

Index

Key Indicators	2
Five Years Financials at a glance	3
Directors' Report	5
Management Discussion & Analysis	12
Corporate Governance	16
Auditors' Report	25
Stand-alone Financials	
Balance Sheet	28
Profit & Loss Account	29
Cash Flow Statement	30
Schedules to Balance Sheet	32
Accounting Policies	41
Notes to Accounts	43
Statement under Section 212	50
Consolidated Financials	51
Financials of Divis Laboratories (USA) Inc.	69
Financials of Divi's Laboratories EUROPE AG	74
Notice of Annual General Meeting	77

Registered Office:

7-1-77/E/1/303, Divi Towers
 Dharam Karan Road, Ameerpet
 Hyderabad – 500 016
 Tel: 91-40-2373 1318, 2373 1760/61
 Fax: 91-40-2373 3242
 e-mail: mail@divislaboratories.com
 URL: www.divislaboratories.com

Factory:

UNIT 1 (Choutuppal)
 Lingo jigudem Village, Choutuppal Mandal
 Nalgonda Dist. (A.P.) Pin 508 252

EOU UNIT (Chippada)
 Chippada Village,
 Bheemunipatnam Mandal,
 Visakhapatnam Dist. (A.P.) Pin 531 162

Auditors:

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

Subsidiaries:

Divis Laboratories (USA) Inc.
 New Jersey, USA.

Divi's Laboratories Europe AG
 Basel, Switzerland.

R & D Centers:

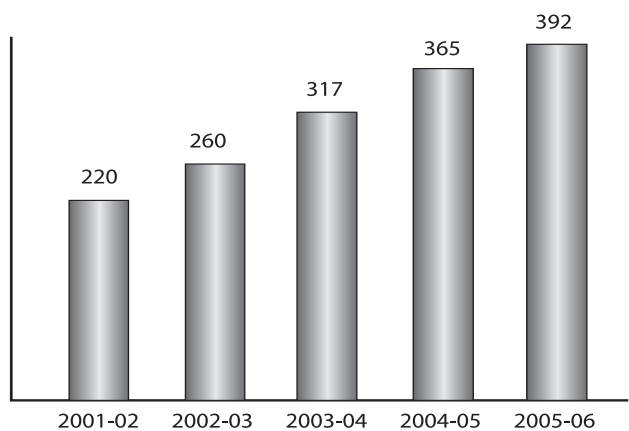
1. C-26, Industrial Estate
 Sanathnagar, Hyderabad. Pin 500 018
2. Lingo jigudem Village
 Choutuppal Mandal
 Nalgonda Dist (A.P.) 508 252
3. Chippada Village
 Bheemunipatnam Mandal
 Visakhapatnam Dist. (A.P.) Pin 531 162

Bankers:

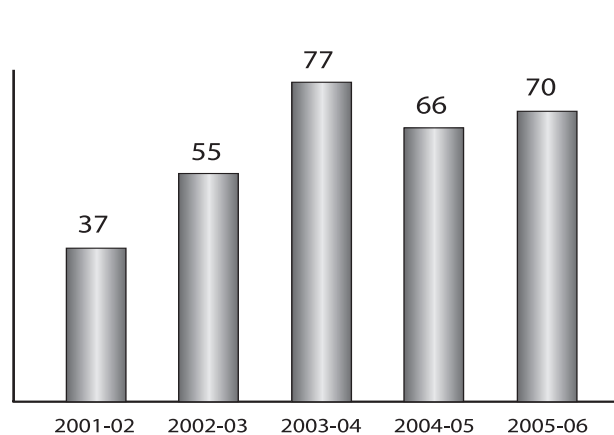
State Bank of Hyderabad
 State Bank of India
 The Lakshmi Vilas Bank Limited
 Bank of Nova Scotia

Key Indicators

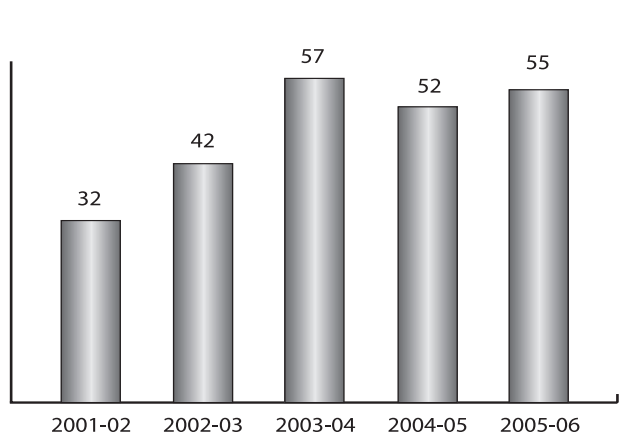
Sales (Rs. in Crores)



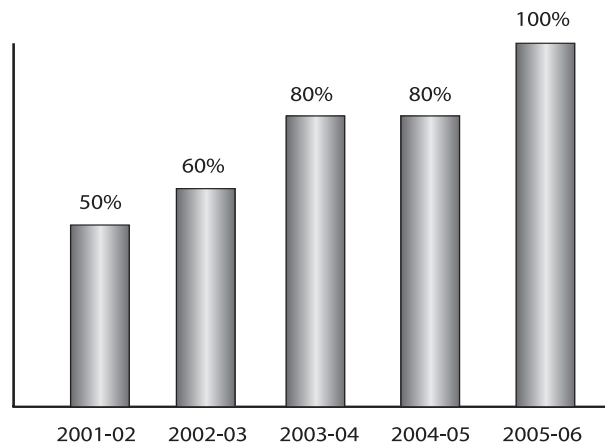
Net Profit (Rs. in Crores)



Earnings Per Share (Rs.)



Dividend



Five Years Financials at a Glance

(Rs. In Lakhs)

	31.03.2002	31.03.2003	31.03.2004	31.03.2005	31.03.2006
SALES	20705.00	24651.97	30283.14	34737.83	38111.07
Sales Growth (%)	10.14	19.06	22.84	14.71	9.71
Other Income	1320.02	1320.09	1445.15	1714.65	1062.48
TOTAL INCOME	<u>22025.02</u>	<u>25972.06</u>	<u>31728.29</u>	<u>36452.48</u>	<u>39173.55</u>
Total Income Growth (%)	11.59	17.92	22.16	14.89	7.46
Profit before Interest, Depreciation and Tax (PBDIT)	5730.49	8264.33	11856.85	12167.99	12731.03
Finance Charges	704.59	444.94	336.39	429.89	558.32
Depreciation	795.31	886.73	1324.21	1506.68	1481.59
Profit before tax (PBT)	4230.59	6932.66	10196.26	10231.42	10691.12
Profit before tax (PBT) Growth (%)	53.69	63.87	47.08	0.34	4.49
Provision for Taxation	573.31	1442.32	2911.94	3628.30	3643.98
Profit after Tax (PAT)	3657.28	5490.34	7284.31	6603.12	7047.14
Profit after Tax (PAT) Growth (%)	39.16	50.12	32.68	-9.35	6.72
Dividend	50%	60%	80%	80%	100%
Dividend payout	636.35	867.66	1164.89	1169.32	1461.65
Equity Share Capital	1154.90	1281.87	1281.87	1281.87	1281.87
Reserves & Surplus	9511.13	15510.31	21637.74	27084.12	32799.78
Net Worth	10666.03	16792.18	22919.61	28365.99	34081.65
Net Worth Growth (%)	23.73	57.44	36.49	23.76	20.15
Gross Fixed Assets	13131.59	19004.98	22360.32	25380.49	30185.58
Net Fixed Assets	9586.63	14592.55	16632.43	18154.39	21477.38
Total Assets	20515.59	29251.75	38342.38	37478.26	51916.04
KEY INDICATORS					
Earnings Per Share (Rs.)	31.67	42.83	56.83	51.51	54.98
Cash Earnings Per Share - Rs.	38.55	49.75	67.16	63.27	66.53
Total Income Per Share - Rs.	190.71	202.61	247.52	284.37	305.60
Book Value Per Share- Rs.	92.35	131.00	178.80	221.29	265.87
Total Debt to Equity	0.42	0.26	0.29	0.23	0.44
PBDIT / Gross Turnover %	26.02	31.82	37.37	33.38	32.50
Net Profit Margin %	17.66	22.27	24.05	19.01	18.49
Return on Net Worth %	34.29	32.70	31.78	23.28	20.68

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Directors' Report

Dear Shareholders,

Your Directors have pleasure in placing before you the Sixteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

(Rs. In Lakhs)

Particulars	2005-06	2004-05
Sales	38111	34738
Other income	1062	1715
Total Income	39174	36452
PBDIT	12731	121678
Finance Charges	558	430
Depreciation	1482	1507
Profit before tax	10691	10231
<u>Provision for tax:</u>		
- Income Tax	3316	3354
- Deferred Tax	313	274
- Fringe Benefit Tax	15	—
Profit after tax	7047	6603
Profit brought forward from previous year	18683	13994
Total available for Appropriation	25730	20597
Appropriations		
Proposed Dividend	1282	1026
Corporate Dividend Tax	180	144
General Reserve	710	745
Balance carried to Balance Sheet	23558	18683
Earnings Per Share (EPS)		
–Basic	54.98	51.51
–Diluted – Weighted Average	53.94	51.51

DIVIDEND

Your Directors recommend a dividend of Rs.10 per equity share of Rs.10/- each for the year 2005-06 subject to approval of the Members at the ensuing Annual General Meeting.

PERFORMANCE AND OPERATIONS REVIEW

During the year, Divi's achieved a turnover of Rs.38111 lakhs as against Rs. 34738 lakhs during the previous year reflecting a growth of 9.7%. Exports constituted 90% of total turnover and exports to advanced markets comprising Europe and America accounted for 74% of Company's business. Other Income earned during the year stood at Rs.1062 lakhs as against Rs. 1715 lakhs in the previous year. Profit after Tax (PAT) came to Rs.7047 lakhs as against Rs. 6603 lakhs during the previous year. An amount of Rs.710 lakhs has been transferred to General Reserve as against Rs.745 lakhs during the previous year. Earnings Per Share for the year works to Rs.54.98 per share as against Rs. 51.51 last year on absolute basis and to Rs.53.94 per share as against Rs.51.51 last year on diluted basis.

During the year, Divi's has added 14 products to its product portfolio of which 6 are generic APIs and intermediates and 8 are custom synthesis APIs and intermediates.

TAXATION

Divi's has made an Income-tax provision this year (including prior year adjustment) of Rs.3316 lakhs as against Rs.3354 lakhs during the previous year. An amount of Rs.313 lakhs has been provided during the year towards Deferred Tax Liability for the year as against a provision of Rs. 274 lakhs during the previous year.

CAPITAL EXPENDITURE

During the year, your company has taken up implementation of two Projects i) for a speciality ingredient for a large MNC company at a cost of Rs.35 crores and ii) an API and custom synthesis facility at a cost of Rs.80 crores. In addition, the company has incurred normal capital expenditure schemes at the existing Plants.

On these Projects and the Capex schemes, an expenditure of Rs.12857 lakhs has been incurred during the year, represented by:

- Rs.4830 lakhs of Assets capitalized during the year,
- Rs.6027 lakhs of Capital Work-in-Progress,
- Rs.397 lakhs of Unallocated Expenditure and
- Rs.1603 lakhs of Advances for Capital Works.

In respect of the speciality ingredient Project, due to some developments at its end, the MNC customer has terminated its contract with the company and compensated the company. As the Assets are still under Capital Work-in-Progress and the relevant revenue expenditure is grouped under 'Unallocated Expenditure', there is no impact on the profits and losses for the current year. The company is working towards using this facility for alternative products in its range.

Implementation of the 2nd Project is going according to schedule and will commence operations during the second quarter of 2006-07.

During the year, Divi's has invested an amount of Rs.4830 lakhs towards capital expenditure at its Manufacturing facilities at Choutuppal (Unit-1) and Chippada (Unit-2). Capital expenditure incurred at Unit-1 & 2 was for the following:

- De-bottlenecking and meeting FDA compliances at Unit-2
- Additional machinery installed at both Units for enhancing production capacity
- Installation of equipment to improve environment & safety in the Plants
- Reverse Osmosis system installed to improve the environment and achieve zero discharge of effluents
- An additional 33KV sub-station at Unit-1
- Additions were made to Utilites to meet the increased production capacity
- Additional distillation columns for solvent recovery

FINANCE

In order to part finance the new Projects, your company has obtained sanctions of Foreign Currency Term Loans to the tune of

Directors' Report

US \$ 17.1 million and Rupee Term Loan of Rs.20 crores from banks. Of these, FC loan to the extent of US \$ 8.1 million and Rupee Loan to the full extent have been drawn as of 31st March, 2006. Divi's has availed higher working capital limits to cater to increased business requirements. Divi's has been regular in payment of interest and other obligations with the Banks.

SPECIAL ECONOMIC ZONE and EXPORT ORIENTED UNIT

Your company has obtained approval from Government of India for developing a Special Economic Zone on a 250-acre land earmarked from out of its existing land at Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist. It is proposed to invest an amount of Rs.200 crores on this Site over a period of 3-4 years. The company has recently converted its existing Unit-2 at Chippada Village into an Export Oriented Unit for synergy of operations as the company is a consistent exporter for the last several years, with exports constituting about 90% of its business. This structure would help the company provide a level playing field and to be internationally competitive.

EMPLOYEE STOCK OPTION SCHEME

Your company has implemented an Employee Stock Option Scheme (ESOP 2006) for its employees on approval of the members through postal ballot. Necessary disclosures with respect to Scheme are given in the Annexure – I to this report. An amount of Rs.130.17 lakhs has been charged to Expenses during the year representing the issue price and intrinsic value as per SEBI Guidelines. Had the Fair Value been considered, the charge to P&L would have been higher by Rs.17.27 lakhs and the basic and diluted Earnings per Share (EPS) will be Rs.54.84 and Rs.53.81 respectively.

SUBSIDIARIES:

During the later part of the year, your company has incorporated M/s. Divi's Laboratories (USA) Inc., in the United States of America and M/s. Divi's Laboratories Europe AG in Switzerland as 100% Subsidiaries for the purpose of marketing its products and a greater reach to customers within these regions. Your Company has also inducted experienced personnel who have expertise in product distribution for the subsidiaries. As there is no commercial activity during the period, the set-up and administrative expenses resulted in net loss. The subsidiaries are expected to commence marketing operations during 2006-07. Since the accounts of subsidiaries were not audited at the time of consideration of annual accounts by the Board, the same were considered as 'un-audited financials' for consolidation of accounts. As these were audited subsequently, the same were noted by the board and are appended to this annual report.

FUTURE OUTLOOK

During the year, Divi's has filed 7 DMFs with US-FDA and 4 Dossiers with European Directorate. The cumulative DMFs filed with US-FDA are 26 and 8 with European Directorate. Divi's continues to have unique positioning in the generic and custom synthesis businesses due to its R&D capabilities and cGMP manufacturing facilities and cost competitive structure.

The company's product portfolio has increased from 90 to 104. There has been significant growth in the share of the top 5 products to leading consumers in US and Europe. Divi's is positioned in the value markets for a medium to long-term perspective and on a more stable business with potential to grow further.

In the custom manufacturing domain, many of the customers have increased their sourcing with several new products. The initial technical work related to qualifications is completed on several of these products and the commercial supplies look very promising.

Divi's is expanding its capacities to meet the increase in the opportunities in custom synthesis and generics space. Conversion of the existing Unit-2 as EOU and the work on development of a Special Economic Zone (SEZ) would bring in operational convenience and have a level playing field as Divi's is predominantly into Export.

DIRECTORS

Mr. Madhusudana Rao Divi and Mr. Kiran S. Divi re-appointed as Director (Projects) and Director (Business Development) with effect from 1st April 2006.

Mr. S. Vasudev, Mr. Madhusudana Rao Divi and Dr. G. Suresh Kumar will retire by rotation at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the applicable accounting standards have been followed in the preparation of the annual accounts;
- 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, 2006 and its profit for the year ended on that date;
- 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;
- the annual accounts have been prepared on a going concern basis.

AUDITORS

The Auditors, M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, Hyderabad retire at the ensuing Annual General meeting and are eligible for reappointment.

COST AUDIT

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed Cost Audit of the company for bulk drugs.

Subject to the approval of the Central Government, the Board has appointed M/s. EVS & Associates, Cost Accountants as Cost Auditors of the Company for the financial year 2005-06. The Cost Audit is under process and the Company will submit the Cost Auditor's report to the Central Government within the stipulated statutory period.

VOLUNTARY DE-LISTING OF SHARES

As approved by the shareholders at the Annual General Meeting held on 22nd August, 2005, equity shares of your Company were de-listed from the Hyderabad Stock Exchange effective from 29th March, 2006. The shares continue to remain listed on Bombay Stock

Directors' Report

Exchange, and National Stock Exchange of India Limited.

CORPORATE GOVERNANCE, MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Corporate Governance and Management Discussion & Analysis is included as a part of this 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 Accounting Standard No.AS-18.

FIXED DEPOSITS

Your Directors wish to inform that the Company has not accepted any deposits from public covered by provisions of Section 58A of the Companies Act, 1956.

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 – II to this report.

AWARDS

During the year, Divi's has received the following awards:

- Shreshtha Suraksha Puraskar and Prashansa Patra for Manufacturing Sector from National Safety Council of India.
- Best Management award from Ministry of Labour, Government of Andhra Pradesh.

