAD
17.05.2004

P V R K NAGESWARA RAO
Partner
Membership No. 18840



BALANCE SHEET AS AT 31ST MARCH, 2004

	Schedule No.	As At 31st March, 2004		As At 31st March, 2003	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS :					
SHARE HOLDERS' FUNDS:					
Share Capital	1	128187000		128187000	
Reserves and Surplus	2	2163773833		1551031327	
			2291960833		1679218327
LOAN FUNDS :					
Secured Loans	3	582252778		412831371	
Unsecured Loans	4	77011039		20955020	
			659263817		433786391
DEFERRED TAX LIABILITY	5		222874668		178117390
TOTAL			3174099318		2291122108
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	6	2236031800		1900497517	
Less: Depreciation		572788744		441242041	
Net Block		1663243056		1459255476	
Capital Work - in - Progress		26477490		14271966	
Advances for Capital Works		28751740		36944294	
			1718472286		1510471736
INVESTMENTS	7		575504		249752
NET CURRENT ASSETS :					
CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	8	1075952554		671178836	
Sundry Debtors	9	867488591		566472353	
Cash and Bank Balance	10	71920803		44918761	
Other Current Assets	11	939014		1469391	
Loans And Advances	12	98888881		130413310	
		2115189843		1414452651	
LESS: CURRENT LIABILITIES AND PROVISIONS	13	660138315		634052031	
			1455051528		780400620
TOTAL			3174099318		2291122108
ACCOUNTING POLICIES	20				
NOTES TO ACCOUNTS	21				
Per Our Report of Even Date For P.V.R.K. NAGESWARA RAO & CO., Chartered Accountants		MURALI K.DIVI Chairman and Managing Director		N.V. RAMANA Executive Director	
Hyderabad 17.05.2004	P.V.R.K. NAGESWARA RAO Partner	L. KISHOREBABU Chief Financial Officer		A. NARENDRA Company Secretary	

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2004

	Schedule No.	For the Year ended 31st March, 2004		For the Year ended 31st March, 2003	
		Rs.	Rs.	Rs.	Rs.
I. INCOME :					
Gross Sales			3071661832		2484933010
Less: Excise Duty			<u>43347792</u>		<u>19735547</u>
Net Sales			3028314040		2465197463
Other Income	14		<u>144515188</u>		<u>132009409</u>
	TOTAL		<u>3172829228</u>		<u>2597206872</u>
II. EXPENDITURE :					
Materials Consumed	15		1258179533		1247674544
Manufacturing Expenses	16		301396380		211689792
Salaries, Wages and other Allowances to Staff	17		125411262		81121453
Other Expenses	18		302156858		230287956
Finance Charges	19		33638580		44493892
Depreciation			<u>132420939</u>		<u>88673570</u>
	TOTAL		<u>2153203552</u>		<u>1903941207</u>
III. PROFIT FOR THE YEAR :			1019625676		693265665
Less : <u>Provision for Taxation:</u>					
	- Current Tax	243000000		122000000	
	- Deferred Tax	44757278		21967149	
	- Income-tax adjustments of earlier years	<u>3437124</u>		<u>264785</u>	
			<u>291194402</u>		<u>144231934</u>
			728431274		549033731
Add : Profit brought forward from last year			<u>861670524</u>		<u>459403369</u>
			1590101798		1008437100
Less : <u>Transfer to :</u>					
	Proposed Dividend	102549600		76912200	
	Corporate Dividend Tax	13139168		9854376	
	General Reserve	<u>75000000</u>		<u>60000000</u>	
			<u>190688768</u>		<u>146766576</u>
Balance Carried to Balance Sheet			<u>1399413030</u>		<u>861670524</u>
IV. Earnings Per Share : Basic /Diluted			56.83		47.16
ACCOUNTING POLICIES		20			
NOTES TO ACCOUNTS		21			
Per Our Report of Even Date					
For P.V.R.K. NAGESWARA RAO & CO.,					
Chartered Accountants					
		MURALI K.DIVI		N.V. RAMANA	
		Chairman and Managing Director		Executive Director	
Hyderabad	P.V.R.K. NAGESWARA RAO	L. KISHOREBABU		A. NARENDRA	
17.05.2004	Partner	Chief Financial Officer		Company Secretary	