- National Award for Excellence in Water Management from Confederation of Indian Industry.
- Appreciation Certificate for cleaner production by AP Pollution Control Board.

HUMAN RESOURCES

Divi's 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 - III attached and forms part of this 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 for the dedication and commitment extended by the employees of the Company. Your Directors also wish to place their deep sense of appreciation for the continued support of the customers, suppliers and investors in the Company.

For and on behalf of the Board of Directors

Hyderabad
31st July, 2006

Dr. Murali K. Divi
Chairman and Managing Director

Annexure-I

Statement of Stock Options as at 31st March 2006, pursuant to Guideline 12 of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, the details of Divi's Employee Stock Option Scheme 2006 as under:

a) Options granted	4,64,920	
b) Pricing formula As follows:		
	Vesting Period	Vesting Proportion
	End of One year from the date of Grant	20 %
	End of Two years from the date of Grant	25 %
	End of Three years from the date of Grant	25 %
	End of Four years from the date of Grant	30 %
		Exercise Price Amount
	End of One year from the date of Grant	At Rs.10 each
	End of Two years from the date of Grant	At Rs.1000 each
	End of Three years from the date of Grant	At Rs.1000 each
	End of Four years from the date of Grant	At Rs.1000 each
c) Options vested	Nil	
d) Options exercised	Nil	
e) Total number of shares arising as a result of exercise of option	4,64,920 The option share ratio is 1:1.	
f) Options lapsed	Nil	
g) Variation of terms of options	Nil	
h) Money realized by exercise of options	Nil	
i) Total number of options in force	4,64,920	
j) Employee wise details of options granted to:		
i) Senior Managerial Personal:		
	Name	Designation
	Mr. N V Ramana	Executive Director
	Dr. P Gundurao	Director (R&D)
	Dr. B Nageswara Rao	General Manager (R&D)
	Mr. P Srinivasa Rao	Chief Technologist
	Mr. M Ramesh Babu	Chief Technologist
	Mr. Y T S Prasad	General Manager
	Mr. G Hemanth Kumar	General Manager Production
	Mr. K Rajeswara Rao	General Manager
	Mr. S Devendra Rao	General Manager Production
	Mr. S Ramakrishna	General Manager Production
	Mr. L Kishorebabu	Chief Financial Officer
	Dr. M N A Rao	General Manager DRC
	Mr. Chandra S.divi	General Manager
	Dr. P V Subba Rao	General Manager (DRC-VZ)
	Dr. A S R Anjaneyulu	General Manager (DRC-VZ)
		No. of options granted
	Mr. N V Ramana	47340
	Dr. P Gundurao	9240
	Dr. B Nageswara Rao	10060
	Mr. P Srinivasa Rao	10060
	Mr. M Ramesh Babu	10060
	Mr. Y T S Prasad	7820
	Mr. G Hemanth Kumar	10060
	Mr. K Rajeswara Rao	9980
	Mr. S Devendra Rao	11200
	Mr. S Ramakrishna	9800
	Mr. L Kishorebabu	10020
	Dr. M N A Rao	7840
	Mr. Chandra S.divi	14520
	Dr. P V Subba Rao	1800
	Dr. A S R Anjaneyulu	1800

Annexure-I

ii) Employees receives a grant of 5 % or more of options granted during that year	Mr. N V Ramana, Executive Director			
iii) Employees receives grant of 1 % or more of issued capital	None			
Diluted Earnings per share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard AS-20 EPS	The stock-based compensation cost as per the intrinsic value method for the financial year 2005-06 is Rs.130.17 lakhs. If the stock-based compensation cost (CC) was calculated as per the fair value method prescribed by SEBI, the total cost to be recognized in the financial statements for the year 2005-06 would be Rs.147.44 lakhs. The effect of adopting the fair value method on the net income and earning per share is presented below:			
Where the Company has calculated the employees compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall been recognized if the company had used the fair value methods and its impact on profits and on EPS of the Company.	Pro Forma Adjusted Net Income and Earning Per Share			
	Particulars			Rs. in lakhs
	Net Income (As reported)			7047.14
	Add: Intrinsic Value CC			130.17
	Less: Fair Value CC			147.44
	Adjusted Pro Forma Net Income			7029.87
	Earning Per Share: Basic			
	As reported			54.98
	Adjusted pro forma			54.84
	Earning Per Share: Diluted			
As reported			53.94	
Adjusted Pro Forma			53.81	
Weighted- average exercise price of options granted during the year whose				
- Exercise price equals market price	Nil			
- Exercise price is greater than market price	Nil			
- Exercise is less than market price	Rs.800.20			
Weighted- average fair value of options granted during the year whose				
- Exercise price equals market price	Nil			
- Exercise price is greater than market price	Nil			
- Exercise is less than market price	Rs.1125.63			
A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information	The fair value has been calculated using the Black Scholes Option Pricing Model. The Assumptions used in the model are as follows:			
On the Date of grant				
Variables	Vest 1 – 13/03/2007	Vest 2 – 13/03/2008	Vest 3 – 13/03/2009	Vest 4 – 13/03/2010
Risk-free interest rate	7.04 %	7.12 %	7.19 %	7.25 %
Expected life	2.5 years	3.5 years	4.5 years	5.5 years
Expected volatility	27.16 %	46.42 %	45.13 %	44.78 %
Dividend yield	1.53 %	1.53 %	1.53 %	1.53 %
Price of the underlying share in market at the time of the option grant	1722.30	1722.30	1722.30	1722.30

Annexure-II

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

Particulars with respect to Conservation of Energy

1. CONSERVATION OF ENERGY

Power and Fuel consumption

Particulars	2005-06	2004-05
1. Electricity		
(a) Purchases:		
Units	355,30,367	345,18,583
Total Amount - (Rs.lakhs)	1171	1185
Rate/Unit - Rs.	3.29	3.43
(b) Own generation:		
Through diesel Generator Units	9,47,688	867,744
Units per Lt. of diesel	3.30	3.30
Cost/Unit - Rs.	9.71	7.76
2. Coal (D/C grade)		
Quantity (Kgs)	160,00,244	182,75,657
Total Cost - (Rs.lakhs)	369,87,619	397,59,254
Average rate - Rs.	2.31	2.18

2. CONSUMPTION PER UNIT OF PRODUCTION:

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

FORM - B

Particulars with respect to technology absorption

RESEARCH AND DEVELOPMENT (R&D):

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

4. Expenditure on R&D

Amount (Rs. in lakhs)

Particulars	2005-06	2004-05
a) Capital	134	206
b) Recurring	872	740
c) Total	1006	946
d) Total R&D Expenditure as a percentage of Sales	2.64%	2.72%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

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

Annexure-II

FORM - C

Foreign Exchange earnings and outgo (Rs.in lakhs)

Particulars	2005-06 Amount	2004-05 Amount
(a) Foreign Exchange earnings:		
i) FOB Value of Exports	33480	30159
ii) Contract Research Fee	319	660
iii) Professional fee	39	Nil
iv) Interest	1	Nil
v) Others	1	Nil
(b) Foreign Exchange outgo:		
i) Remittance in Foreign Currency:		
Dividend (Net of Tax)	11	11
ii) CIF value of imports:		
Raw Materials	10746	6404
Capital Goods	144	356
Spares	77	34

(Rs.in lakhs)

Particulars	2005-06 Amount	2004-05 Amount
iii) Expenditure in Foreign Currency towards:		
Memberships and Subscriptions	1	1
Books and Periodicals	12	8
Traveling Expenses	45	38
Laboratory Chemicals	197	5
Consultancy Charges	160	64
Sales Commission	177	209
Foreign Bank Charges	132	26
Finance Charges	67	5
Others	103	21
iv) Investment in subsidiaries	40	Nil
Advances to subsidiaries	116	Nil

Annexure-III

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

Name and Shareholding	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration ¹ (Rs.lakhs)	Last employment
Dr.Murali K.Divi	55	M.Pharm. Ph.D.	Chairman & Managing Director	10.10.94	31	401.84	Managing Director, Cheminor Drugs Ltd.
Sri N.V.Ramana	48	B.Sc.(Chem)	Executive Director	26.12.94	21	231.33	President, Enmark Exim Services.
Sri Madhusudana Rao Divi	62	M.E. (Structural Engg.)	Director (Projects)	14.10.94	37	38.86	Executive Director, Sadah General Trading and Construction Co., Kuwait
Dr.P.Gundu Rao	70	M. Pharm., Ph.D.	Director (R&D)	10.02.95	50	25.78	Principal, College of Pharmacy, Manipal.
Sri Kiran S.Divi	30	B. Pharm.	Director (Business Development)	10.08.01	05	24.36	First Employment
Sri L. Kishore Babu	54	B.Com, FICWA	Chief Financial Officer	01.03.95	33	25.56	Finance Manager Nagarjuna Fertilizers & Chemicals Ltd.

Note: 1. Remuneration includes salary, allowances, company's contribution to Provident Fund, provision for Gratuity, provision for Leave encashment, Commission, Stock Options and Other Benefits.

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 structure and development

The Indian pharmaceutical industry has the potential to become the region's hub for Research & Development worldwide and is estimated to be growing at 10% as compared to the global industry rate of 7% and poised to grow vertically in providing outsourcing of Active Pharmaceutical Ingredients (APIs) and custom manufacturing for the pharma MNCs.

According to estimate of IMS, the market for APIs is around US\$ 13 billion. Italy's Chemical Pharmaceutical Generic Association (CPA) reported that India and China jointly accounted for 20.7% of the world market for generic plus branded active pharmaceutical ingredients (APIs), a figure expected to reach 32% by 2010. But with sales of Indian APIs expected to grow by 19 % per year over the period 2005-2010, the CPA rates India as currently "**the most aggressive competition**" in the world generic APIs business. [Source: IMS Health and KPMG Study]

Company infrastructure

Divi's operates from its Headquarters and Registered Office at Hyderabad. The company has two manufacturing facilities:

- The 1st Facility at village Lingoijudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad.
- The 2nd Facility at village Chippada, Bheemunipatnam Mandal, Visakhapatnam District, about 30 KM from the Port City of Visakhapatnam on the east coast. This facility has recently been converted as EOU Unit.
- The company is also working towards developing and setting up a sector-specific Special Economic Zone (SEZ) for pharmaceuticals at Chippada, Bheemunipatnam Mandal on a 250-acre land earmarked from out of its existing land at Chippada. The company has since received approvals from the Government of India.

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 at a grams scale to establish proof of concept.

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 give process support where ever required.

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

Plant R&D – Unit 2: The company's second process development and scale up facility is located at Unit-2 at Chippada and works on similar lines as Plant R&D at Unit-1.

Subsidiaries

During the later part of the year, your company has incorporated M/s. Divi's Laboratories (USA) Inc., in the United States of America and M/s. Divi's Laboratories Europe AG in Switzerland as 100% Subsidiaries for the purpose of marketing its products and a greater reach to customers within these regions.

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

The new patent regime in place in India from 2005 is offering a conducive atmosphere for out-sourcing by big pharma companies which, in turn, results in major opportunities to Indian pharma companies committed to mutually beneficial business strategies with the innovators as opposed to conflicting business interests.

The company lays great stress on the three leverages it has in order to counter competition from its peers in Europe and US:

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

The company also attaches importance to retaining its pool of scientists and managerial personnel and strives to maintain its manufacturing practices and standards to cGMP and constantly works towards adhering to the regulatory requirements.

Risks and Concerns

With the various regulatory approvals for its manufacturing facilities, its track record of commitment to IPR and a diverse product portfolio, the company has a unique de-risked business

Management Discussion And Analysis

model for the emerging opportunities under the patent era post 2005.

Among wide range of products, the largest product accounts for 23 % and the top 5 products contributed around 60 % of revenues and the top 5 customers stands at 47 % of its revenues.

The company operates predominantly in export markets. The company has a substantial exposure to foreign exchange risk due to its exports. 90% of turnover of the company comprises exports and about 34% of its raw material consumption is also met from imports. The company constantly strives to protect itself from foreign exchange and various other business risks and concerns and takes appropriate measures from time to time to address the same. The company's current and fixed assets are adequately insured against various risks.

Operational Performance

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

(Rs. in Lakhs)

	2005-06	2004-05
Net Sales	38111	34738
Other income	1062	1715
Total Income	39174	36452
PBDIT	12731	12168
Finance charges	558	430
Depreciation	1482	1507
Profit before tax	10691	10231
Provision for tax	3316	3354
Deferred Tax Liability	313	274
Fringe Benefit Tax	15	—
Profit after tax	7047	6603
Earnings per Share (EPS) (Rs.)		
a)Basic	54.98	51.51
b)Diluted – (Weighted Average)	53.94	51.51
Dividend amount	1282	1026
Dividend %	100%	80%
Dividend pay-out	18%	16%
Debt-Equity Ratio	0.44	0.23
Book Value per Share (Rs.)	266	221

Sales turnover

Divi's has achieved a turnover net of taxes/duties of Rs. 38111 lakhs as compared to Rs. 34738 lakhs during the previous financial year, reflecting a growth of 9.71 %.

Your company's product portfolio has about 106 products covering :

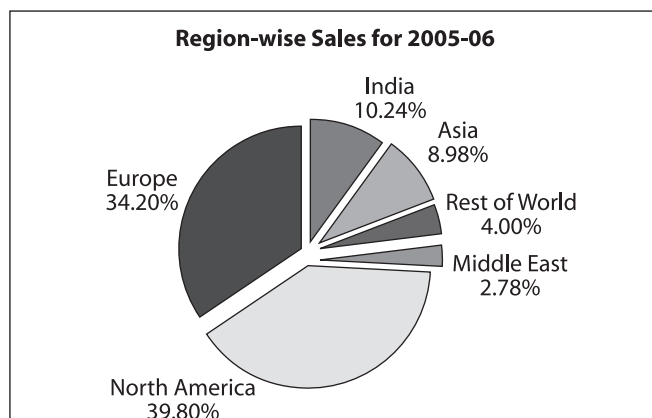
- i) Generic products such as Naproxen, Diltiazem, Dextromethorphan Hbr., Nabumetone, Iopamidol, Carbi Dopa, Levo Dopa, Phenylephrine and their intermediates.

- ii) Custom Synthesis of APIs and Intermediates for Overseas MNCs.
- iii) Peptide building blocks and Reagents
- iv) Carotenoids

Divi's has added 14 APIs and intermediates to its product portfolio, of which 6 are in custom synthesis and 8 are in generics and future generics.

Exports

Exports constituted 90% of turnover during the year which is the same as in the previous year. The company is constantly working towards enhancing its business to advanced markets.



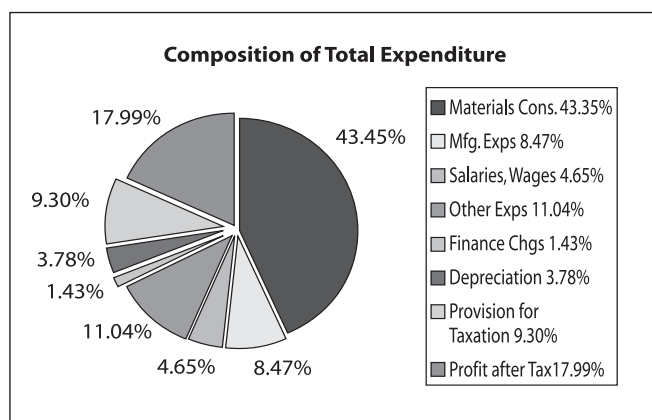
Other Income

Other Income mainly comprised Contract Research fee and sale/transfer of some of the export benefits (DEPB Credit and Duty Drawback) available to the company. Other Income for the year amounted to Rs.1062 lakhs as against Rs.1715 lakhs for the previous year.

Income on contract research accounted for Rs.348 lakhs during the year as against Rs. 660 lakhs during the last year. Income on Export benefits for the year came to at Rs.446 lakhs as against Rs. 903 lakhs during the last year. Lower income on Export benefit was the result of reduction in DEPB rates by the Government of India consequent to lowering the peak rate of duties as also higher utilization of the Credits for import of inputs.

Expenses

Composition of Expenses for the year are reflected in the graph below:



Management Discussion And Analysis

Material costs

Raw material consumption for the year was Rs. 18292 lakhs as against Rs. 18362 lakhs for the previous year. Closing Inventory of Raw materials was Rs.5545 lakhs as against Rs. 2256 lakhs.

Work-in-Process at the year end amounted to Rs.10998 lakhs and finished goods (net of duties) to Rs.1181 lakhs as against Work-in-Process of Rs. 9619 lakhs and Finished Goods of Rs.1318 lakhs respectively during the previous year.

Material consumption is largely dependent on the product mix and is in line with the past trend.

Manufacturing Expenses

Manufacturing expenses comprising of Power and Fuel, Repairs to Plant and stores consumption came to Rs.3317 lakhs for the year as against Rs. 3284 lakhs for the last year.

Salaries and Wages

Expense on salaries has gone up by about 21% over the previous year from Rs.1510 lakhs to Rs.1820 lakhs and constitutes an increase of about 0.5% of income over the previous year. The increase in salaries is on account of the induction of additional staff to cater to increased business needs, revision in remuneration during the later part of the year as also grant of Employee Stock Options.

Other Expenses

Major components of Other Expenses comprise managerial remuneration, R&D expenses, rates and taxes, insurance, Freight and handling charges, vehicle maintenance, factory upkeep, sales commission and general expenses. Other Expenses for the year amounted to Rs.4324 lakhs as against Rs.3652 lakhs. Managerial remuneration, rates and taxes, professional consultancy charges, loss on forex fluctuation are the major contributors to increase in expenses over the previous year. As a proportion of total income, other expenses have increased to 11% as compared to 10% during the year.

Finance charges

Interest and Finance charges during the year have increased to Rs.558 lakhs as against Rs. 430 lakhs during the previous year due to utilisation of higher working capital limits.

Profits before Depreciation, Interest and Taxes (EBIT)

EBIT for the year grew by about 4.6% to Rs.12731 lakhs as against Rs.12168 lakhs during the previous year.

Depreciation

Depreciation charge for the current year came to Rs.1482 lakhs including charge as compared to Rs.1507 lakhs during the last year. Most of the Assets purchased during 1995-96 have been fully depreciated and hence, there was a lower charge during the current year.

Taxation

Divi's had to provide for Income-tax of Rs.3360 lakhs for the current year. There was a credit of Rs.44 lakhs towards income-tax of earlier years. Income-tax provision during the last year was Rs.3354 lakhs.

Divi's has also provided for Deferred Tax Liability of Rs.313 lakhs for the year as against Rs. 274 lakhs during the previous year.

Profit after Tax

Profit after Tax during the year came to Rs.7047 lakhs as compared to Rs.6603 lakhs during the previous year.

Earnings Per Share

Earnings Per Share for the year works to Rs.54.98 per share as against Rs. 51.51 last year on absolute basis and to Rs.53.94 per share as against Rs.51.51 last year on a diluted basis. Calculation of EPS on a diluted basis was necessary in view of the grant of Employee Stock Option Scheme as per the Accounting Guidelines, although no shares are issued in pursuance of the ESOP.

Dividend

Your Board has recommended a dividend of Rs.10 per share for the year 2005-06 as against a dividend of Rs.8 per share for the last year. Dividend pay-out works out to 18.18% of profits earned for the year as against 15.53% last year. An amount of Rs.180 lakhs has been provided towards Corporate Dividend Tax during the year for the proposed dividend.

Financial condition

i) Secured Loans:

The company has obtained sanctions for Foreign Currency Loans amounting to an aggregate of US \$ 17 million and Rupee Term Loans of Rs.20 crores during the year for part-financing the expansion Projects. A part of the loans have been drawn and the balance would be drawn during the next year. The company has also availed higher working capital limits, for the growing business requirements, of which a major component is packing credit in foreign currency at competitive rates.

Interest incurred on the Term Loans have been grouped under Unallocated Expenditure and would be capitalized on implementation of the Expansion Projects.

ii) Capital Expenditure

During the year, your company has taken up implementation of two Projects i) for a speciality ingredient at a cost of Rs.35 crores and ii) an API and custom synthesis facility at a cost of Rs.80 crores. In addition, the company has incurred normal capital expenditure schemes at the existing Plants.

Capital expenditure of Rs.4830 lakhs incurred at Unit-1 & 2 was for the following:

- De-bottlenecking and meeting FDA compliances at Unit-2
- Additional machinery installed at both Units for enhancing production capacity
- Installation of equipment to improve environment & safety in the Plants
- Reverse Osmosis system installed to improve the environment and achieve zero discharge of effluents
- An additional 33KV sub-station at Unit-1
- Additions were made to utilites to meet the increased production capacity
- Additional distillation columns for solvent recovery

Capex incurred during the last year was Rs.3035 lakhs. Deductions of Rs.25 lakhs during the year are on account of VAT credit on additions made during 2004-05.

Management Discussion And Analysis

iii) Inventories

Major items of Inventories as of 31st March, 2006:

(Rs. in Lakhs)

Particulars	2005-06	2004-05
Raw Materials	5545	2256
Work-in-Process	10998	9619
Finished Goods	1363	1535

Increase in the levels of raw materials is due to procurement of materials based on expected orders for the next few quarters and increase in WIP is due to gearing for the increased volume of business planned. The company is also holding stock of some custom manufactured products without dispatch at the request of a customer who has paid the entire consideration as advance.

iv) Debtors

Debtors as of 31st March, 2006 amounted to Rs. 10744 lakhs as against Rs. 10217 lakhs during the previous year. The company normally offers a credit ranging between 45-90 days to its customers. The company has provided for doubtful debts of Rs. 4 lakhs and charged off an amount of Rs.3 lakhs towards bad debts during the year.

v) Loans and Advances

Loans and advances as of 31st March, 2006 amounted to Rs.5301 lakhs as against Rs.2582 lakhs during the previous year. Increase in Loans and Advances is on account of increase in recoverable deposits, accumulation of cenvat credit balances as also VAT Credits, advances to subsidiaries. The company is in the process of obtaining refunds of the accumulated balances of cenvat and VAT.

vi) Current Liabilities & Provisions

Current Liabilities and provisions as of 31st March, 2006 amounted to Rs.13092 lakhs as against Rs.7951 lakhs during the previous year. Increase in liabilities is on account of large purchases for capital works projects which are yet to be paid besides normal increase in business operations.

vii) Debt-Equity Ratio

Debt-equity ratio as of 31st March, 2006 works out to 0.44, based on total debt, as against 0.23 during the previous year. The increase is on account of borrowings for expansion projects as well as for working capital.

Return on Capital Employed

(Rs. in Lakhs)

Particulars	2005-06	2004-05
Net Fixed Assets *	19816	17374
Net Current Assets *	20793	17445
Capital Employed *	42037	32249
Profit Before Interest and Taxation	11249	10658
Return on Capital Employed	26.76%	33.05%

* Average

Community Development activities

During the year Divi's associated with various community development activities, viz. pulse polio immunization, eye camps, veterinary camps in the villages around the company's Manufacturing Facilities.

Divi's contributed on its own and through voluntary / Government organizations for several community development programs, viz. scholar-ships to merit students, distribution of free note books, chlorination of drinking water, desisting of irrigation canals, repairs of roads, sports etc.



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 for the financial year 2005 - 06 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

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 more important to the Board's understanding of the business in general and related 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 scheduled well in advance.

2.1 Composition

As at 31st March 2006, the Board comprised of ten directors, five of whom are Executive and remaining are non-executive independent directors. The category of directors as on 31st March 2006 is as follows:

Sl. No.	Name of the Director	Status / Designation	Category
1.	Dr Murali K. Divi	Chairman and Managing Director	Promoter and 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 Development)	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

Corporate Governance

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

During the financial year the Board has met four times, i.e. on 21st May 2005, 29th July 2005, 28th October 2005 and 30th January 2006. Director's attendance at the Board and General Meetings held during the financial year 2005-06 and number of other Directorship and Chairmanship/ Membership of Committees of each Director in various companies is as follows:

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.	Dr. Murali K. Divi	4	4	Yes	2	-	-
2.	Sri N.V.Ramana	4	3	Yes	-	-	-
3.	Sri Madhusudana Rao Divi	4	2	Yes	-	-	-
4.	Dr.P.Gundu Rao	4	2	No	-	-	-
5.	Sri Kiran S Divi	4	1	Yes	1	-	-
6.	Dr.K. Satyanarayana	4	2	Yes	-	-	-
7.	Sri S.Vasudev	4	3	No	-	-	-
8.	Sri G.Venkata Rao	4	3	Yes	1	-	-
9.	Prof. C.Ayyanna	4	4	No	-	-	-
10.	Dr.G.Suresh Kumar	4	4	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.

Re-appointment of Directors:

Mr. Madhusudana Rao Divi and Mr. Kiran S. Divi are re-appointed for a period of three years, subject to approval of members of the company in the ensuing Annual General Meeting, as Director (Projects) and Director (Business Development) respectively with effect from 1st April 2006. There are no changes in directors since last annual general meeting.

Brief resume of the directors retiring by rotation and seeking re-appointment:

Mr. S Vasudev, Independent Director, joined the company as Director being nominee of IDBI on 01.12.1999 and appointed as director liable to retire by rotation on 9th August 2004. He worked with IDBI as General Manager and has wide experience in term lending finance. He also worked with Apollo Hospitals Group as Vice President (Finance) and as Consultant to the Asian Development Bank, Manila. He is not a director of any other company and not holding any equity shares in the company as on 31st March 2006.

Dr. G Suresh Kumar, Independent Director, joined the company as Director on 10.03.2001. He is a consulting surgeon at Hyderabad. He worked as a Medical Officer with the Ministry of Health, Government of Algeria. He is not a director of any other company and not holding any equity shares in the company as on 31st March 2006.

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 Committee comprises three independent Directors met four times during the year, i.e. on 21st May 2005, 29th July 2005, 28th October 2005 and 30th January 2006.

Name	Designation	No. of Meetings	
		Held	Attended
Sri G Venkat Rao	Chairman	4	4
Sri S Vasudev	Member	4	3
Dr G Suresh Kumar	Member	4	4

Corporate Governance

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 Statutory Auditors of the Company.

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

b) Remuneration / Compensation 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.

Since the company has introduced Employee Stock Options as per SEBI guidelines, Compensation Committee has to be constituted which comprises of independent directors. Therefore the Remuneration Committee which comprises of only independent directors has been re-designated as Remuneration / Compensation Committee.

The said committee met thrice during the year on 21st May 2005, 30th January 2006 and 13th March 2006 and the attendance of each member of the Committee is as follows:

Name	Designation	No. of Meetings	
		Held	Attended
Dr K Satyanarayana	Chairman	3	2
Sri S Vasudev	Member	3	2
Prof C Ayyanna	Member	3	3

DETAILS OF REMUNERATION TO DIRECTORS

Executive Directors:

(Rs. In Lakhs)

Name	Salary	PF	Perks	Commn	Total	Stock Options (Nos.)
Dr. Murali K. Divi	42.00	5.04	12.85	341.95	401.84	Nil
Sri N V Ramana	33.00	3.96	23.40*	170.97	231.33	47340**
Sri Madhusudana Rao Divi	28.80	3.46	6.60	—	38.86	Nil
Dr. P Gundu Rao	16.80	0.35	8.63*	—	25.78	9240**
Sri Kiran S. Divi	17.88	2.15	4.33	—	24.36	Nil
Total	138.48	14.96	55.81	512.92	722.17	

*1. The compensation cost of Rs.15.84 lakhs on account of employee stock options granted to non promoter executive directors included in the perks is subject to approval of members at the ensuing annual general meeting.

**2. The above stock options have been granted along with the other eligible employees on 13.03.2006 and the details of vesting period and exercise price is as follows:

Vesting Period ending from the date of grant	Vesting Proportion	Exercise Period	Exercise Price Amount
One year	20 %	Within 3 (Three) years from the date of Vesting	Rs.10 each
Two years	25 %		Rs.1000 each
Three years	25 %		Rs.1000 each
Four years	30 %		Rs.1000 each

Corporate Governance

Non-Executive Directors:

The Company does not pay any remuneration to Non- Executive Directors except sitting fees and reimbursement of travelling and out of pocket expenses for attending Board and Committee meetings. The details of sitting fee paid to Non-Executive Directors during the year 2005-06 is as follows:

Sl. No.	Name of the Non-Executive Directors	Designation	No. shares holding	Sitting Fees (Rs. In Lakhs)
01	Dr K Satyanarayana	Director	1000	0.25
02	Sri S Vasudev	Director	Nil	0.45
03	Sri G Venkat Rao	Director	200	0.35
04	Prof C Ayyanna	Director	Nil	0.40
05	Dr G Suresh Kumar	Director	Nil	0.40

c) Shareholders / Investors' Grievance Committee

The Board has constituted the "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 share certificates and reviews all matters connected with the shares transfers. The Committee also looks into redressing of shareholders' complaints like non transfer of shares, non-receipt of dividend and balance sheet etc.

During the year the committee has met 10 times i.e., on 8th April 2005, 16th May 2005, 3rd June 2005, 5th July 2005, 19th October 2005, 28th October 2005, 10th January 2006, 30th January 2006, 10th February 2006 and 13th March 2006 and considered the share transfers, issue of duplicate shares, rematerialisation of shares and other investor grievances.

The constitution of the Committee and the attendance of each member of the Committee is as follows:

Name	Designation	No. of Meetings	
		Held	Attended
Dr. G Suresh Kumar	Chairman	10	10
Sri N V Ramana	Member	10	10
Sri L Kishore Babu	Member	10	10

Mr A Nagaraj Kumar, 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	Particulars	Opening	Received	Resolved	Pending
1.	Share Certificate/ Annual Report & Others	1	9	10	0
2.	Dividend Related	0	11	11	0

Disclosure on Legal Proceedings pertaining to shares

There are certain pending cases relating to dispute over title to shares, in which the Company has been made a party. These cases are however not material in nature.

Code of ethics and business conduct

The Board at its meeting held on 28th January 2005, has adopted the Code of ethics and business conduct for Directors and senior management. The code is comprehensive in nature and applicable to all Directors, Executive as well as Non-Executive and to Senior Management of the company.

Copy of the said Code is available on the Company's website www.divilaboratories.com. The code has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. A declaration signed by the Chairman & Managing Director is as follows.

I hereby confirm that the company has obtained from all the members of the board and senior management, affirmation that they have complied with the code of ethics and business conduct for directors and senior management in respect of the financial year 2005-06.

For and on behalf of the Board of Directors

Hyderabad
31st July, 2006

Dr. Murali K. Divi
Chairman and Managing Director

Corporate Governance

4. GENERAL BODY MEETINGS

Particulars of last three Annual General Meetings:

AGM	Year ended	Venue	Date & Time	Special Resolutions Passed
15 th	31.03.2005	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004	22.08.2005 10 A.M	1. Voluntary delisting of shares from Hyderabad Stock Exchange. 2. Re-appointment of Dr. P. Gundu Rao as Director (R&D)
14 th	31.03.2004		09.08.2004 10 A.M	Re-appointment of Dr.Murali K. Divi as Chairman and Managing Director and Mr. N V Ramana as Executive Director of the Company
13 th	31.03.2003		18.08.2003 10 A.M	Amendment of Articles of Association

SPECIAL RESOLUTION PASSED THROUGH POSTAL BALLOT:

The Company has sought approval through Postal Ballot from the Members during the year for offering, issuing and allotting equity shares of the Company by way of Employee Stock Option Scheme (ESOP) under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999 (Guidelines) to eligible employees of the Company. The resolution was approved by the Members with requisite majority.

The results of the postal ballot as per the report submitted by Mr. V. Bhaskara Rao, Scrutinizer to the postal ballot is as follows:

Sl. No.	Particulars	No. of Postal Ballots	% of Postal Ballots considered	No. of Shares	% of shares
1	Total number of Ballot papers received	372	100	7424783	100
2	Less: Invalid postal Ballot forms	0	0	0	0
3	Net valid postal Ballot forms	372	100	7424783	100
4	Total number of votes polled in favour of the resolution	338	90.86	7421457	99.95
5	Total number of votes polled against the resolution	34	9.14	3326	0.05

The Company has complied with the procedures for the Postal Ballot in terms of the Companies (Passing of Resolution by Postal Ballot) Rules, 2001 and amendments thereto.

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.13 of Notes to Accounts (Schedule - 24). 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 imposition of penalties or strictures by SEBI or the Stock Exchanges does not arise.

C) Risk Management

The company has been addressing various risks impacting the company and the policy of the company on risk management is provided elsewhere in this annual report in Management Discussion and Analysis.

D) Whistle Blower Policy

The company is in the process of development of suitable Whistle Blower Policy.

E) Compliance with mandatory requirements and adoption of non mandatory requirements of Clause 49

Certificates from M/s.P.V.R.K.Nageswara Rao & Co., Auditors of the Company, Dr. Murali K. Divi, Chairman and Managing Director and Mr. L Kishore Babu, Chief Financial Officer, confirming compliance with the conditions of Corporate Governance as stipulated under clause 49 of the Listing Agreement, are annexed to the Directors' Report forming part of the Annual Report.

The company has constituted Remuneration committee. A detail note on compensation / remuneration is provided elsewhere in the report.

As on date the company has not adopted other non-mandatory requirements i.e., half-yearly communication of financial performance to shareholders, training of board members, mechanism for evaluating non-executive board members.

Corporate Governance

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. They are also made available on the Company's website i.e., 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

Annual General Meeting	Date: 2 nd September 2006 Time: 10 AM
Venue	KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004
Financial Year	1 st April to 31 st March
Book Closure Date	25 th August 2006 to 1 st September 2006 (Both days inclusive)
Dividend payment date	On or before 3 rd October 2006
Listed on Stock Exchanges	a) Bombay Stock Exchange Ltd. b) National Stock Exchange of India Ltd
Stock Code	BSE - 532488 NSE - DIVISLAB
ISIN No	INE361B01016

The Company has paid listing fees for 2006-07 to both the above Stock Exchanges.

At the request of the company for voluntary de-listing of its equity shares from the Hyderabad Stock Exchange, the equity shares of the company stand de-listed from the Hyderabad Stock Exchange Limited, Hyderabad with effect from 29th March 2006.