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

PARTICULARS	For the Year ended 31st March, 2004		For the Year ended 31st March, 2003	
	Rs.	Rs.	Rs.	Rs.
I CASH FLOW / (USED) FROM OPERATING ACTIVITIES:				
Net Profit Before Tax		1019625676		693265665
Add/ (Less): Adjustments for:				
Depreciation	132420939		88673570	
Provision for Doubtful Debts	(1383505)		(1549112)	
Tools written off	154552		96840	
Interest paid	19967556		30319289	
Provision for decline in value of Investments	(325752)		(1568)	
Loss on sale of Assets	379057		6694	
Dividends received	(11760)		(11760)	
Provision for Employees retirement benefits	(617105)		2178160	
Wealth Tax	85249		52240	
Interest received	(2055907)		(2989125)	
Bad debts written off	1072620		418380	
Profit on sale of current investments	--		(204081)	
		149685944		116989527
Operating Profit before working capital changes		1169311620		810255192
Add/(Less): Adjustments for Working Capital Changes :				
Trade and Other Receivables	(264316267)		(111974440)	
Inventories	(404928270)		(226444259)	
Trade Payables	29878065		143747501	
		(639366472)		(194671198)
Cash generated from operations		529945148		615583994
Less: Direct taxes paid		260112200		123865538
Net Cash flow from Operating Activities (I)		269832948		491718456
II CASH FLOW / (USED) FROM INVESTING ACTIVITIES:				
Purchase of Fixed assets		(359617890)		(593877488)
Sale of Fixed assets		292866		760000
Dividend Received on Investments		11760		11760
Purchase of current Investments		--		(131900000)
Sale of current Investments		--		132104081
Net Cash used in Investing Activities (II)		(359313264)		(592901647)

CASH FLOW STATEMENT

PARTICULARS	For the Year ended 31st March, 2004	For the Year ended 31st March, 2003
	Rs.	Rs.
III CASH FLOW/ (USED) FROM FINANCING ACTIVITIES:		
Interest received	2586284	2770649
Proceeds from Long Term Loans	6056019	4945716
Repayment of Long Term Loans	(56842000)	(140005333)
Proceeds from Short Term Loans	343089935	186664043
Repayment of Short Term Loans	(66826528)	(69571028)
Interest Paid	(20411967)	(29853592)
Receipts from Public issue	—	177754220
Corporate Dividend Tax paid (CDT)	(9854376)	—
Dividend Paid	(76912200)	—
Share issue expenses incurred	—	(27406417)
Net Cash flow in Financing Activities (III)	<u>120885167</u>	<u>105298258</u>
IV Net Increase / (Decrease) in cash and cash equivalents (I+II+III)	31404851	4115067
V Cash and Cash Equivalents as at the beginning of the year	13450146	9335079
VI Cash and Cash Equivalents as at the end of the year	44854997	13450146
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>2003-04</u>	<u>2002-03</u>
Cash and Bank Balances as per the Balance Sheet	71920803	44918761
Less : Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.	<u>27065806</u>	<u>31468615</u>
	<u>44854997</u>	<u>13450146</u>

Note:

1. The above cash flow statement has been prepared pursuant to Clause 32 of Listing Agreements with Stock Exchanges and under the indirect method set out in Accounting Standard -3 issued by the Institute of Chartered Accountants of India.
2. Significant Accounting Policies (Schedule 20) and other Notes to Accounts (Schedule 21) form an Integral part of the Cash flow Statement.
3. Previous year figures have been regrouped / reclassified to conform to current year classification.

Per Our Report of Even Date
For **P.V.R.K. NAGESWARA RAO & CO.,**
Chartered Accountants

MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

Hyderabad **P.V.R.K. NAGESWARA RAO**
17.05.2004 Partner

L. KISHOREBABU
Chief Financial Officer

A. NARENDRA
Company Secretary



SCHEDULES

	As At 31st March, 2004		As At 31st March, 2003	
	Rs.	Rs.	Rs.	Rs.
01. SHARE CAPITAL :				
<u>AUTHORISED :</u>				
1,50,00,000 Equity Shares of Rs. 10/- each		150000000		150000000
5,00,000 Redeemable Preference Shares of Rs.100/- each		50000000		50000000
		<u>200000000</u>		<u>200000000</u>
<u>ISSUED :</u>				
1,30,00,000 Equity Shares of Rs.10/- each		<u>130000000</u>		<u>130000000</u>
<u>SUBSCRIBED AND PAID-UP:</u>				
1,28,18,700 Equity shares of Rs.10/- each fully paid-up (Of the above 1,50,000 Equity Shares of Rs.10/- each have been allotted as Bonus Shares on Capitalisation of General Reserve)		<u>128187000</u>		<u>128187000</u>
02. RESERVES AND SURPLUS:				
<u>CAPITAL RESERVES :</u>				
Debenture Forfeiture Account		9000000		9000000
State Investment Subsidy		2000000		2000000
<u>Share Premium:</u>				
As per last account	414860803		277209730	
Add: Additions				
Premium on equity shares allotted in IPO	—		165057490	
	<u>414860803</u>		<u>442267220</u>	
Less: Deductions:				
Share Issue Expenses for the IPO (Net)	—		27406417	
	<u>414860803</u>		<u>414860803</u>	
Debenture Premium Account		3000000		3000000
<u>REVENUE RESERVES :</u>				
<u>General Reserve:</u>				
As per Last Account	260500000		200500000	
Add: Transferred from Profit and Loss Account	75000000		60000000	
	<u>335500000</u>		<u>260500000</u>	
PROFIT AND LOSS ACCOUNT(SURPLUS)		1399413030		861670524
		<u>2163773833</u>		<u>1551031327</u>