9. Depository Registrar and 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

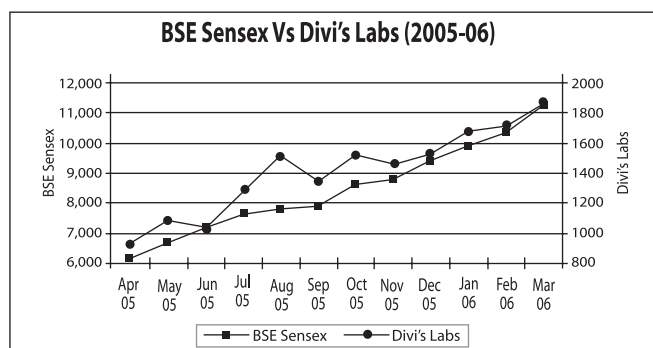
10. Market Price data:

Monthly high and low quotations as well as the volume of shares traded at Mumbai and National Stock Exchanges for the financial year 2005-06 are as follows:

Month	Mumbai Stock Exchange			National Stock Exchange		
	Low	High	Volume	Low	High	Volume
Apr-05	901	1,125	228011	900	1126	427710
May-05	911	1,110	91508	914	1109	400389
Jun-05	1,037	1,144	80004	1035	1125	275005
Jul-05	1,040	1,350	202286	1036	1348	625783
Aug-05	1,203	1,540	391926	1182	1537	1141301
Sep-05	1,312	1,570	156929	1300	1579	742666
Oct-05	1,260	1,694	195222	1262	1690	828142
Nov-05	1,330	1,549	83829	1330	1550	509702
Dec-05	1,425	1,537	184270	1430	1529	570995
Jan-06	1,520	1,750	117242	1522	1740	476979
Feb-06	1,675	1,867	235734	1675	1860	948256
Mar-06	1,600	1,920	250306	1598	1995	948607

No shares were traded at the Hyderabad Stock Exchange during year 2005-06.

Below given chart shows the stock performance in comparison to the broad-based index such as BSE Sensex.



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, 2006:

Financial Year	No. of warrants unclaimed	Unclaimed Dividend (Rs in Lakhs)
1998-1999	107	1.42
1999-2000	125	1.99
2000-2001	85	1.95
2001-2002	95	3.15
2002-2003	207	4.61
2003-2004	173	4.27
2004-2005	247	4.16

Corporate Governance

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

Members are also advised to **update their correspondence address** in their demat accounts in case of their holdings in electronic form or inform their latest correspondence address to the Registrars in case of holdings in physical form.

12. Pursuant to the provisions of Section 205A of the Companies Act, 1956, dividends that 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.

Accordingly the time period of 7 years has been expired on 16.07.2006 for claiming the unpaid dividend declared for the year 1998-99 on 16.07.1999. The Company is in the process of transferring the same to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956. No claim shall lie against the Company in respect of un-claimed dividend amounts transferred to the IEPF.

Members who have not so far encashed the dividend warrant (s) are requested to seek issue of duplicate dividend warrant (s) in writing to the Company's Registrar and Transfer Agents, M/s. Karvy Computershare Private Limited immediately. **Members 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.

Information in respect of such unclaimed dividends due for transfer to the Investor Education and Protection Fund (IEPF) is as follows:

Financial year ended	Date of declaration of dividend	Last date for claiming unpaid Dividend
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
31.03.2004	09.08.2004	08.08.2011
31.03.2005	22.08.2005	21.08.2012

13. Share Transfer System

The Share Transfer Committee approves transfer of shares in physical mode. The Company's RTA 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 Share transfer committee / Grievance Committee generally meet once in a fortnight for approving share transfers and for attending to any grievances or complaints received from the members.

14. Distribution of shareholding

Category	As on 31 st March 2006				As on 31 st March 2005			
	No. of Members		No. of Shares		No. of Members		No. of Shares	
	Total	%	Total	%	Total	%	Total	%
1 – 5000	6116	90.74	5330410	4.16	10963	93.78	7995000	6.24
5001 – 10000	304	4.51	2515660	1.96	404	3.46	3390130	2.64
10001 – 20000	137	2.03	2133170	1.66	150	1.28	2330640	1.82
20001 – 30000	48	0.71	1218380	0.95	46	0.39	1172800	0.91
30001 – 40000	27	0.40	972520	0.76	29	0.25	1047300	0.82
40001 – 50000	14	0.21	647950	0.51	12	0.10	561480	0.44
50001 – 100000	39	0.58	2965390	2.32	31	0.27	2307200	1.80
100001 & above	55	0.82	112403520	87.68	55	0.47	109382450	85.33
TOTAL	6740	100	128187000	100	11690	100	128187000	100

Corporate Governance

15. (i) Shareholding pattern

Category	As on 31.03.2006		As on 31.03.2005	
	No. of Shares	% to Share Capital	No. of Shares	% to Share Capital
Promoters	6920441	53.99	6913441	53.93
Mutual Funds and UTI	1114360	8.69	878651	6.85
Banks	8645	0.07	7815	0.06
Foreign Institutional Investors	2339030	18.25	2407772	18.78
Private Corporate Bodies	604094	4.71	596698	4.65
Indian Public	1503424	11.73	1748701	13.65
Non-Resident Indians / Overseas Corporate Bodies	185618	1.45	195573	1.53
Clearing Members	91408	0.71	18233	0.14
Trusts	430	0.00	766	0.01
Directors (Not having control over the Company)	51250	0.40	51050	0.40
Grand Total	12818700	100.00	12818700	100.00

(ii) Shareholding profile

Mode of Holding	As on 31.03.2006				As on 31.03.2005			
	No. of Holders	%	No. of shares	%	No. of Holders	%	No. of shares	%
Demat	6540	97.03	6350083	49.54	11410	97.60	6040324	47.12
Physical	200	2.97	6468617	50.46	280	2.40	6778376	52.88
Total	6740	100	12818700	100	11690	100	12818700	100

(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 **INE361B01016**. 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, 2006, 49.54 % of the shares were in demat mode.

(iv) Plant Location

Unit I: Lingoigudem Village, Choutuppal Mandal
Nalgonda Dist. (A.P.), Pin Code: 508 252

EOU Unit: Chippada Village, Bheemunipatnam mandal
Visakhapatnam Dist. (A.P.), Pin Code: 531 162

16. Correspondence address

Mr. A Nagaraj Kumar

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: cs@divislaboratories.com

For and on behalf of the Board of Directors

Hyderabad
31st July, 2006

Dr. Murali K. Divi
Chairman and Managing Director

Certification of Chairman and Managing Director and Chief Financial Officer pursuant to Clause 49 of the Listing Agreement

We, Dr. Murali K. Divi, Chairman and Managing Director and Mr. L. Kishorebabu, Chief Financial Officer, to the best of our knowledge and belief, certify that:

- a. We have reviewed balance sheet and profit and loss account (consolidated and unconsolidated) and all its schedules and notes on accounts as well as the cash flow statements and the directors' report;
 - i. do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. There are no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.
- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- d. We have indicated to the auditors and the Audit committee
 - i. significant changes in internal control over financial reporting during the year;
 - ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - iii. instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

For Divi's Laboratories Limited

Hyderabad
Date: 31st July 2006

Dr. Murali K. Divi
Chairman and Managing Director

L. Kishorebabu
Chief Financial Officer

Auditor's Certificate on Corporate Governance

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, 2006, 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, 2006, no investor grievances are pending against the Company as on 31.3.2006 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
Date: 31st July 2006

P V R K NAGESWARA RAO
Partner

Auditors' 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 2006, 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 statement 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 (Auditor's 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 31.03.2006, and taken on record by the Board of Directors, we report that none of the directors, is disqualified as on 31st March, 2006 from being appointed as 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, 2006;
 - 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
17.06.2006

P V R K NAGESWARA RAO
Partner
Membership No. 18840

Annexure

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF AUDIT REPORT OF EVEN DATE ON THE ACCOUNTS OF DIVI'S LABORATORIES LIMITED FOR THE YEAR ENDED 31ST MARCH 2006

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 Company has not disposed off any fixed assets during the year.
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 not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- (b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties 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 systems 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 and services. 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 and services.
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 particulars of contracts or arrangements 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, there are no 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 each party during the year.
6. According to the information and explanations given to us, the Company has not accepted any deposits from the public covered by the directives issued by the Reserve Bank of India and the provisions of Section 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under where applicable and issuance of Order by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal 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 generally regular in depositing, with appropriate authorities, the undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs duty, Excise duty, Cess and other material statutory dues applicable to it and in respect of these statutory dues, there are no outstanding dues as on 31.3.2006 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 Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty and Cess, which have not been deposited on account

Annexure

Name of the Statute	Period to which the amount relates	Nature of dues	Amount Rs.	Forum where dispute is pending
Excise duty	July, 2004	Claim for CENVAT Credit on Capital Goods	72,353	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	October, 2004 to March, 2005	Claim for CENVAT Credit on Capital Goods	3,36,585	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	July, 2004	Claim for CENVAT Credit on Capital Goods	11,70,672	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.
Excise duty	May, 2003	Claim for CENVAT Credit on Capital Goods	72,353	Commissioner of Central Excise & Customs (Appeals), Visakhapatnam, A.P.

of any dispute as on 31.3.2006 except Excise Duty, the details of which are as given under:

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 (Auditors' Report) Order, 2003 are not applicable to the Company for this year.
14. In our opinion, as the Company is not dealing in or trading in Shares, Securities, debentures and other investments, the provisions of Clause 4 (xiv) of the Companies (Auditors' Report) Order, 2003 are not applicable to the Company for this year.
15. As per the information and explanations given to us, there are no guarantees given for loans taken by others from financial institutions outstanding as on 31st March 2006.

16. According to records of the Company the term loans raised during the year have been applied / are under application, 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 funds raised on short term basis have not been used to finance long term investments made during the year.
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 or charge.
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
17.06.2006

P V R K NAGESWARA RAO
Partner
Membership No. 18840

Balance Sheet As At 31st March 2006

(Rs. In Lakhs)

	Schedule No.	As At 31st March 2006	As At 31st March 2005
SOURCES OF FUNDS :			
SHARE HOLDERS' FUNDS :			
Share Capital	1	1281.87	1281.87
Reserves and Surplus	2	32799.78	27084.12
		34081.65	28365.99
LOAN FUNDS :			
Secured Loans	3	14584.06	6287.96
Unsecured Loans	4	433.94	321.08
		15018.00	6609.04
DEFERRED TAX LIABILITY (NET)	5	2816.39	2503.23
TOTAL		51916.04	37478.26
APPLICATION OF FUNDS :			
FIXED ASSETS :			
Gross Block	6	30185.58	25380.49
Less: Depreciation		8708.20	7226.10
Net Block		21477.38	18154.39
Capital Work - in - Progress		6027.08	41.57
Unallocated Expenditure pending capitalization	7	396.77	-
Advances for Capital Works		1603.46	67.27
		29504.69	18263.23
INVESTMENTS	8	39.75	-
NET CURRENT ASSETS :			
A. CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	9	18385.88	13904.88
Sundry Debtors	10	10744.22	10216.92
Cash and Bank Balances	11	1014.71	448.78
Other Current Assets	12	17.99	13.71
Loans And Advances	13	5300.72	2582.22
		35463.52	27166.51
B. CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	14	11516.30	6681.80
Provisions	15	1575.62	1269.68
		13091.92	7951.48
NET CURRENT ASSETS (A-B)		22371.60	19215.03
TOTAL		51916.04	37478.26
ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		

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

For and on behalf of the Board

Dr. MURALI K.DIVI
 Chairman and Managing Director

N.V. RAMANA
 Executive Director

HYDERABAD **P.V.R.K.NAGESWARA RAO**
 17.06.2006 Partner

L. KISHOREBABU
 Chief Financial Officer

A. NAGARAJ KUMAR
 Company Secretary

Profit And Loss Account For The Year Ended 31st March 2006

(Rs. In Lakhs)

	Schedule No.	For the year ended 31st March 2006	For the year ended 31st March 2005
I INCOME :			
Gross Sales		38559.07	35126.58
Less: Excise Duty		448.00	388.75
Net Sales		38111.07	34737.83
Other Income	16	1062.48	1714.65
TOTAL		<u>39173.55</u>	<u>36452.48</u>
II EXPENDITURE :			
Materials Consumed	17	16981.61	15838.26
Manufacturing Expenses	18	3317.26	3284.14
Salaries, Wages and other Allowances to Staff	19	1819.87	1509.63
Other Expenses	20	4323.78	3652.46
Finance Charges	21	558.32	429.89
Depreciation	22	1481.59	1506.68
TOTAL		<u>28482.43</u>	<u>26221.06</u>
III PROFIT FOR THE YEAR:		10691.12	10231.42
Less: <u>Provision for Taxation:</u>			
-Current Tax		3360.00	3300.00
-Deferred Tax		313.16	274.48
- Income-tax adjustment of Earlier years		(44.18)	53.82
		<u>3628.98</u>	<u>3628.30</u>
- Fringe Benefit Tax		15.00	-
		<u>3643.98</u>	<u>3628.30</u>
IV PROFIT AFTER TAX		7047.14	6603.12
Add: Profit brought forward from last year		18682.93	13994.13
		25730.07	20597.25
Less: <u>Transfer to:</u>			
Proposed Dividend		1281.87	1025.50
Corporate Dividend Tax		179.78	143.82
General Reserve		710.00	745.00
Balance Carried to Balance Sheet		<u>23558.42</u>	<u>18682.93</u>
V Earnings Per Share:			
Basic (Rs.)		54.98	51.51
(Face Value Rs.10/- per share)	Diluted (Rs.)	53.94	51.51
ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		

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

For and on behalf of the Board

Dr. MURALI K.DIVI
 Chairman and Managing Director

N.V. RAMANA
 Executive Director

 HYDERABAD
 17.06.2006 **P.V.R.K.NAGESWARA RAO**
 Partner

L. KISHOREBABU
 Chief Financial Officer

A. NAGARAJ KUMAR
 Company Secretary

Cash Flow Statement For The Year Ended 31st March 2006

(Rs. In Lakhs)

PARTICULARS	For the year ended 31st March 2006	For the year ended 31st March 2005
I CASH FLOW / (USED) FROM OPERATING ACTIVITIES:		
Profit before tax for the year	10691.12	10231.42
Add/ (Less) : Adjustments for:		
Depreciation	1481.59	1506.68
Provision for Doubtful Debts made / (Written back)	(16.73)	14.88
Tools written off	3.26	2.42
Interest paid	433.95	311.38
Provision for decline in value of Investments written back	-	(0.61)
Loss on sale of Assets	-	4.22
Employee stock compensation costs amortised	130.17	-
Wealth Tax	1.30	1.31
Interest received	(61.34)	(29.60)
Bad debts written off	2.63	6.18
Profit on sale of Long term investments	-	(2.08)
	<u>1974.83</u>	<u>1814.78</u>
	12665.95	12046.20
Add / (Less) : Adjustments for Working Capital Changes :		
Trade and Other Receivables	(2973.86)	(3155.93)
Inventories	(4484.27)	(3147.76)
Trade Payables	<u>3256.10</u>	<u>1523.65</u>
	<u>(4202.03)</u>	<u>(4780.04)</u>
Cash generated from operations	8463.92	7266.16
Less : Direct taxes paid	3474.44	3477.11
Net Cash flow from operating activities (I)	<u>4989.48</u>	<u>3789.05</u>
II CASH FLOW / (USED) FROM INVESTING ACTIVITIES:		
Purchase of Fixed assets	(11073.51)	(2655.22)
Sale of Fixed assets	-	2.35
Sale of Long Term Investments	-	8.45
Subsidy Received	-	12.58
Investments In Subsidiaries	(39.75)	-
Advances to Subsidiaries	(115.97)	-
Net Cash used in Investing activities (II)	<u>(11229.23)</u>	<u>(2631.84)</u>

Cash Flow Statement

(Rs. In Lakhs)

PARTICULARS	For the year ended 31st March 2006	For the year ended 31st March 2005
III CASH FLOW/ (USED) FROM FINANCING ACTIVITIES:		
Interest received	63.84	25.28
Proceeds from Long Term Loans	5726.26	50.97
Repayment of Long Term Loans	–	(260.34)
Proceeds from Short Term Loans	2698.56	804.78
Repayment of Short Term Loans	(15.36)	(579.00)
Interest Paid	(496.73)	(312.02)
Corporate Dividend Tax paid (CDT)	(143.82)	(131.39)
Dividend Paid	(1025.50)	(1025.50)
Net Cash flow from Financing Activities (III)	6807.25	(1427.22)
IV Net Increase / (Decrease) in cash and cash equivalents	567.50	(270.03)
V Cash and Cash Equivalents as at the beginning of the year	178.52	448.55
VI Cash and Cash Equivalents as at the end of the year	746.02	178.52
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2005-06	2004-05
Cash and Bank Balances as per the Balance Sheet	1014.71	448.78
Less: Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.	268.69	270.26
	746.02	178.52

Note:

- 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.
- Significant Accounting Policies (Schedule 23) and other Notes to Accounts (Schedule 24) form an Integral part of the Cash Flow Statement
- 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

For and on behalf of the Board

Dr. MURALI K.DIVI
 Chairman and Managing Director

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 Executive Director

HYDERABAD
 17.06.2006
P.V.R.K.NAGESWARA RAO
 Partner

L. KISHOREBABU
 Chief Financial Officer

A. NAGARAJ KUMAR
 Company Secretary

Schedules

(Rs. In Lakhs)

	As At 31st March 2006		As At 31st March 2005	
01. SHARE CAPITAL:				
<u>AUTHORISED :</u>				
1,50,00,000 Equity Shares of Rs. 10/- each		1500.00		1500.00
5,00,000 Redeemable Preference Shares of Rs.100/- each		500.00		500.00
		<u>2000.00</u>		<u>2000.00</u>
<u>ISSUED :</u>				
1,30,00,000 Equity Shares of Rs.10/- each		<u>1300.00</u>		<u>1300.00</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>1281.87</u>		<u>1281.87</u>
02. RESERVES AND SURPLUS:				
<u>CAPITAL RESERVES:</u>				
Share Premium		4148.61		4148.61
Debenture Forfeiture Account		90.00		90.00
Debenture Premium Account		30.00		30.00
State Investment Subsidy		32.58		32.58
<u>EMPLOYEE STOCK OPTIONS OUTSTANDING:</u>				
As per Last account		-		-
Additions during the year		4191.49		-
Deletions during the year		-		-
		<u>4191.49</u>		<u>-</u>
Less: Deferred Employee Compensation Costs (Refer Note No.7 of Schedule No.24 -Notes to Accounts)		<u>4061.32</u>	130.17	<u>-</u>
<u>REVENUE RESERVES:</u>				
<u>General Reserve:</u>				
As per Last account		4100.00		3355.00
Add: Transferred from Profit and Loss Account		<u>710.00</u>	4810.00	<u>745.00</u>
PROFIT AND LOSS ACCOUNT (SURPLUS)		23558.42		18682.93
		<u>32799.78</u>		<u>27084.12</u>

Schedules

(Rs. In Lakhs)

	As At 31st March 2006	As At 31st March 2005
03. SECURED LOANS:		
<u>TERM LOANS :</u>		
From Banks:		
Foreign Currency Term Loans	3613.41	-
Rupee Term Loan	<u>2000.00</u>	<u>-</u>
	5613.41	-
{Secured by equitable mortgage of specified immovable properties of the Company and further secured by first charge on 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}		
<u>WORKING CAPITAL LOANS:</u>		
From Banks	8947.84	6278.40
(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	22.81	9.56
(Secured by hypothecation of Vehicles acquired against the Loan)	<u>14584.06</u>	<u>6287.96</u>
04. UNSECURED LOANS:		
Interest Free Sales Tax Loan	433.94	321.08
	<u>433.94</u>	<u>321.08</u>
05. DEFERRED TAX LIABILITY(NET):		
Balance brought forward	2503.23	2228.75
Add: Adjustments during the year	313.16	274.48
(Refer Note No.16 of Schedule 24 Notes to Accounts)	<u>2816.39</u>	<u>2503.23</u>

Sl. No.		Description	GROSS BLOCK				DEPRECIATION				NET BLOCK		
			Cost as at 01.04.2005	Additions	Deductions	Total Upto 31.03.2006	Upto 31.03.2005	For the Year	On Deductions	Total Upto 31.03.2006	At at 31.03.2006	As at 31.03.2005	
1		LAND AND DEVELOPMENT	623.17	-	-	623.17	-	-	-	-	-	623.17	623.17
2		BUILDINGS	5729.43	540.66	-	6270.09	777.79	171.10	-	948.89	-	5321.20	4951.64
3		PLANT AND MACHINERY	16869.66	3977.09	24.70	20822.05	5954.13	1171.77	2.91	7122.99	2.91	13699.06	10915.53
4		LABORATORY EQUIPMENT	1508.23	228.68	-	1736.91	237.90	73.77	-	311.67	-	1425.24	1270.33
5		FURNITURE AND FIXTURES	123.47	12.66	-	136.13	69.83	12.86	-	82.69	-	53.44	53.64
6		DATA PROCESSING EQUIPMENT	166.49	16.53	-	183.02	83.44	20.12	-	103.56	-	79.46	83.05
7		VEHICLES	360.04	54.17	-	414.21	103.01	35.39	-	138.40	-	275.81	257.03
		TOTAL	25380.49	4829.79	24.70	30185.58	7226.10	1485.01	2.91	8708.20	2.91	21477.38	18154.39
		PREVIOUS YEAR	22360.32	3035.21	15.04	25380.49	5727.89	1506.68	8.47	7226.10	8.47	18154.39	16632.43

06. FIXED ASSETS:

(Rs. in Lakhs)

Schedules
7. STATEMENT OF UNALLOCATED EXPENDITURE, PENDING CAPITALISATION, INCURRED UPTO 31ST MARCH 2006

(Rs. In Lakhs)

PARTICULARS	UPTO 31st March 2005	For the Year	UPTO 31st March,2006
Stores Consumed	-	2.93	2.93
Electricity Charges	-	50.19	50.19
Repairs and Maintenance	-	0.12	0.12
Salaries, Wages and Allowances	-	8.91	8.91
Staff Welfare Expenses	-	0.01	0.01
Printing and Stationary	-	1.27	1.27
Rent	-	4.70	4.70
Communication Expenses	-	3.71	3.71
Fee, Rates and taxes	-	0.09	0.09
Travelling and Conveyance	-	51.41	51.41
Insurance	-	0.22	0.22
Legal and Professional Charges	-	54.87	54.87
Factory Upkeep	-	1.80	1.80
Carriage and Freight	-	1.95	1.95
General Expenses	-	14.99	14.99
Loss on Forex Fluctuations	-	5.65	5.65
INTEREST ON TERM LOANS:			
- Foreign Currency Term Loan	-	66.65	66.65
- Rupee Term Loan	-	22.28	22.28
Interest on Overdraft	-	4.99	4.99
Bank Charges	-	104.01	104.01
Depreciation	-	0.51	0.51
	-	401.26	401.26
Less:- Interest Earned (Net of Provision for Tax of Rs.2.28 lakhs)	-	4.49	4.49
	-	396.77	396.77

Schedules

(Rs. In Lakhs)

	As At 31st March 2006	As At 31st March 2005
8. INVESTMENTS:		
<u>LONG - TERM</u>		
<u>NON TRADE- UNQUOTED</u>		
A. <u>IN SUBSIDIARIES:</u>		
- Divis Laboratories (USA) Inc		
1000 Ordinary Shares of US\$0.01 each fully paid-up	22.18	-
- Divi's Laboratories EUROPE AG		
200 Shares of CHF 500 each on which CHF 250 paid-up	17.57	-
	<u>39.75</u>	-
B. <u>IN OTHER COMPANIES:</u>		
Pattan Cheru Enviro - Tech Limited		
12000 Equity Shares of Rs.10/- each fully paid-up	1.20	1.20
Less: Provision for decline in Value of Investments	<u>1.20</u>	<u>1.20</u>
Value of Un -Quoted Investments	<u>39.75</u>	<u>-</u>
Aggregate Value of Quoted Securities	Nil	Nil
Aggregate Market Value of Quoted Securities	Nil	Nil
Aggregate Value of Unquoted Securities	<u>39.75</u>	<u>Nil</u>
9. INVENTORIES:		
(As taken, Valued and Certified by the Management)		
Stock of Raw Materials	5544.95	2256.23
Stock of Stores and Spares	190.40	165.85
Stock of Work-in-Process	10998.14	9619.01
Stock of Finished Goods	1363.22	1534.62
Material in Transit	281.32	323.53
Tools and Spares	7.85	5.64
	<u>18385.88</u>	<u>13904.88</u>
10. SUNDRY DEBTORS:		
(Unsecured)		
Outstanding for a Period Exceeding Six Months		
- Considered Good	285.52	141.37
-Considered doubtful	4.47	21.20
	<u>289.99</u>	<u>162.57</u>
Less : Provision for Doubtful Debts	<u>4.47</u>	<u>21.20</u>
Others:		
- Considered Good	10458.70	10075.55
	<u>10744.22</u>	<u>10216.92</u>

Schedules

(Rs. In Lakhs)

	As At 31st March 2006	As At 31st March 2005
11. CASH AND BANK BALANCES:		
Cash on Hand	14.80	16.02
Balance with Scheduled Banks :		
- In Current Accounts	152.76	181.10
- In Term Deposit Accounts	847.15	251.66
{Of the above, Rs.0.02 lakhs (Previous year Rs.0.02 lakhs) has been pledged with Department of Commercial Taxes, Government of Andhra Pradesh and Rs.247.13 lakhs (Previous Year Rs.251.64 lakhs) towards Margin on Letters of Credits and Guarantees issued by the Banks}		
	<u>1014.71</u>	<u>448.78</u>
12. OTHER CURRENT ASSETS:		
Interest accrued on deposits	17.99	13.71
	<u>17.99</u>	<u>13.71</u>
13. LOANS AND ADVANCES:		
(Unsecured, considered good, recoverable in cash or in kind or for value to be received)		
Deposits Recoverable	269.60	339.06
Advances to Suppliers	412.91	197.37
Advance for Expenses	8.71	8.64
Central Excise Duty	2270.70	1293.98
Prepaid Expenses	90.95	67.27
Other Advances and Recoverables	1481.30	166.12
Prepaid Taxes (Net of Provision for Taxation)	650.58	509.78
Advances to Subsidiaries	115.97	—
(Maximum outstanding during the year- Rs.115.97 lakhs) (Previous Year Rs. Nil)	<u>5300.72</u>	<u>2582.22</u>

Schedules

(Rs. In Lakhs)

	As At 31st March 2006		As At 31st March 2005	
14. CURRENT LIABILITIES				
<u>CREDITORS FOR CAPITAL WORKS</u>				
-Small Scale Industrial Undertakings (Refer Note No.6 of Schedule 24- Notes to Accounts)	18.46		0.51	
-Others	<u>1690.67</u>	1709.13	<u>148.52</u>	149.03
<u>SUNDRY CREDITORS :</u>				
-Small Scale Industrial Undertakings (Refer Note No.6 of Schedule 24- Notes to Accounts)	39.99		43.86	
-Others	<u>8352.99</u>	8392.98	<u>5400.74</u>	5444.60
Advances from Customers		1361.52		1069.57
Interest Accrued But Not Due		31.14		—
<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)		21.53		18.60
		<u>11516.30</u>		<u>6681.80</u>
15. PROVISIONS				
Provision for Gratuity and Leave Encashment		113.19		100.36
Proposed Dividend		1281.87		1025.50
Provision for Corporate Dividend Tax		179.78		143.82
Provision for Fringe Benefit Tax (Net of Tax Paid)		0.78		—
		<u>1575.62</u>		<u>1269.68</u>

Schedules

(Rs. In Lakhs)

	For the year ended 31st March 2006		For the year ended 31st March 2005	
16. OTHER INCOME:				
Contract Research Fee		347.68		660.42
Export Benefits		445.92		903.02
Interest Earned (Gross) (TDS Rs.7.65 lakhs (Previous Year Rs.6.44 lakhs))		61.34		29.60
Provision for doubtful debts written back		16.73		-
Profit on Sale of Investments		-		2.08
Gain on Forex Fluctuation		-		19.80
Provision for decline in value of Long Term Investments no longer required written back		-		0.61
Miscellaneous Income		190.81		99.12
		1062.48		1714.65
17. MATERIALS CONSUMED:				
A. RAW MATERIALS CONSUMED:				
Opening Stock	2256.23		1834.13	
Less: VAT Credit availed	6.89	2249.34	-	1834.13
Add: Purchases		21655.50		18916.38
		23904.84		20750.51
Less: Closing Stock	5544.95		2256.23	
Sales	68.07	5613.02	131.99	2388.22
		18291.82		18362.29
	(A)			
B. (INCREASE) IN STOCKS :				
<u>Closing Stock of :</u>				
Finished Goods	1363.22		1534.62	
Less: Central Excise duty liability	182.20	1181.02	216.23	1318.39
Work-in-Progress		10998.15		9619.01
		12179.17		10937.40
<u>Opening Stock of:</u>				
Finished Goods	1534.62		1680.31	
Less: Central Excise duty liability	216.23	1318.39	231.77	1448.54
Work-in-Progress	9619.01		6964.83	
Less: VAT Credit availed	68.44	9550.57	-	6964.83
		10868.96		8413.37
(Increase) in Stocks :	(B)	(1310.21)		(2524.03)
MATERIALS CONSUMED:	(A-B)	16981.61		15838.26
18. MANUFACTURING EXPENSES:				
Stores Consumed		741.43		611.92
Power and Fuel		1848.47		1912.64
Conversion Charges		14.06		28.33
Tools Written off		3.26		2.42
Repairs and Maintenance to :				
- Buildings		102.07		108.17
- Plant and Machinery		607.97		620.66
		3317.26		3284.14

Schedules

(Rs. In Lakhs)

	For the year ended 31st March 2006	For the year ended 31st March 2005
19. SALARIES, WAGES AND OTHER ALLOWANCES TO STAFF:		
Salaries, Wages, Bonus and Other Allowances	1673.05	1411.98
Contribution to PF and ESI	48.24	40.94
Workmen and Staff Welfare expenses	98.58	56.71
	<u>1819.87</u>	<u>1509.63</u>
20. OTHER EXPENSES:		
Managerial Remuneration	722.17	681.54
Directors' Sitting Fees	1.85	1.37
Printing and Stationery	66.33	64.54
Rent	14.86	20.90
Communication Expenses	51.42	37.57
Fees, Rates and Taxes	287.59	213.92
Travelling and Conveyance	177.28	129.65
Insurance	136.13	116.54
Repairs and Maintenance to other Assets	21.94	18.25
Vehicle Maintenance	73.87	55.66
Payment to Auditors	16.03	14.71
Professional and Consultancy Charges	129.23	69.27
Factory Upkeep	120.80	135.07
Research and Development Expenses	871.87	740.16
Environment Management Expenses	112.75	102.82
Freight and Handling Charges	854.26	734.96
Advertisement	2.97	6.47
Discount	-	0.79
Sales Commission	258.45	278.20
General Expenses	234.38	201.64
Claims Written off	7.13	-
Bad Debts Written-off	2.63	6.18
Provision for Doubtful Debts	-	14.88
Donations	5.81	3.15
Loss on Foreign Exchange Fluctuations	154.02	-
Loss on sale of assets	-	4.22
	<u>4323.78</u>	<u>3652.46</u>
21. FINANCE CHARGES		
Interest on Fixed Loans	-	10.15
Interest on Working Capital Loans	361.80	222.16
Interest to Others	72.15	79.07
Bank Charges and Commission	124.37	118.51
	<u>558.32</u>	<u>429.89</u>
22. DEPRECIATION:		
Depreciation for the year as per Schedule No.6	1485.01	1506.68
Less: Depreciation written back due to availment of VAT Credit on additions of earlier years	2.91	-
	<u>1482.10</u>	<u>1506.68</u>
Less: Depreciation included in Unallocated Expenditure pending Capitalisation	0.51	-
	<u>1481.59</u>	<u>1506.68</u>

Accounting Policies

23. ACCOUNTING POLICIES:

A. ACCOUNTING CONVENTION:

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

B. FIXED ASSETS AND DEPRECIATION:

- i. Fixed assets are stated at cost of acquisition including freight, duties and 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.
- iii. Depreciation on Fixed Assets used for the Project under construction is included under Unallocated Expenditure Pending Capitalisation.
- iv. Revenue Expenditure incurred during the construction period of the Project is shown under "Unallocated Expenditure Pending Capitalisation" till the commencement of the commercial production and the same will be capitalized by allocating to relevant assets in the ratio of their direct cost.

C. INVESTMENTS:

- i. Investments intended to be held for long term are treated as long-term investments and are valued at cost of acquisition.
- ii. 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 items and Books and Periodicals are charged off to the revenue at the time of purchase /payment.

E. 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.

F. 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.

G. EMPLOYEE STOCK OPTION SCHEME:

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of the shares, at the date of grant of option under the employee stock option scheme, over the exercise price is treated as employee compensation and amortised over the vesting period of the stock options.

H. FOREIGN EXCHANGE TRANSACTIONS:

- i. Transactions in Foreign Exchange, other than those covered by forward contracts are accounted for at the exchange rate prevailing on the date of transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the Profit and Loss Account except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.
- ii. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date other than those covered by forward contracts are translated at the year end rates. The resultant exchange differences except those related to acquisition of fixed assets are recognised in the profit and loss account.
- iii. Non-monetary assets and liabilities are recorded at the rates prevailing on the date of the transaction.

I. 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

J. TAXES ON INCOME:

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

ii. 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.

iii. 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.

iv. Fringe Benefit Tax:

The provision for Fringe Benefit Tax is made in respect of Employee benefits and other specified expenses as per the Provisions of Income Tax Act, 1961.

K. EXPORT BENEFITS:

Advance Licences and Duty Entitlements against exports made by the company are accounted in the books on their utilization/ 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

L. 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.

M. 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.

N. EARNINGS PER SHARE:

- i. The basic earnings per share is calculated considering the weighted average number of equity shares outstanding during the year
- ii. The diluted earnings per share is calculated considering the effects of potential equity shares on net profits after tax for the year and weighted average number of equity shares outstanding during the year.

Notes To Accounts

24. NOTES TO ACCOUNTS

1. Previous year figures have been regrouped/ rearranged wherever necessary.
2. CONTINGENT LIABILITIES:

Particulars	(Rs in lakhs)	
	2005-06	2004-05
i) On account of Letters of Credit and bank guarantees issued by the bankers.	2286.24	3108.01
ii) On account of Foreign bills discounted with banks	78.07	-
iii) On account of Bonds executed with Central Excise/ Customs authorities for importing goods without payment of duty for its proposed 100% Export Oriented Unit.	2000.00	-
iv) Claims against the company not acknowledged as debts	-Nil-	10.19
v) Demands being disputed / contested by the Company	50.10	286.33

3. i) Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross) **3703.80** 223.02
- ii) Uncalled Liability on partly paid Shares of Divi's Laboratories Europe AG **17.57** Nil
4. Land admeasuring 33.72 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:
(1) Calcutta Plastic Industries, (2) Godavari Plasto Containers Pvt Ltd., (3) GPC Flow Instruments Pvt. Ltd., (4) Costal Ammonia Pvt. Ltd., (5) Sri Sairam Polymers, (6) Durga Industries, (7) Super Olefins Pvt. Ltd., (8) Coastal Plasto Containers(P) Ltd., (9) SPP Poly Pack Pvt. Ltd., (10) Yen Plas Private Limited.