SCHEDULES

	As At 31st March, 2004 Rs.	As At 31st March, 2003 Rs.
03. SECURED LOANS:		
<u>TERM LOANS :</u>		
From Industrial Development Bank of India	--	25600000
From State Bank of India - Foreign Currency Loan	26034000	57276000
 (Secured by equitable mortgage of the specified immovable properties of the Company and further secured by first charge of all the movables (Save and except book-debts) including movable machinery, machinery spares, tools and accessories, present and future, subject to prior charge created and/or to be created in favour of the bankers on the stocks for working capital requirements and guaranteed by the Chairman and Managing Director of the company)		
<u>WORKING CAPITAL LOANS:</u>		
From Banks	549262715	327643850
(Secured by Hypothecation of stocks, book-debts and receivables and further secured by second charge on specified fixed assets of the Company)		
<u>OTHER LOANS :</u>		
From Banks	6956063	2158322
From Others:	--	153199
(Secured by hypothecation of Vehicles acquired against the Loan - Net of Future Interest)		
	<u>582252778</u>	<u>412831371</u>
04. UNSECURED LOANS:		
Interest Free Sales Tax Loan	27011039	20955020
<u>Short Term:</u>		
From Banks	50000000	--
	<u>77011039</u>	<u>20955020</u>
05. DEFERRED TAX LIABILITY:		
Balance brought forward:	178117390	156150241
Add: Adjustments during the year	44757278	21967149
(Refer Note No.15 of Schedule 21 Notes to Accounts)		
	<u>222874668</u>	<u>178117390</u>



06. FIXED ASSETS

Sl No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as at 01.04.2003 Rs.	Additions Rs.	Deductions Rs.	Total Upto 31.03.2004 Rs.	Upto 31.03.2003 Rs.	For the Year Rs.	On Deductions Rs.	Total Upto 31.03.2004 Rs.	As at 31.03.2004 Rs.	As at 31.03.2003 Rs.
1	LAND AND DEVELOPMENT	60579315	1737875	--	62317190	--	--	--	--	62317190	60579315
2	BUILDINGS	479621969	58510431	--	538132400	46925027	14619481	--	61544508	476587892	432696942
3	PLANT AND MACHINERY	1235397558	234180219	562800	1469014977	364933612	108372228	223373	473082467	995932510	870463946
4	LABORATORY EQUIPMENT	83628511	24952902	--	108581413	13337870	4567021	--	17904891	90676522	70290641
5	FURNITURE AND FIXTURES	8941178	1846356	--	10787534	5051689	1214583	--	6266272	4521262	3889489
6	DATA PROCESSING EQUIPMENT	10949885	2488592	--	13438477	5032559	1385479	--	6418038	7020439	5917326
7	VEHICLES	21379101	13364067	983359	33759809	5961284	2262147	650863	7572568	26187241	15417817
	TOTAL	1900497517	337080442	1546159	2236031800	441242041	132420939	874236	572788744	1663243056	1459255476
	PREVIOUS YEAR	1313158604	590033036	2694123	1900497517	354495900	88673570	1927429	441242041	1459255476	958662704

SCHEDULES

	As At 31st March, 2004		As At 31st March, 2003	
	Rs.	Rs.	Rs.	Rs.
07. INVESTMENTS:- AT COST				
A. LONG - TERM				
NON-TRADE - QUOTED	MARKET VALUE		MARKET VALUE	
7840 Equity Shares of Rs.10/- each Fully paid-up of Industrial Development Bank of India	455504	637000	129752	637000
Less : Provision for Decline in Value of Investments		<u>181496</u>		<u>507248</u>
(A)	<u>455504</u>	<u>455504</u>	<u>129752</u>	<u>129752</u>
B. LONG - TERM				
NON-TRADE - UNQUOTED:				
12000 Equity Shares of Rs.10/- each fully paid-up of Pattancheru Enviro-Tech Ltd., (B)		<u>120000</u>		<u>120000</u>
Total: (A+B)		<u>575504</u>		<u>249752</u>
Aggregate Value of Quoted Investments		455504		129752
Aggregate Market Value of Quoted Investments		455504		129752
Aggregate Value of Unquoted Investments		120000		120000
08. INVENTORIES:				
(As taken, Valued and Certified by the Management)				
Stock of Raw Materials		183413381		248958459
Stock of Stores and Spares		12564452		14838414
Stock of Work-in-Process		696483465		228983041
Stock of Finished Goods		168030655		155748089
Material in Transit		15098147		22297786
Tools and Spares		362454		353047
Total		<u>1075952554</u>		<u>671178836</u>
09. SUNDRY DEBTORS:				
(Unsecured)				
Outstanding for a Period exceeding six months :				
Considered good	45366708		2544788	
Considered doubtful	<u>632202</u>		<u>2015708</u>	
	45998910		4560496	
Less: Provision for Doubtful Debts	<u>632202</u>		<u>2015708</u>	
		45366708		2544788
Others:				
Considered good		<u>822121883</u>		<u>563927565</u>
		<u>867488591</u>		<u>566472353</u>
10. CASH AND BANK BALANCES:				
Cash on Hand		2298707		4935880
Balance with Scheduled Banks :				
- In Current Accounts		14407016		9903144
- In Term Deposit Accounts		55215080		30079737
(Of the above, Rs.2000-(Previous year Rs.2000/-) has been pledged with Department of Commercial Taxes, Government of Andhra Pradesh and Rs. 25213080/- (Previous Year Rs.30077737/-) towards Margin on Letters of Credits and Guarantees issued by the Banks)				
		<u>71920803</u>		<u>44918761</u>