The above information and that given in Schedule 14 - 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.

7. EMPLOYEE STOCK OPTIONS:

In respect of Options granted to employees during the year under the Employees Stock Option scheme, in accordance with the guidelines issued by Securities and Exchange Board of India, the accounting value of Options, based on Market Price of the share on the date of the grant of the Option, is accounted as deferred Employee Compensation, which is amortised on a straight line basis over the vesting period. Consequently an amount of Rs.130.17 lakhs has been amortised for the Current Year.

8. AMOUNTS PAID/PAYABLE TO AUDITORS:

Particulars	(Rs in lakhs)	
	2005-06	2004-05
Audit fees	8.42	6.61
Tax Audit fees	2.21	1.66
Certification charges	1.65	2.73
For Taxation matters	3.50	3.50
For Expenses	0.25	0.21
TOTAL	16.03	14.71

Notes To Accounts

9. MANAGERIAL REMUNERATION:

(Rs in lakhs)

Particulars	2005-06	2004-05
Salary	138.48	133.44
Commission	512.92	491.88
Perquisites	55.81	41.76
Contribution to Provident Fund	14.96	14.46
Total	722.17	681.54

Note: Perquisites includes Rs. 15.84 lakhs representing proportionate amount of stock option cost amortised during the year pertaining to the options granted to the Directors, which is subject to the approval of the members at the general meeting.

10. 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 and Executive Director for the year ending 31st March, 2006

(Rs. In lakhs)

Particulars	2005-06	
Profit as per Profit and Loss Account		10691.12
Add:-Managerial Remuneration	722.17	
Directors Sitting Fee	<u>1.85</u>	<u>724.02</u>
		11415.14
Less: Provision for doubtful debts written back		16.73
PROFIT U/S 198 (1) of the Companies Act 1956		<u>11398.41</u>
Commission @ 4.5% of the above		512.92

11. Expenditure under the following heads of account include prior year expenses as detailed below:

(Rs. In lakhs)

Particulars	2005-06	2004-05
Stores consumed	0.01	1.26
Power and Fuel	—	0.70
Fee, Rates and Taxes	20.06	0.05
Sales Commission	0.65	-
Others	0.56	0.55
Total	21.28	2.56

12. 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.

Notes To Accounts

- (ii) As part of Secondary reporting, revenues are attributed to geographical areas based on the location of the customers as detailed below:

(Rs. In Lakhs)

Particulars	2005-06		2004-05	
	Revenue	%	Revenue	%
Exports	34206.82	89.76	30986.59	88.21
Domestic	3904.25	10.24	4139.99	11.79
Total	38111.07	100.00	35126.58	100.00

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

13. Transactions with Related Parties Pursuant To Accounting Standard – 18:

- a) The List of Related Parties with whom transactions have taken place and nature of relationship:

i) KEY MANAGEMENT PERSONNEL:

Sl. No. Name of the person

1. Dr. Murali. K. Divi
2. Mr. N.V. Ramana
3. Dr. P. Gundu Rao
4. Mr. Madhusudana Rao Divi
5. Mr. Kiran S. Divi

ii) RELATIVES OF KEY MANAGEMENT PERSONNEL:

Sl. No. Name of the person

1. Mr. N. Laxmana Rao
2. Mr. Mallikarjuna Rao Divi

(iii) SUBSIDIARIES:

1. Divis Laboratories (USA) Inc
2. Divi's Laboratories EUROPE AG.

- b) Transactions with Related Parties:

(Rs. In lakhs)

Particulars	2005-06		2004-05	
	Amount	Outstanding as at 31.03.2006	Amount	Outstanding as at 31.03.2005
Remuneration to Key Management Personnel	722.17	519.05	681.54	498.84
Lease Rent to Key Management Personnel	14.51	0.59	11.64	0.97
Salary and Allowances to Relatives of Key Management Personnel	4.31	0.28	5.16	0.30
Lease Rent to Relatives of Key Management Personnel	Nil	Nil	8.73	Nil
Investment in Capital of Subsidiaries	39.75	39.75	Nil	Nil
Advances to Subsidiaries	115.61	115.61	Nil	Nil
Interest from subsidiary	0.36	0.36	Nil	Nil

Note: Options granted and outstanding to Key Management Personnel

(No's) **56580** Nil Nil

Notes To Accounts

14. 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 Rs.14.51 lakhs (Previous Year Rs.20.37 lakhs).

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

(Rs. In lakhs)		
Particulars	2005-06	2004-05
A EARNINGS:		
Profit attributable to Equity Shareholders	7047.14	6603.12
B NO. OF SHARES:		
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	12818700	12818700
Add: Weighted average number of equity shares arising out of outstanding stock options that have diluted effect on the EPS	246064	-
Weighted average number of Equity Shares outstanding during the year- Diluted	13064744	12818700
C Earnings Per Share of Par Value -Rs.10/- Basic (Rs.)	54.98	51.51
Earnings Per Share of Par Value -Rs.10/- Diluted (Rs.)	53.94	51.51

16. DEFERRED TAX LIABILITY:

Movement of Provision for Deferred Tax for the year ended 31.03.2006 is as given below:

(Rs. In lakhs)			
Particulars	(Liability)/Asset As at 01.04.2005	(Charges)/ Credit for the year	(Liability)/ Asset as at 31.03.2006
Timing Differences on account of:			
1. Depreciation on Assets	(2581.16)	(295.18)	(2876.34)
2. Expenses allowable on the basis of Payment	39.91	2.89	42.80
3. Others	38.02	(20.87)	17.15
TOTAL	(2503.23)	(313.16)	(2816.39)

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

Particulars	2005-06	2004-05
i) Details of capacities and production:		
A. <u>Registered capacity:</u>		
Active Pharma Ingredients and Intermediates (MTs)	N.A.	N.A.
B. <u>Installed capacity:</u>		
Active Pharma Ingredients and Intermediates (MTs)	2200	2000
(As certified by the Management, But not verified by the Auditors, being a technical matter)		
C. <u>Actual production:</u>		
Active Pharma Ingredients and Intermediates (MTs)	1349.98	1331.43
(Net of Captive Consumption of 1602.81 MTs (Previous Year 1168.22 MTs))		

Notes To Accounts

(Rs.in lakhs)

Particulars	2005-06		2004-05	
	Qty MTs	Value	Qty MTs	Value
ii) Opening and Closing Stock of Finished Goods:				
<u>Opening Stock:</u>				
Active Pharma Ingredients and Intermediates	114.80	1534.62	132.01	1680.31
<u>Closing Stock:</u>				
Active Pharma Ingredients and Intermediates	92.21	1363.22	114.80	1534.62
iii) Details of Turnover:				
(Inclusive of samples)				
Active Pharma Ingredients and Intermediates	1372.57	38111.07	1348.64	35126.58
iv) Details of Raw Materials Consumed:				
P-Anisaldehyde	622.82	1489.36	952.20	2130.84
Benzoethiozole	212.50	205.03	647.24	737.42
Iodine	93.51	779.92	76.81	536.13
Methyl Chloro Acetate	287.18	206.90	857.04	569.20
Toluene	3372.19	1087.00	3790.40	1168.62
Methonol	6386.13	737.67	8804.88	1022.44
V2350	7.92	727.60	—	—
Alluminium Chloride	1677.55	601.99	1447.44	479.62
Others		12456.35		11718.02
Total		18291.82		18362.29

(Rs.InLakhs)

	2005-06		2004-05	
	Value	%	Value	%
v) Value of Imported and Indigenous Raw Materials consumed and their percentage to total consumption:				
Imported	6417.85	35.09	6311.34	34.36
Indigenous	11873.97	64.91	12050.95	65.64
Total	18291.82	100.00	18362.29	100.00

	2005-06	2004-05
vi) Expenditure in Foreign Currency Towards:(On accrual basis)		
Membership and Subscription	0.32	1.36
Books and Periodicals	12.16	8.15
Traveling Expenses	45.28	38.18
Lab Chemicals	197.30	5.49
Consultancy charges	159.59	64.42
Sales commission	177.34	209.30
Foreign Bank charges	132.01	25.64
Finance charges	66.65	5.47
Others	103.47	21.34

Notes To Accounts

	(Rs.InLakhs)	
	2005-06	2004-05
vii) Earnings in Foreign Exchange:		
FOB Value of Exports	33479.54	30159.19
Contract Research Fee	318.72	660.42
Professional Receipts	38.89	--
Interest	0.78	--
Others	0.16	--
viii) CIF Value of Imports:		
Raw Materials	10746.01	6403.71
Capital Equipment	144.26	356.41
Spares	76.65	34.36
ix) Remittances in Foreign Currency for Dividend:		
A No. of Non-resident Shareholders	7	10
B No. of Shares held(Equity shares of Rs. 10/- each)	1.40	1.38
C Dividend Remitted(Net of Tax Rs. Nil)	11.17	11.05

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

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

SIGNATURES TO SCHEDULES 1 TO 24

Signed on 17th day of June, 2006 at Hyderabad.

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

For and on behalf of the Board

Dr. MURALI K.DIVI
 Chairman and Managing Director

N.V. RAMANA
 Executive Director

HYDERABAD **P.V.R.K.NAGESWARA RAO**
 17.06.2006 Partner

L. KISHOREBABU
 Chief Financial Officer

A. NAGARAJ KUMAR
 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	:	31.03.2006
			(Rs.InLakhs)
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	:	51916.04
	Total Assets	:	51916.04
	a) <u>Sources of funds</u>		
	Paid-up capital	:	1281.87
	Reserves and Surplus	:	32799.78
	Secured Loans	:	14584.06
	Unsecured Loans	:	433.94
	Deferred Tax Liability	:	2816.39
	b) <u>Application of funds</u>		
	Net Fixed Assets	:	29504.69
	Investments	:	39.75
	Net Current Assets	:	22371.60
	Miscellaneous Expenditure	:	Nil
	Accumulated Losses	:	Nil
iv)	Performance of Company		
	Turnover	:	39173.55
	Total Expenditure	:	28482.43
	Profit/Loss before tax	:	10691.12
	Profit/Loss after tax	:	7047.14
	Earnings per share (Rs.)	:	54.98
	Dividend (%)	:	100 %
v)	Generic names of three principal Products/services of company (as per monetary terms)		
	1. Item Code No.(ITC Code)	:	2922.14
	Product Description	:	Dextromethorphan Hbr
	2. Item Code No.(ITC Code)	:	2942.00
	Product Description	:	Naproxen
	3. Item Code No.(ITC Code)	:	2942.00
	Product Description	:	Iopamidol

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

Sl. No.	Particulars	DIVIS LABORATORIES (USA) INC.	DIVI'S LABORATORIES EUROPE AG
1	Financial year of the subsidiary company ended on	31st March 2006	31st March 2006
2	Holding company's interest	100% in equity shares	100% in equity shares
3	No. of shares held by the holding company in the subsidiary	1000	200
4	The net aggregate of profits or losses of the subsidiary for the current period so far as it concerns the members of the holding company		
	a. Dealt with or provided for in the accounts of the holding company	0	0
	b. not dealt with or provided for in the accounts of the holding company – (Rs. in Lakhs) – Equivalent to	(50.88) USD (114194)	(39.62) CHF (116761)
5	The net aggregate of profits or losses for previous financial years of the subsidiary so far as it concerns the members of the holding company		
	a. Dealt with or provided for in the accounts of the holding company	Not Applicable	Not Applicable
	b. not dealt with or provided for in the accounts of the holding company	0	0
6	Changes in the interest of Divi's Laboratories Limited, between the end of the last financial year and 31st March 2006	New Subsidiary	New Subsidiary
7	Material changes between the end of the last financial year and 31st March 2006	Nil	Ni

For and on behalf of the Board

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD
31.07.2006

L. KISHOREBABU
Chief Financial Officer

A. NAGARAJ KUMAR
Company Secretary

Auditors' Report on Consolidated Financial Statements

To

The Board of Directors

DIVI'S LABORATORIES LIMITED

Hyderabad

1. We have audited the attached consolidated Balance Sheet of DIVI'S LABORATORIES LIMITED ('the Company') and its Subsidiaries as at March 31, 2006 and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto, which we have signed under reference to his report. These consolidated financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information of the Company and its Subsidiaries. Our responsibility is to express an opinion on these consolidated 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 whether the consolidated financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. **We did not audit the financial statements of 2 (Two) Subsidiaries whose financial statements reflect their share of total assets of Rs. 32.01 Lakhs as at 31 st March, 2006 and their share of total loss of Rs. 122.97 Lakhs and their net cash outflows amounting to Rs. 118.85 Lakhs for the year / period ended on that date as considered in the consolidated financial statements. The financial statements of these subsidiaries are unaudited and have been certified by their Management, whose certificates have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of these subsidiaries, is based solely on the management certification.**
4. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard 21 - Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.
5. Based on our audit and on consideration of the management's certification on separate financial statements and on the other financial information of the subsidiaries, in our opinion and to the best of our information and according to the explanations given to us, the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India :
 - (i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at March 31, 2006;
 - (ii) in the case of Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its group for the year ended on that date; and
 - (iii) in the case of Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its group for the year ended on that date.

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

HYDERABAD
17.06.2006

P V R K NAGESWARA RAO
Partner
Membership No.18840

Consolidated Balance Sheet As At 31st March 2006

(Rs. In Lakhs)

	Schedule No.	As At 31st March 2006	
SOURCES OF FUNDS :			
SHARE HOLDERS' FUNDS :			
Share Capital	1	1281.87	
Reserves and Surplus	2	<u>32705.52</u>	33987.39
LOAN FUNDS :			
Secured Loans	3	14584.06	
Unsecured Loans	4	<u>433.94</u>	15018.00
DEFERRED TAX LIABILITY (NET)	5		2786.94
TOTAL			<u>51792.33</u>
APPLICATION OF FUNDS :			
FIXED ASSETS :			
Gross Block	6	30195.23	
Less: Depreciation		<u>8708.69</u>	
Net Block		21486.54	
Capital Work - in - Progress		6027.08	
Unallocated Expenditure pending Allocation	7	396.77	
Advances for Capital Works		<u>1603.46</u>	29513.85
INVESTMENTS	8		-
NET CURRENT ASSETS :			
A. CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	9	18385.88	
Sundry Debtors	10	10744.22	
Cash and Bank Balances	11	1051.23	
Other Current Assets	12	17.99	
Loans And Advances	13	5192.10	
		<u>35391.42</u>	
B. CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	14	11537.32	
Provisions	15	1575.62	
		<u>13112.94</u>	
NET CURRENT ASSETS (A-B)			22278.48
TOTAL			<u>51792.33</u>
ACCOUNTING POLICIES	23		
NOTES TO ACCOUNTS	24		
Per Our Report of Even Date For P.V.R.K.NAGESWARA RAO & CO Chartered Accountants		For and on behalf of the Board	
		Dr. MURALI K.DIVI Chairman and Managing Director	N.V. RAMANA Executive Director
HYDERABAD 17.06.2006	P.V.R.K.NAGESWARA RAO Partner	L. KISHOREBABU Chief Financial Officer	A. NAGARAJ KUMAR Company Secretary

Consolidated Profit And Loss Account For The Year Ended 31st March 2006

(Rs. In Lakhs)

	Schedule No.	For the year ended 31st March 2006
I INCOME :		
Gross Sales		38559.07
Less: Excise Duty		448.00
Net Sales		38111.07
Other Income	16	1062.13
TOTAL		<u>39173.20</u>
II EXPENDITURE :		
Materials Consumed	17	16981.61
Manufacturing Expenses	18	3317.26
Salaries, Wages and other		
Allowances to Staff	19	1874.18
Other Expenses	20	4391.56
Finance Charges	21	558.36
Depreciation	22	1482.08
TOTAL		<u>28605.05</u>
III PROFIT FOR THE YEAR:		10568.15
LESS: <u>Provision for Taxation:</u>		
-Current Tax		3360.22
-Deferred Tax		283.71
- Income-tax adjustment of Earlier years		(44.18)
		<u>3599.75</u>
- Fringe Benefit Tax		<u>15.00</u>
		<u>3614.75</u>
IV PROFIT AFTER TAX		6953.40
Add : Profit brought forward from last year		18682.93
		<u>25636.33</u>
LESS: <u>Transfer to:</u>		
Proposed Dividend		1281.87
Corporate Dividend Tax		179.78
General Reserve		<u>710.00</u>
Balance Carried to Balance Sheet		<u>23464.68</u>
V Earnings Per Share: Basic (Rs.)		54.24
(Face Value Rs.10/- per share) Diluted (Rs.)		53.22
ACCOUNTING POLICIES	23	
NOTES TO ACCOUNTS	24	
Per Our Report of Even Date For P.V.R.K.NAGESWARA RAO & CO Chartered Accountants	For and on behalf of the Board	
	Dr. MURALI K.DIVI Chairman and Managing Director	N.V. RAMANA Executive Director
HYDERABAD 17.06.2006	P.V.R.K.NAGESWARA RAO Partner	L. KISHOREBABU Chief Financial Officer
		A. NAGARAJ KUMAR Company Secretary

Consolidated Cash Flow Statement For The Year Ended 31st March 2006

(Rs. In Lakhs)