SCHEDULES

	As At 31st March, 2004		As At 31st March, 2003	
	Rs.	Rs.	Rs.	Rs.
11. OTHER CURRENT ASSETS:				
Interest accrued on deposits		<u>939014</u>		<u>1469391</u>
		<u>939014</u>		<u>1469391</u>
12. LOANS AND ADVANCES				
(Unsecured, considered good, recoverable in cash or in kind or for Value to be received)				
Deposits Recoverable		21444075		15010798
Advances to Suppliers		13488927		16306420
Advance for Expenses		795535		827799
Central Excise Duty		51067081		79167055
Prepaid Expenses		6931613		6458250
Other Advances and Recoverables		<u>5161650</u>		<u>12642988</u>
		<u>98888881</u>		<u>130413310</u>
13. CURRENT LIABILITIES AND PROVISIONS				
A. CURRENT LIABILITIES				
Acceptances		13403249		79896389
<u>Creditors for Capital Works:</u>				
Small Scale Industrial Undertakings (Refer Note No.6 of Schedule 21 - Notes to accounts)		97976		1378213
Others		21150860		38395101
		<u>21248836</u>		<u>39773314</u>
<u>Sundry Creditors :</u>				
Small Scale Industrial Undertakings (Refer Note No.6 of Schedule 21 - Notes to accounts)		3639182		1738178
Others		491999762		398110850
		<u>495638944</u>		<u>399849028</u>
Interest accrued but not due		64390		508801
<u>Investors Education and Protection Fund:</u>				
Unclaimed Dividend (Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund)		1850726		1388878
		<u>532206145</u>		<u>521416410</u>
B. PROVISIONS:				
Provision for Taxation (Net of Tax paid)		12243402		25869045
Proposed Dividend		102549600		76912200
Corporate Dividend Tax		13139168		9854376
		<u>127932170</u>		<u>112635621</u>
		<u>660138315</u>		<u>634052031</u>

SCHEDULES

	For the year ended 31st March, 2004		For the year ended 31st March, 2003	
	Rs.	Rs.	Rs.	Rs.
14. OTHER INCOME				
Dividend Received (Gross) (TDS Nil)(Previous year -Rs.1235/-)		11760		11760
Contract Research Fee		27522938		8193760
Interest Earned (Gross) (TDS Rs.423268/-) (Previous year Rs.667477/-)		2055907		2989125
Export Benefits		103668204		109341048
Miscellaneous Income (includes profit on sale of investments: Rs.Nil) (Previous Year Rs.204081/-)		9547122		5322667
Provision for doubtful debts written back		1383505		1549112
Gain on Foreign Exchange Fluctuation		—		4600369
Provision for decline in value of Long Term Investments no longer required written back		325752		1568
		<u>144515188</u>		<u>132009409</u>
15. MATERIALS CONSUMED				
A. RAW MATERIALS CONSUMED				
Opening Stock		248958459		140999915
Add: Purchases		1681610562		1418737151
		1930569021		1559737066
Less: Closing Stock	183413381		248958459	
Sales	216000		272250	
		<u>183629381</u>		<u>249230709</u>
		<u>1746939640</u>		<u>1310506357</u>
B. STOCKS ACQUIRED OUT OF TRIAL RUNS:				
Stock of Work-in-Process		—		13907055
Stock of Finished Goods		—		19650515
		—		<u>33557570</u>
C. (INCREASE) IN STOCKS:				
<u>Closing Stock of:</u>				
Work-in-Progress		696483465		228983041
Finished Goods	168030655		155748089	
Less: Central Excise duty liability	23176642		32153759	
		<u>144854013</u>		<u>123594330</u>
		<u>841337478</u>		<u>352577371</u>
<u>Opening Stock of:</u>				
Work-in-Progress		228983041		169433694
Finished Goods	155748089		110122453	
Less: Central Excise duty liability	32153759		23368159	
		<u>123594330</u>		<u>86754294</u>
		<u>352577371</u>		<u>256187988</u>
(Increase) in Stocks : (C)		<u>(488760107)</u>		<u>(96389383)</u>
MATERIALS CONSUMED: (A+B-C)		<u>1258179533</u>		<u>1247674544</u>
16. MANUFACTURING EXPENSES				
Stores Consumed		51959912		32180217
Conversion Charges		1159868		1888960
Power and Fuel		178864328		133800002
Tools Written off		154552		96840
Repairs and Maintenance to :				
- Buildings		10434686		3819358
- Plant and Machinery		58823034		39904415
		<u>301396380</u>		<u>211689792</u>



SCHEDULES

	For the Year ended 31st March, 2004	For the Year ended 31st March, 2003
	Rs.	Rs.
17. SALARIES, WAGES AND OTHER ALLOWANCES TO STAFF :		
Salaries, Wages, Bonus and Other Allowances	114184585	73423822
Contribution to PF and ESI	3473939	2297476
Workmen and Staff Welfare expenses	7752738	5400155
	<u>125411262</u>	<u>81121453</u>
18. OTHER EXPENSES		
Managerial Remuneration	48908183	31461091
Directors' Sitting Fees	66000	66000
Printing and Stationery	4644371	3888030
Rent	2307317	2023429
Communication Expenses	3785514	2752825
Fees, Rates and Taxes	6268259	6534618
Travelling and Conveyance	13241718	9198560
Insurance	10503644	8345877
Repairs and Maintenance to Other Assets	1769110	470847
Vehicle maintenance	4602675	2926243
Payment to Auditors	980569	864350
Professional and Consultancy Charges	4330632	3070207
Research and Development Expenses	67919679	59286945
Freight and Handling Charges	69358034	56546205
Electrical Service Line charges	1200000	1950000
Factory Upkeep	12662699	7505631
Environment Management Expenses	10645124	9719309
Donations	599630	546600
Advertisement	376687	249896
Discount	92625	—
Sales Commission	17708612	10695483
Bad debts written-off	1072620	418380
General Expenses	15400440	11760736
Loss on Foreign Exchange fluctuations	3333659	—
Loss on Sale of Assets	379057	6694
	<u>302156858</u>	<u>230287956</u>
19. FINANCE CHARGES		
Interest on Fixed Loans	4433673	15978268
Interest on Working Capital Loans	12122590	12708723
Interest to Others	3411293	1632298
Bank charges and commission	13671024	14174603
	<u>33638580</u>	<u>44493892</u>

ACCOUNTING POLICIES

20. ACCOUNTING POLICIES:

A. FIXED ASSETS AND DEPRECIATION

- i. Fixed assets are stated at cost of acquisition including freight, duties, installation expenses and expenditure during construction where applicable.
- ii. Depreciation on Fixed Assets is provided under Straight Line Method at the rates specified in Schedule XIV of the Companies Act, 1956.

B. RESEARCH AND DEVELOPMENT:

Revenue Expenditure incurred for Research and Development is written off in the same year. Capital expenditure on Research and Development is shown as additions to Fixed Assets.

C. INVESTMENTS:

Investments intended to be held for long term are treated as long-term investments and are valued at cost of acquisition. Provision for decline in value of Long Term Investments in the nature of permanent, if any, is made in the accounts.

D. INVENTORIES :

- i) Inventories are valued at lower of cost or net realisable value except in case of tools and spares. Cost is determined using average cost method. Tools and spares are valued on revaluation.
- ii) Stationery, Uniforms, Medical, Canteen and Books and Periodicals are charged off to the revenue at the time of purchase / payment.

E. EXCISE DUTY:

Excise Duty collected and paid is recorded separately and any excess payment thereof is treated as expense during the year. The value of closing stock of finished goods includes excise duty paid/payable on such stocks.

F. FOREIGN EXCHANGE TRANSACTIONS:

Transactions in Foreign Exchange, other than those covered by forward contracts are accounted for at the exchange rate prevailing on the date of transactions. Assets and liabilities other than those covered by forward contracts are revalued at the year-end rates. Realised Gains and Losses on foreign exchange transactions, other than those relating to fixed assets are recognised in the profit and loss account.

G. PROPOSED / INTERIM DIVIDEND:

Dividends, if any, as recommended by the directors are accounted in the books of account, pending approval at the Annual General Meeting.

H. RETIREMENT BENEFITS:

i. GRATUITY AND EARNED LEAVE ENCASHMENT:

Accruing liability towards Gratuity and earned leave encashment to employees at the year end is provided on the basis of actuarial valuation made by an independent actuary.

ii. PROVIDENT FUND:

The company is contributing to the Employees Provident Fund maintained under the Employees Provident Fund scheme by the Central Government.



ACCOUNTING POLICIES

I. TAXATION:

Tax expense is the aggregate of current year tax and deferred tax charged or credited to the Profit and Loss account for the year.

Current Year Tax:

The Provision for taxation is based on assessable profits of the company as determined under the Income Tax Act, 1961. The Company also provides for such disallowances made on completion of assessment pending appeals, as considered appropriate depending on the merits of each case.