PARTICULARS	For the year ended 31st March 2006
I CASH FLOW / (USED) FROM OPERATING ACTIVITIES:	
Profit before tax for the year	10568.15
Add/ (Less) : Adjustments for:	
Depreciation	1482.08
Provision for Doubtful Debts made / (Written back)	(16.73)
Tools written off	3.26
Interest paid	433.95
Employee stock compensation costs amortised	130.17
Wealth Tax	1.30
Interest received	(60.99)
Bad debts written off	2.63
Loss on foreign exchange fluctuation	<u>(0.52)</u>
	1975.15
	<u>12543.30</u>
Add / (Less) : Adjustments for Working Capital Changes :	
Trade and Other Receivables	(2978.49)
Inventories	(4484.27)
Trade Payables	<u>3274.18</u>
	<u>(4188.58)</u>
Cash generated from operations	8354.72
Less : Direct taxes paid	3474.44
Net Cash flow from operating activities	<u>4880.28</u>
(I)	
II CASH FLOW / (USED) FROM INVESTING ACTIVITIES:	
Purchase of Fixed assets	(11083.16)
Net Cash (used) in Investing activities	<u>(11083.16)</u>
(II)	

Consolidated Cash Flow Statement

(Rs. In Lakhs)

PARTICULARS	For the year ended 31st March 2006
III CASH FLOW/ (USED) FROM FINANCING ACTIVITIES:	
Interest received	63.49
Proceeds from Long Term Loans	5726.26
Proceeds from Short Term Loans	2698.56
Repayment of Short Term Loans	(15.36)
Interest Paid	(496.73)
Corporate Dividend Tax paid (CDT)	(143.82)
Dividend Paid	(1025.50)
Net Cash flow in Financing Activities (III)	6806.90
IV Net Increase / (Decrease) in cash and cash equivalents	604.02
V Cash and Cash Equivalents as at the beginning of the year	178.52
VI Cash and Cash Equivalents as at the end of the year	782.54
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2005-06
Cash and Bank Balances as per the Balance Sheet	1051.23
<u>Less:</u> Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.	268.69
	782.54

Note:

- 1 The above Consolidated 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 23) and other Notes to Accounts (Schedule 24) 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

For and on behalf of the Board

Dr. MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

HYDERABAD **P.V.R.K.NAGESWARA RAO**
17.06.2006 Partner

L. KISHOREBABU
Chief Financial Officer

A. NAGARAJ KUMAR
Company Secretary

Schedules to Consolidated Financials

(Rs. In Lakhs)

	As At 31st March 2006	
01. SHARE CAPITAL :		
<u>AUTHORISED :</u>		
1,50,00,000 Equity Shares of Rs. 10/- each		1500.00
5,00,000 Redeemable Preference Shares of Rs.100/- each		500.00
		<u>2000.00</u>
<u>ISSUED :</u>		
1,30,00,000 Equity Shares of Rs.10/- each		<u>1300.00</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>1281.87</u>
02. RESERVES AND SURPLUS:		
<u>CAPITAL RESERVES:</u>		
Share Premium		4148.61
Debenture Forfeiture Account		90.00
Debenture Premium Account		30.00
State Investment Subsidy		32.58
<u>EMPLOYEE STOCK OPTION OUTSTANDING:</u>		
As per Last account	-	
Additions during the year	4191.49	
Deletions during the year	-	
	<u>4191.49</u>	
Less:Deferred Employee Compensation Costs (Refer Note No.7 of Schedule No.24 -Notes to Accounts)	<u>4061.32</u>	130.17
<u>REVENUE RESERVES:</u>		
<u>General Reserve:</u>		
As per Last account	4100.00	
Add: Transferred from Profit and Loss Account	<u>710.00</u>	4810.00
Foreign Exchange Translation Reserve		(0.52)
PROFIT AND LOSS ACCOUNT (SURPLUS)		23464.68
		<u>32705.52</u>

Consolidated Schedules

(Rs. In Lakhs)

	As At 31st March 2006	
03. SECURED LOANS:		
<u>TERM LOANS :</u>		
From Banks:		
Foreign Currency Term Loans	3613.41	
Rupee Term Loan	<u>2000.00</u>	5613.41
(Secured by equitable mortgage of 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)		
<u>WORKING CAPITAL LOANS:</u>		
From Banks		8947.84
(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		22.81
(Secured by hypothecation of Vehicle acquired against the Loan)		<u>14584.06</u>
04. UNSECURED LOANS:		
Interest Free Sales Tax Loan		433.94
		<u>433.94</u>
05. DEFERRED TAX LIABILITY(NET):		
Balance brought forward		2503.23
Add: Adjustments during the year		283.71
(Refer Note No.16 of Schedule 24 Notes to Accounts)		<u>2786.94</u>

Consolidated Schedules

Sl. No.		Description	GROSS BLOCK				DEPRECIATION				NET BLOCK		
			Cost as at 01.04.2005	Additions	Deductions	Total Upto 31.03.2006	Upto 31.03.2005	For the Year	On Deductions	Total Upto 31.03.2006	At at 31.03.2006	As at 31.03.2005	
1		LAND AND DEVELOPMENT	623.17	-	-	623.17	-	-	-	-	-	623.17	623.17
2		BUILDINGS	5729.43	540.66	-	6270.09	777.79	171.10	-	948.89	-	5321.20	4951.64
3		PLANT AND MACHINERY	16869.66	3979.11	24.70	20824.07	5954.13	1171.85	2.91	7123.07	2.91	13700.99	10915.53
4		LABORATORY EQUIPMENT	1508.23	228.68	-	1736.91	237.90	73.77	-	311.67	-	1425.24	1270.33
5		FURNITURE AND FIXTURES	123.47	17.18	-	140.64	69.83	13.10	-	82.93	-	57.71	53.64
6		DATA PROCESSING EQUIPMENT	166.49	19.64	-	186.13	83.44	20.29	-	103.73	-	82.40	83.05
7		VEHICLES	360.04	54.17	-	414.21	103.01	35.39	-	138.40	-	275.81	257.03
		TOTAL	25380.49	4839.44	24.70	30195.23	7226.10	1485.49	2.91	8708.69	2.91	21486.54	18154.39
		PREVIOUS YEAR	22360.32	3035.21	15.04	25380.49	5727.89	1506.68	8.47	7226.10	8.47	18154.39	16632.43

06. FIXED ASSETS:

(Rs. in Lakhs)

Consolidated Schedules
7. STATEMENT OF UNALLOCATED EXPENDITURE, PENDING CAPITALISATION, INCURRED UPTO 31ST MARCH 2006

(Rs. In Lakhs)

PARTICULARS	UPTO 31st March 2005	For the Year	UPTO 31st March,2006
Stores Consumed	-	2.93	2.93
Electricity Charges	-	50.19	50.19
Repairs and Maintenance	-	0.12	0.12
Salaries, Wages and Allowances	-	8.91	8.91
Staff Welfare Expenses	-	0.01	0.01
Printing and Stationary	-	1.27	1.27
Rent	-	4.70	4.70
Communication Expenses	-	3.71	3.71
Fee, Rates and taxes	-	0.09	0.09
Travelling and Conveyance	-	51.41	51.41
Insurance	-	0.22	0.22
Legal and Professional Charges	-	54.87	54.87
Factory Upkeep	-	1.80	1.80
Carriage and Freight	-	1.95	1.95
General Expenses	-	14.99	14.99
Loss on Forex Fluctuations	-	5.65	5.65
INTEREST ON TERM LOANS:			
- Foreign Currency Term Loan	-	66.65	66.65
- Rupee Term Loan	-	22.28	22.28
Interest on Overdraft	-	4.99	4.99
Bank Charges	-	104.01	104.01
Depreciation	-	0.51	0.51
	-	401.26	401.26
Less:- Interest Earned (Net of Provision for Tax of Rs.2.28 lakhs)	-	4.49	4.49
	-	396.77	396.77

Consolidated Schedules

(Rs. In Lakhs)

	As At 31st March 2006	
8. INVESTMENTS:	<u>Cost</u>	
<u>LONG - TERM</u>		
<u>NON TRADE- UNQUOTED</u>		
A <u>IN OTHER COMPANIES:</u>		
Pattan Cheru Enviro - Tech Limited		
12000 Equity Shares of Rs.10/- each fully paid-up	1.20	
Less: Provision for decline in Value of Investments	<u>1.20</u>	-
Value of Un -Quoted Investments		<u>-</u>
Aggregate Value of Quoted Securities		Nil
Aggregate Market Value of Quoted Securities		Nil
Aggregate Value of Unquoted Securities		Nil
9. INVENTORIES:		
(As taken, Valued and Certified by the Management)		
Stock of Raw Materials		5544.95
Stock of Stores and Spares		190.40
Stock of Work-in-Process		10998.14
Stock of Finished Goods		1363.22
Material in Transit		281.32
Tools and Spares		7.85
		<u>18385.88</u>
10. SUNDRY DEBTORS:		
(Unsecured)		
Outstanding for a Period Exceeding Six Months		
- Considered Good	285.52	
-Considered doubtful	4.47	
	<u>289.99</u>	
Less : Provision for Doubtful Debts	<u>4.47</u>	285.52
<u>Others:</u>		
- Considered Good		10458.70
		<u>10744.22</u>

Consolidated Schedules

(Rs. In Lakhs)

	As At 31st March 2006
11. CASH AND BANK BALANCES:	
Cash on Hand	14.80
Balance with Scheduled Banks :	
- In Current Accounts	189.28
- In Term Deposit Accounts	847.15
(Of the above, Rs.0.02 lakhs (Previous year Rs.0.02 lakhs) has been pledged with Department of Commercial Taxes, Government of Andhra Pradesh and Rs.247.13 lakhs (Previous Year Rs.251.64 lakhs) towards Margin on Letters of Credits and Guarantees issued by the Banks)	
	<u>1051.23</u>
12. OTHER CURRENT ASSETS:	
Interest accrued on deposits	17.99
	<u>17.99</u>
13. LOANS AND ADVANCES:	
(Unsecured, considered good, recoverable in cash or in kind or for value to be received)	
Deposits Recoverable	270.76
Advances to Suppliers	412.91
Advance for Expenses	8.71
Central Excise Duty	2270.70
Prepaid Expenses	92.05
Other Advances and Recoverables	1486.61
Prepaid Taxes (Net of Provision for Taxation)	650.36
	<u>5192.10</u>
14. CURRENT LIABILITIES:	
CREDITORS FOR CAPITAL WORKS	1709.13
SUNDRY CREDITORS	8414.00
Advances from Customers	1361.52
Interest Accrued But Not Due	31.14
<u>INVESTORS EDUCATION AND PROTECTION FUND:</u>	
Unclaimed Dividend	21.53
(Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund)	
	<u>11537.32</u>
15. PROVISIONS:	
Provision for Gratuity and Leave Encashment	113.19
Proposed Dividend	1281.87
Provision for Corporate Dividend Tax	179.78
Provision for Fringe Benefit Tax (Net of Tax Paid)	0.78
	<u>1575.62</u>

Consolidated Schedules

(Rs. In Lakhs)

	For the year ended 31st March 2006	
16. OTHER INCOME:		
Contract Research Fee		347.68
Export Benefits		445.92
Interest Earned (Gross)		60.99
(TDS Rs.7.65 lakhs (Previous Year Rs.6.44 lakhs))		
Provision for doubtful debts written back		16.73
Profit on Sale of Investments		0.00
Gain on Forex Fluctuation		0.00
Provision for decline in value of Long Term		0.00
Investments no longer required written back		0.00
Miscellaneous Income		190.81
		<u>1062.13</u>
17. MATERIALS CONSUMED:		
A. RAW MATERIALS CONSUMED:		
Opening Stock	2256.23	
Less: VAT Credit availed	<u>6.89</u>	2249.34
Add: Purchases		<u>21655.50</u>
		23904.84
Less: Closing Stock	5544.95	
Sales	<u>68.07</u>	5613.02
		<u>18291.82</u>
	(A)	
B. (INCREASE) IN STOCKS :		
<u>Closing Stock of :</u>		
inished Goods	1363.22	
Less: Central Excise duty liability	<u>182.20</u>	1181.02
Work-in-Progress		<u>10998.15</u>
		<u>12179.17</u>
<u>Opening Stock of:</u>		
Finished Goods	1534.62	
Less: Central Excise duty liability	<u>216.23</u>	1318.39
Work-in-Progress	9619.01	
Less: VAT Credit availed	<u>68.44</u>	9550.57
		<u>10868.96</u>
(Increase) in Stocks :	(B)	(1310.21)
MATERIALS CONSUMED:	(A-B)	<u>16981.61</u>
18. MANUFACTURING EXPENSES:		
Stores Consumed		741.43
Power and Fuel		1848.47
Conversion Charges		14.06
Tools Written off		3.26
Repairs and Maintenance to :		
- Buildings		102.07
- Plant and Machinery		607.97
		<u>3317.26</u>

Consolidated Schedules

(Rs. In Lakhs)

	For the year ended 31st March 2006
19. SALARIES, WAGES AND OTHER	
ALLOWANCES TO STAFF:	
Salaries, Wages, Bonus and Other Allowances	1727.36
Contribution to PF and ESI	48.24
Workmen and Staff Welfare expenses	98.58
	<u>1874.18</u>
20. OTHER EXPENSES:	
Managerial Remuneration	744.46
Directors' Sitting Fees	1.85
Printing and Stationery	66.33
Rent	17.19
Communication Expenses	58.41
Fees, Rates and Taxes	287.62
Travelling and Conveyance	181.43
Insurance	136.79
Repairs and Maintenance to other Assets	22.16
Vehicle Maintenance	73.87
Payment to Auditors	19.28
Professional and Consultancy Charges	140.08
Factory Upkeep	120.80
Research and Development Expenses	871.87
Environment Management Expenses	112.75
Freight and Handling Charges	854.26
Advertisement	9.60
Sales Commission	258.45
General Expenses	236.07
Claims Written off	7.13
Bad Debts Written-off	2.63
Donations	5.81
Loss on Foreign Exchange Fluctuations	154.02
Preliminary expenses written off	8.69
	<u>4391.56</u>
21. FINANCE CHARGES	
Interest on Working Capital Loans	361.80
Interest to Others	72.15
Bank Charges and Commission	124.41
	<u>558.36</u>
22. DEPRECIATION:	
Depreciation for the year as per Schedule No.6	1485.50
Less: Depreciation written back due to availment of VAT Credit on additions of earlier years	2.91
	<u>1482.59</u>
Less: Depreciation included in Unallocated Expenditure pending Capitalisation	0.51
	<u>1482.08</u>

Consolidated Accounting Policies

23. SIGNIFICANT ACCOUNTING POLICIES (CONSOLIDATED):

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements have been prepared under historical cost convention and on accrual basis of accounting in accordance with the generally accepted accounting principles in India. These statements have been prepared in compliance with the mandatory accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and guidelines issued by the Securities and Exchange Board of India (SEBI).

2. PRINCIPLES OF CONSOLIDATION:

- a. The consolidated financial statements include the financial statements of Divi's Laboratories Limited (Divi's), the Parent Company and its subsidiary companies in which Divi's, directly or indirectly, has an interest of more than one half voting power or otherwise has the power to control the composition of Board of Directors.
- b. The consolidated financial statements have been prepared combining the financial statements of the parent company and the subsidiary companies on a line by line basis by adding together the book value of like items of assets, liabilities, income and expenses after eliminating intra-group balances and transactions and resulting unrealised profits in full. Unrealised losses resulting from intra group transactions have also been eliminated except to the extent that recoverable value of related assets is lower than their cost.
- c. The Excess / deficit of cost to the parent company of its investments in the subsidiaries over its portion of equity at the respective dates on which investments in such entities were made is recognized in the financial statements as good will / capital reserve.
- d. The consolidated financial statements have been presented to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.
- e. The consolidated statements have been prepared using uniform accounting principles for like transaction and other events in similar circumstances.

3. USAGE OF ESTIMATES:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Actual results could differ from these estimates and the difference if any will be recognised prospectively.

4. FIXED ASSETS AND DEPRECIATION:

- a. Fixed assets are stated at cost of acquisition including freight, duties and installation expenses and expenditure during construction where applicable.
- b. Depreciation on Fixed Assets is provided under Straight Line Method at the rates specified in Schedule XIV of the Companies Act, 1956. Individual Assets costing not more than Rs. 5000/- are depreciated 100% in the year of acquisition.
- c. Depreciation on Fixed Assets used for the Project under construction is included under Unallocated Expenditure Pending Capitalisation.
- d. Revenue Expenditure incurred during the construction period of the Project is shown under "Unallocated Expenditure Pending Capitalisation" till the commencement of the commercial production and the same will be capitalized by allocating to relevant assets in the ratio of their direct cost.

5. INVESTMENTS:

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

6. INVENTORIES :

- a. 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.
- b. Stationery, Uniforms, Medical, Canteen items and Books and Periodicals are charged off to the revenue at the time of purchase /payment.

7. 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.

8. 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.

Consolidated Accounting Policies

9. EMPLOYEE STOCK OPTION SCHEME:

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of the shares, at the date of grant of option under the employee stock option scheme, over the exercise price is treated as employee compensation and amortised over the vesting period of the stock options.