Deferred Tax:

Deferred Income Taxes are recognized for the future tax consequences attributable to timing differences between the financial statement determination of income and their recognition for tax purposes. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

J. EXPORT BENEFITS:

Advance Licences and Duty Entitlements against exports made by the company are accounted in the books on their utilisation/ disposal. However, the value of unutilised unconditional customs duty credit granted against Exports under Duty Entitlement Pass Book Scheme is being provided in the Books of Account.

K. REVENUE RECOGNITION:

- i. SALES: Domestic and export sales are recognized on dispatch of goods from the Factory and Port respectively.
- ii. Dividend on shares held by the company is recognised when the right of the company to receive the same is established and interest on deposits is accounted on accrual basis.

L. ACCOUNTING CONVENTION:

The financial statements are prepared under historical cost convention and on accrual basis.

NOTES TO ACCOUNTS

21. NOTES TO ACCOUNTS

1. The figures are rounded off to the nearest rupee and previous year figures have been regrouped/ rearranged wherever necessary.

2. CONTINGENT LIABILITIES:

	2003-04 Rs.	2002-03 Rs.
i) On account of Letters of Credit and bank guarantees issued by the bankers.	234694929	276623192
ii) On account of Foreign bills discounted with banks	6092498	3332480
iii) On account of indemnity given to APIIC Ltd., and IFCl against the Loan sanctioned to Pattancheru Enviro-Tech Limited to the proportionate amount of guarantee the company with reference to the shares held by against loan and other outstandings payable by Pattancheru Enviro-Tech Limited.	-Nil-	Not ascertainable
iv) On account of Bonds executed with Central Excise authorities for clearing goods meant for export without payment of duty	316800	39342024
v) Central Excise Duty - Show cause notices contested by the company.	6363646	4290452
vi) Claims against the company not acknowledged as debts	958910	856170
vii) Demands being disputed / contested by the Company	20771399	2424358

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross)

68221753 45854650

4. Land admeasuring 33.72 acres (Previous year 212.30 acres) acquired under deeds of assignment and under possession of the company at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist. is yet to be registered in the name of the company.

5. There are no specific claims on the company from Small Scale Industrial suppliers under the "Interest on Delayed Payments to Small Scale & Ancillary Industrial Undertakings Act, 1993".

6. The names of Small Scale Industrial Undertakings to whom the company owes a sum outstanding for more than 30 days are:

- i) Calcutta Plastic Industries. ii) Godavari Plasto Containers Pvt Ltd. iii) GPC Flow Instruments Pvt. Ltd. iv) Costal Ammonia Pvt. Ltd v) Sri Sairam Polymers vi) Yen Plass Pvt. Ltd vii) Durga Industries viii) Maruthi Core & Containers Pvt Ltd ix) Costal Plasto Containers x) SPP Poly Pack Pvt. Ltd xi) Super Olefins Pvt. Ltd

The above information and that given in Schedule 13 A- Current Liabilities regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the company.



NOTES TO ACCOUNTS

7. AMOUNTS PAID/PAYABLE TO AUDITORS:

	2003-04 Rs.	2002-03 Rs.
Audit fees	540000	459000
Tax Audit fees	162000	157500
For Company Law matters	—	193475
Certification charges	201550	60375
For Taxation matters	50000	202250
For Expenses (includes Rs. Nil (Previous year Rs.227600/-) Included in the share issue expenses)	27019	19350
Total	<u>980569</u>	<u>1091950</u>

8. MANAGERIAL REMUNERATION:

	2003-04 Rs.	2002-03 Rs.
Salary	11940000	7860000
Commission	32018090	21743984
Perquisites	3662373	1032707
Contribution to Provident Fund	1287720	824400
Total	<u>48908183</u>	<u>31461091</u>
Note: Provision for Gratuity, Leave Encashment and benefits under Personal Accident Insurance Premium and Membership fees to clubs are not included in the above.		

9. CALCULATION OF COMMISSION:

Computation of Net Profit in accordance with Section 349 read with section 198 of the Companies Act, 1956 with relevant details of the calculation of commission payable by way of percentage of such Profits to Chairman and Managing Director for the year ending 31st March, 2004

	2003-04 Rs.
Profit as per Profit and Loss Account	1019625676
Add:- Managerial Remuneration	48908183
Directors sitting Fee	66000
Loss on sale of Assets	379057
	<u>49353240</u>
	1068978916
Less: Provision for diminution in value of investments written back	325752
Provision for doubtful debts written back	1383505
	<u>1709257</u>
PROFIT U/S 198 (1) of the Companies Act 1956	<u>1067269659</u>
Commission @ 3 % of the above	32018090

NOTES TO ACCOUNTS

10. Expenditure under the following heads of account include
Prior Year Expenses detailed below:

Particulars	2003-04	2002-03
	Rs.	Rs.
Fees, Rates and Taxes	—	40200
Carriage and Freight	—	14588
Others	31602	130587
Total	<u>31602</u>	<u>185375</u>

11. Segmental Reporting:

- (i) As the Company's business consists of one reportable business segment of manufacturing and sale of Active Pharma Ingredients and Intermediates and consists of major revenue on account of exports out of India, no separate disclosures pertaining to attributable Revenues, Profits, Assets, Liabilities and Capital Employed are given.
- (ii) As part of Secondary reporting, revenues are attributed to geographical areas based on the location of the customers as detailed below:

Particulars	2003-04		2002-03	
	Revenue	%	Revenue	%
Exports	2689756301	87.57	2238694567	90.09
Domestic	381905531	12.43	246238443	9.91
Total	<u>3071661832</u>	<u>100.00</u>	<u>2484933010</u>	<u>100.00</u>

Note: The Company does not track its assets and liabilities by geographical area.

12. Transactions with Related Parties Pursuant To Accounting Standard – 18

List of Key Management Personnel

S. No.	Name of the Person
1.	Murali. K. Divi
2.	N.V. Ramana
3.	Dr. P. Gundu Rao
4.	D. Madhusudana Rao
5.	Kiran S. Divi

List of Relatives of Key Management Personnel

S. No.	Name of the Relative
1.	N. Laxmana Rao
2.	Mallikarjuna Rao Divi
3.	Nilima Divi
4.	Swarnalatha Divi
5.	N.Chandrika Ramana
6.	Shanti Chandra Divi

List of Companies in which Key Management Personnel has substantial interest

S. No.	Name of the Company
1.	Enmark Exim India Private Limited
2.	Divis' Pharmaceuticals Private Limited
3.	Divi's Bio-Tech Private Limited

NOTES TO ACCOUNTS

Transactions with Related Parties:

Particulars	2003-04		2002-03	
	Amount	Outstanding as at 31.03.2004	Amount	Outstanding as at 31.03.2003
	Rs.	Rs.	Rs.	Rs.
Remuneration to Key Management Personnel	48908183	32582841	31461091	22161019
Lease Rent to Key Management Personnel	1138659	130697	984540	79910
Salary and Allowances to Relatives of Key Management Personnel	450328	40849	430560	35213
Lease Rent to Relatives of Key Management Personnel	1138658	130697	1356540	109335
Sales Commission to a Company in which Key Management Personnel has substantial interest	1595463	1230712	422544	368305
Acceptance of Deposit from a Key Management Personnel	14500000	—	—	—
Repayment of Deposit to Key Management Personnel	14500000	—	—	—

13. Information on Leases as per Accounting Standard -19 on "Accounting for Leases":

- (i) The Company has operating lease for office premise, which is renewable on a periodical basis and cancellable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is 2277317/- (Previous Year Rs.1969080/-).
- (ii) The Company has taken certain vehicles under finance lease under non-cancellable terms. The details of the leases are:

Particulars	2003-04	2002-03
	Rs.	Rs.
Nature of Asset	--	Vehicles
Present Value of the Lease at the year end	Nil	2311521
Total outstanding Minimum Lease payments	Nil	2316257
- not later than one year	Nil	2316257
- Later than one year and not later than five years	Nil	Nil
- Later than five years	Nil	Nil

14. Earnings per Share (EPS): - The Numerator and denominator used to calculate Earnings Per Share:

Particulars	2003-04	2002-03
	Rs.	Rs.
Profit attributable to Equity Shareholders (A)	728431274	549033731
Basic/Weighted average number of Equity shares outstanding during the year (Nos.) (B)	12818700	11642948
Nominal Value of Equity Share (Rs.)	10/-	10/-
Earnings Per Share (A) / (B)	56.83	47.16

NOTES TO ACCOUNTS

15. Deferred Tax Liability:

Movement of Provision for Deferred Tax for the year ended 31.03.2004 is as given below:

Particulars	(Liability)/Asset As at 01.04.2003	(Charges)/ Credit for the year	(Liability)/ Asset as at 31.03.2004
	Rs.	Rs.	Rs.
Timing Differences on account of:			
1. Depreciation on Assets	(193266609)	(37021195)	(230287804)
2. Expenses allowable on the basis of Payment	8762258	(6514280)	2247978
3. Others	6386961	(1221803)	5165158
TOTAL	(178117390)	(44757278)	(222874668)

16. Additional information as required under Part - II of schedule VI of the companies Act, 1956:

	2003-04		2002-03	
i) Details of capacities and production:				
A. Registered capacity:				
Active Pharma Ingredients and Intermediates (MTs)		N.A.		N.A.
B. Installed capacity:				
Active Pharma Ingredients and Intermediates (MTs) (As certified by the Management, But not verified by the Auditors, being a technical matter)		1800		1350
C. Actual production:				
Active Pharma Ingredients and Intermediates (MTs) (Net of Captive Consumption of 1139.69MTs (Previous Year 138.6 MTs))		1322.29		1085.78
ii) Opening and Closing Stock of Finished Goods:	Qty	Value	Qty	Value
	MTs	Rs.	MTs	Rs.
<u>Opening Stock:</u>				
Active Pharma Ingredients and Intermediates	137.40	155748089	43.29	110122453
<u>Stock out of Trial Runs</u>				
Active Pharma Ingredients and Intermediates	—	—	78.94	—
<u>Closing Stock:</u>				
Active Pharma Ingredients and Intermediates	132.01	168030655	137.40	155748089
iii) Details of Turnover: (Inclusive of samples)				
Active Pharma Ingredients and Intermediates	1327.68	3071661832	1070.61	2484933010



NOTES TO ACCOUNTS

	2003-04		2002-03	
	Qty MTs	Value Rs.	Qty MTs	Value Rs.
iv) Details of Raw Materials Consumed:				
P-Anisaldehyde	685.54	154244670	758.40	171043008
Benzothiozole	402.50	46370667	598.24	64377131
Iodine	86.21	51551894	98.45	60441803
Methyl Chloro Acetate	541.97	33377615	825.14	49424964
Toluene	4929.29	119169748	3065.23	53166227
Others		1342225046		912053224
Total		<u>1746939640</u>		<u>1310506357</u>
v) Value of Imported and Indigenous Raw Materials consumed and their percentage to total consumption:				
	Value Rs.	%	Value Rs.	%
Imported	550333751	31.50	586098021	44.72
Indigenous	1196605889	68.50	724408336	55.28
Total	<u>1746939640</u>	<u>100.00</u>	<u>1310506357</u>	<u>100.00</u>

	2003-04 Amount	2002-03 Amount
	Rs.	Rs.
vi) Expenditure in Foreign Currency Towards:		
Membership and Subscription	306264	73669
Books and Periodicals	276523	362471
Travelling Expenses	4214231	4060190
Lab Chemicals	542643	363226
Consultancy charges	4133977	3068415
Sales commission	11799919	8244472
Foreign Bank charges	1791631	1668338
Finance charges	3133819	3739314
Others	1590189	1277337
vii) Earnings in Foreign Exchange:		
FOB Value of Exports	2587240100	2200928875
Contract Research Fee	26965838	8193760
Interest	112932	—

NOTES TO ACCOUNTS

	2003-04 Amount	2002-03 Amount
	Rs.	Rs.
viii) CIF Value of Imports:		
Raw Materials	554939520	595890617
Capital Equipment	21046163	20383282
Spares	2579829	1491085
ix) Remittances in Foreign Currency for Dividend:		
A. No. of Non-resident Shareholders	11	Nil
B. No. of Shares held(Equity shares of Rs. 10/- each)	180200	Nil
C. Dividend Remitted(Net of Tax Rs. Nil)	1081200	Nil

17. The schedules referred to in the Balance sheet form an integral part of Accounts.

18. Additional information as required under Part – IV to Schedule VI of the Companies Act, 1956 is given in Annexure.

SIGNATURES TO SCHEDULES 1 TO 21

Signed on 17th day of May, 2004 at Hyderabad.

Per Our Report of Even Date

For P.V.R.K. NAGESWARA RAO & CO.,
Chartered Accountants

MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

P.V.R.K. NAGESWARA RAO
Partner

L. KISHOREBABU
Chief Financial Officer

A. NARENDRA
Company Secretary



**ADDITIONAL INFORMATION AS REQUIRED UNDER PART-IV TO
SCHEDULE VI OF THE COMPANIES ACT, 1956**

i)	Registration Details		
	Registration No	:	01-11854
	State Code	:	01
	Balance Sheet Date	:	31.03.2004
			('Rs.'000)
ii)	Capital raised during the year		
	Public issue	:	Nil
	Rights issue	:	Nil
	Bonus issue	:	Nil
	Private Placement	:	Nil
iii)	Position of Mobilisation and deployment of funds		
	Total Liabilities	:	3174099
	Total Assets	:	3174099
a)	Sources of funds		
	Paid-up capital	:	128187
	Reserves and Surplus	:	2163774
	Secured Loans	:	582253
	Unsecured Loans	:	77011
	Deferred Tax Liability	:	222874
b)	Application of funds		
	Net Fixed Assets	:	1718472
	Investments	:	575
	Net Current Assets	:	1455052
	Misc Expenditure	:	Nil
	Accumulated Losses	:	Nil
iv)	Performance of Company		
	Turnover	:	3172829
	Total Expenditure	:	2153203
	Profit/Loss before tax	:	1019626
	Profit/Loss after tax	:	728431
	Earnings per share Rs.	:	56.83
	Dividend (Rate %)	:	80%
v)	Generic names of three principal Products/services of company (as per monetary terms)		
1.	Item Code No.(ITC Code)	:	2909.00
	Product Description	:	CIS(+)-Hydroxy Lactum
2.	Item Code No.(ITC Code)	:	2942.00
	Product Description	:	Naproxen
3.	Item Code No.(ITC Code)	:	2902.00
	Product Description	:	Dextromethorphan HBR