10. FOREIGN EXCHANGE TRANSACTIONS:

- a. Transactions in Foreign Exchange, other than those covered by forward contracts are accounted for at the exchange rate prevailing on the date of transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the Profit and Loss Account except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.
- b. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date other than those covered by forward contracts are translated at the year end rates. The resultant exchange differences except those related to acquisition of fixed assets are recognised in the profit and loss account.
- c. Non-monetary assets and liabilities are recorded at the rates prevailing on the date of the transaction.
- d. Foreign Subsidiaries are non – integral in nature. Assets and Liabilities of such subsidiaries are translated at the year end exchange rate, income and expenditure are translated at the average rate during the period. The resultant translation adjustment is reflected as a separate component of shareholders' funds as a 'Foreign Currency Translation Reserve'.

11. EMPLOYEE BENEFITS:

a. 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.

b. PROVIDENT FUND:

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

12. TAXES ON INCOME:

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

13. EXPORT BENEFITS:

Advance Licences and Duty Entitlements against exports made by the company are accounted in the books on their utilization/ 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

14. 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.

15. 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.

16. EARNINGS PER SHARE:

- i. The basic earnings per share is calculated considering the weighted average number of equity shares outstanding during the year
- ii. The diluted earnings per share is calculated considering the effects of potential equity shares on net profits after tax for the year and weighted average number of equity shares outstanding during the year.

17. PRELIMINARY EXPENDITURE:

Preliminary Expenditure is charged to Profit and Loss Account in the year / period in which it is incurred.

Consolidated Notes To Accounts

24. NOTES TO ACCOUNTS (CONSOLIDATED)

1. DESCRIPTION OF THE BUSINESS:

Divi's Laboratories Limited (the Company or Divi's) is a leading manufacturer of Active Pharmaceutical Ingredients and intermediates having headquarters at Hyderabad, India. A major portion of its turnover is on account of export of its products to European and American countries. The Company's main manufacturing facilities and research and development facilities are located in the state of Andhra Pradesh, India. The shares of the Company are listed on The Stock Exchange, Mumbai and The National Stock Exchange, Mumbai. Its Subsidiaries viz., Divis Laboratories (USA) Inc., and Divis Laboratories (Europe) AG have been incorporated during the year to strengthen marketing of its existing products and also to enter into marketing of nutraceutical products.

2. LIST OF FOREIGN SUBSIDIARIES CONSIDERED FOR CONSOLIDATION:

S. No.	Name of the Entity	Country of Incorporation	Extent of Holding as on 31.3.2006
1.	Divis Laboratories (USA) Inc	USA	100%
2.	Divi's Laboratories Europe AG	SWITZERLAND	100%

3. Previous year figures have not been given, as there is no investments in entities required to be consolidated till the year ended 31.3.2005.

4. CONTINGENT LIABILITIES:

(Rs. in lakhs)

Sl. No.	Particulars	2005-06
i)	On account of Letters of Credit and bank guarantees issued by the bankers.	2286.24
ii)	On account of Foreign bills discounted with banks	78.07
iii)	On account of Bonds executed with Central Excise/ Customs authorities for importing goods without payment of duty for its proposed 100% Export Oriented Unit.	2000.00
iv)	Demands being disputed / contested by the Company	50.10
v)	On account of Severance Compensation payable to employees on termination of employment by either the employee or the Company at will.	107.06

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

3703.80

6. Land admeasuring 33.72 acres acquired under deeds of assignment and under possession of the company at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist, Andhra Pradesh State, India. is yet to be registered in the name of the company.

7. EMPLOYEE STOCK OPTIONS:

In respect of Options granted to employees during the year under the Employees Stock Option scheme, in accordance with the guidelines issued by Securities and Exchange Board of India, the accounting value of Options, based on Market Price of the share on the date of the grant of the Option, is accounted as deferred Employee Compensation, which is amortised on a straight line basis over the vesting period. Consequently an amount of Rs.130.17 Lakhs has been amortised for the Current Year.

8. AMOUNTS PAID/PAYABLE TO AUDITORS:

(Rs. in lakhs)

Particulars	2005-06
Statutory Audit fees	11.67
Tax Audit fees	2.21
Certification charges	1.65
For Taxation matters	3.50
For Expenses	0.25
TOTAL	<u>19.28</u>

Consolidated Notes To Accounts

9. MANAGERIAL REMUNERATION:

(Rs. in lakhs)	
Particulars	2005-06
Salary	160.77
Commission	512.92
Perquisites	55.81
Contribution to Provident Fund	14.96
Total	744.46

Note: Computation of Net Profits under Section 309(5) of the Companies Act, 1956 has not been disclosed as the limits prescribed under Section 309(5) do not apply for consolidated profits.

10. EXPENDITURE UNDER THE FOLLOWING HEADS OF ACCOUNT INCLUDE PRIOR YEAR EXPENSES AS DETAILED BELOW:

(Rs. in lakhs)	
Particulars	2005-06
Stores consumed	0.01
Fees, Rates and Taxes	20.06
Sales Commission	0.65
Others	0.56
Total	21.28

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:

(Rs. in lakhs)		
Region	2005-06	
	Revenue	%
Europe	13263.31	34.20
North America	15443.41	39.82
India	3904.25	10.24
Others	5500.10	15.74
Total	38111.07	100.00

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

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

- a) The List of Related Parties with whom transactions have taken place and nature of relationship:

- i) **KEY MANAGEMENT PERSONNEL:**

<u>Sl. No.</u>	<u>Name of the person</u>
1.	Dr. Murali. K. Divi
2.	N.V. Ramana
3.	Dr. P. Gundu Rao
4.	D. Madhusudana Rao
5.	Kiran S. Divi
6.	Guido Schaer

- ii) **RELATIVES OF KEY MANAGEMENT PERSONNEL:**

<u>Sl. No.</u>	<u>Name of the person</u>
1.	N. Laxmana Rao
2.	Mallikarjuna Rao Divi

Consolidated Notes To Accounts

b) Transactions with Related Parties:

(Rs. in lakhs)

Particulars	Amount	Outstanding as at 31.03.2006
Remuneration to Key Management Personnel	744.46	519.05
Lease Rent to Key Management Personnel	14.51	0.59
Salary and Allowances to Relatives of Key Management Personnel	4.31	0.28
Options Granted and Outstanding to:Key Management Personnel	(Nos.)	56580

13. INFORMATION ON OPERATING LEASES :

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 Rs.17.19 lakhs.

14. EARNINGS PER SHARE (EPS):

The Numerator and denominator used to calculate Earnings Per Share:

(Rs. In lakhs)

Particulars	2005-06
A EARNINGS:	
Profit attributable to Equity Shareholders	6953.40
B NO. OF SHARES:	
Weighted average number of Equity shares outstanding during the year (Nos.) - Basic	12818700
Weighted average number of equity shares arising out of outstanding stock options that have diluted effect on the EPS	246064
Weighted average number of Equity Shares outstanding during the year- Diluted	13064744
C Earnings Per Share of Par Value –Rs.10/- Basic (Rs)	54.24
Earnings Per Share of Par Value –Rs.10/- Diluted (Rs.)	53.22

15. DEFERRED TAX LIABILITY:

Movement of Provision for Deferred Tax for the year ended 31.03.2006 is as given below:

(Rs. in lakhs)

Particulars	(Liability)/Asset As at 01.04.2005	(Charges)/Credit for the year	(Liability)/ Asset As at31.03.2006
Timing Differences on account of:			
1. Depreciation on Assets	(2581.16)	(295.18)	(2876.34)
2. Expenses allowable on the basis of Payment	39.91	2.89	42.80
3. Others	38.02	8.58	46.60
TOTAL	(2503.23)	(283.71)	(2786.94)

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

SIGNATURES TO SCHEDULES 1 TO 24

Signed on 17th day of June, 2006 at Hyderabad.

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

For and on behalf of the Board

Dr. MURALI K.DIVI
 Chairman and Managing Director

N.V. RAMANA
 Executive Director

HYDERABAD
 17.06.2006 **P.V.R.K.NAGESWARA RAO**
 Partner

L. KISHOREBABU
 Chief Financial Officer

A. NAGARAJ KUMAR
 Company Secretary



Directors' Report

Management Report for the period

The Directors present their report and the financial statements for the period ended March, 31 2006.

PRINCIPAL ACTIVITY

The company was formed on December 14, 2005 as a subsidiary of M/s. Divi's Laboratories Limited, India. The Company's main business is to identify opportunities available in Europe for active pharma ingredients and nutraceuticals and to enter into marketing and distribution of these products.

REVIEW OF OPERATIONS

Accounts for the period are un-audited and as certified by the Management.

The Company is developing the market and working closely with the parent for developing the products. During the period under report, your Company is yet to get into operations and has registered a loss of USD 114, 194 comprising of salaries and administration.

AUDITORS

The Auditors, Sobel LLC, have expressed their willingness to accept the appointment.

DIRECTORS

The Directors at the date of this report are : Dr. Murali K. Divi and N.V. Ramana.

SHARE CAPITAL

During the year, parent company contributed USD 50,000 towards Share Capital.

UNUSUAL ITEMS AFTER THE FINANCIAL YEAR

No item, transaction or event of a material nature has arisen during the period between the end of the financial year and the date of this report which would affect substantially the operations of the Company during the current year.

STATEMENT BY DIRECTORS

In the opinion of the Directors, the accompanying financial statements were drawn up so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006 and of the results of the business for that period. Your Directors have taken all reasonable steps to prepare these financial statements on a going concern basis and that suitable accounting policies have been adopted consistently. Further, your directors are confident that with the support and guidance of the holding Company, your Company can commence operations shortly.

By Order of the Board

Hyderabad
19th June 06

Dr. Murali K. Divi
Director

N.V. Ramana
Director

Auditors' Report

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LIVINGSTON, NEW JERSEY 07039-1711
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Divis Laboratories (USA), Inc.
(A development stage company)
Morristown, New Jersey

We have audited the accompanying balance sheet of Divi's Laboratories (USA), Inc. (A development stage company) (the "Company") as of March 31, 2006, and the related statements of operations, stockholder's deficiency, and cash flows for the period of December 14, 2005 (date of inception) through March 31, 2006. These financial statements are the responsibility of the management of Divi's Laboratories (USA), Inc. (a development stage company). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a best 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 evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Divi's Laboratories (USA), Inc. (a development stage company) as of March 31, 2006, and the results of its operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

June 19, 2006

SOBEL & CO., LLC
Certified Public Accountants

Balance Sheet As At 31st March 2006

	31st March 2006 (US \$)
ASSETS	
CURRENT ASSETS :	
Cash	<u>38,135</u>
PROPERTY AND EQUIPMENT :	
Equipment	429
Furniture and fixtures	6,007
Computer equipment	<u>9,182</u>
	15,618
Less : Accumulated depreciation Property and Equipment, Net	742
	<u>14,876</u>
OTHER ASSETS :	
Deferred taxes	66,004
Security deposit	1,800
Total Other Assets	<u>67,804</u>
	<u><u>120,815</u></u>
LIABILITIES AND STOCKHOLDER'S DEFICIENCY	
CURRENT LIABILITIES :	
Accounts payable	15,749
Accrued expenses	9,730
Taxes payable	500
Loan payable - Parent company	159,030
Total Current Liabilities	<u>185,009</u>
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDER'S DEFICIENCY :	
Common stock, \$.01 par value; 3,000 shares authorized, 1,000 shares issued and outstanding	50,000
Accumulated deficit during the development stage	<u>(114,194)</u>
Total Stockholder's Deficiency	<u>(64,194)</u>
	<u><u>120,815</u></u>

Statement of Income

FOR THE PERIOD OF DECEMBER 14, 2005 (DATE OF INCEPTION)
THROUGH MARCH 31, 2006

	31st March 2006 (US \$)
NET SALES	-
GROSS PROFIT	<u>-</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	
Salaries, officer	51,885
Salaries, other	39,987
Bonus	3,462
Rent	3,600
Telephone	6,763
Office and postage	3,433
Professional fees	14,457
Advertising and promotion	14,885
Insurance	1,396
Travel and entertainment	4,471
Employee benefits	9,552
Auto expense	2,485
Repairs and maintenance	69
Payroll taxes	9,347
Depreciation	742
Pension	1,200
Bank fees	55
Data processing service	376
Dues, licenses, and subscriptions	2,020
Start up costs	8,601
Miscellaneous	95
Total selling, General, and Administrative Expenses	<u>178,881</u>
OTHER EXPENSES :	
Interest expense	817
NET LOSS BEFORE PROVISION FOR INCOME TAXES	<u>(179,698)</u>
PROVISION FOR INCOME TAXES :	
Provision for income taxes	(500)
Benefit from deferred income taxes	<u>66,004</u>
Net Benefit from Income Taxes	65,504
NET LOSS	<u><u>(114,194)</u></u>

Statement of Stockholder's Deficit

FOR THE PERIOD OF DECEMBER 14, 2005 (DATE OF INCEPTION) THROUGH MARCH 31, 2006

(US \$)

	Common Stock	Deficit Accumulated During Development Stage	Total Stockholder's Deficiency
Beginning Balances	-	-	-
Issuance of 1,000 shares on December 14, 2005	50,000	-	50,000
Net Loss	-	(114,194)	(114,194)
Stockholder's Deficiency at March 31, 2006	50,000	(114,194)	(64,194)

Statement of Cash Flows

FOR THE PERIOD OF DECEMBER 14, 2005 (DATE OF INCEPTION)
THROUGH MARCH 31, 2006

(US \$)

CASH FLOWS PROVIDED BY (USED FOR) :	
<u>OPERATING ACTIVITIES :</u>	
Net loss	(114,194)
Adjustments to reconcile net loss to net cash used for operating activities :	
Depreciation	742
Deferred taxes	(66,004)
Changes in certain assets and liabilities :	
Security deposit	(1,800)
Accounts payable and accrued expenses	25,479
Taxes payable	500
Net Cash Used for Operating Activities	<u>(155,277)</u>
<u>INVESTING ACTIVITIES :</u>	
Purchase of property and equipment	<u>(15,618)</u>
<u>FINANCING ACTIVITIES :</u>	
Loan payable - Parent company	159,030
Issuance of common stock	50,000
Net Cash Provided by Operating Activities	<u>209,030</u>
NET INCREASE IN CASH	38,135
CASH :	
Beginning of period	-
End of period	<u><u>38,135</u></u>

Notes to Financial Statements

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

Organization :

Divis Laboratories (USA), Inc. was formed as a Delaware corporation in December 2005. The Company was registered to do business in New Jersey on February 1, 2006. Divi's Laboratories (USA), Inc. is a 100% owned subsidiary of Divi's Laboratories Ltd (India) and was formed to distribute dietary supplements and pharmaceutical ingredients in North America.

Property, Equipment and Depreciation :

Property and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line depreciation method. Maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Income Taxes :

The Company has adopted FASB Statement No. 109, "Accounting for Income Taxes," This statement requires an asset and liability approach to financial accounting and reporting for income taxes, Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The differences relate principally to the accrual basis of accounting used for financial statement purposes and the cash basis used for income tax purposes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The company recorded a deferred tax asset as a result of a net operating loss. The loss approximated \$172,000 and can be carried forward to offset future taxable income.

Use of Estimates :

The preparation of financial statements in conformity with accounting principles generally accepted in the United States or America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Concentration of Credit Risk :

The Company maintained cash balances in excess of insured limits at times during the period of December 14, 2005 (date of inception) through March 31, 2006.

Advertising :

The Company expenses advertising costs as they are incurred.

NOTE 2 - DEVELOPMENT STAGE OPERATIONS :

The Company was formed in December, 2005. Shares of common stock were issued at \$50 per share and during the period ended March 31, 2006 the Company only incurred selling, general, and administrative expenses, and certain start up and organization costs. The Company's stockholder is a foreign corporation and as of March 31, 2006 the initial investment in the common stock amounted to \$50,000. The Company plans to commence operations during July 2006.

NOTE 3 - LOAN PAYABLE - PARENT COMPANY :

The Company has received advances of \$159,030 from the parent company for the purpose of funding initial operating expenses. The amount bears interest at 6% and is payable on demand.

NOTE 4 - PENSION PLAN :

On January 1, 2006, the Company instituted a Simple IRA Plan which covers all eligible employees. The Company is obligated to contribute matching contributions to a maximum 3% of compensation. Pension expense amounted to \$1,200 for the period ended March 31, 2006.

NOTE 5 - COMMITMENTS AND CONTINGENCIES :

The Company leases premises in Morristown, New Jersey for its office. The lease will expire on October 14, 2008. Future minimum lease payments are as follows :

Year ending March 31	US Dollars
2007	14,400
2008	14,400
2009	8,400
Total	<u>37,200</u>

Rent expense for the initial period ended March 31, 2006 was \$3,600

The Company has agreements with several of its employees which provide for, among other things, base salaries, benefits such as health insurance and severance provisions. Although the agreements allow for the termination of employment by either the employee or the Company at will, severance payments are payable under either event. The maximum contingent amounts payable under the severance provisions of these agreements approximated \$240,000 as of March 31, 2006.

Directors' Report

Management Report for the period

The Directors present their report and the financial statements for the period ended March, 31 2006.

PRINCIPAL ACTIVITY

The company was formed on 1st February, 2006 as a subsidiary of M/s. Divi's Laboratories Limited, India. The Company's main business is to identify opportunities available in Europe for active pharma ingredients and nutraceuticals and to enter into marketing and distribution of these products.

REVIEW OF OPERATIONS

The Company is developing the market and working closely with the parent for developing the products. During the period under report, your Company is yet to get into operations and has registered a loss of CHF 116, 761.15 comprising of salaries and administration.

AUDITORS

The Auditors, Ernst & Young, have expressed their willingness to accept the appointment.

DIRECTORS

The Director at the date of this report is: Mr. Guido Schaer.

SHARE CAPITAL

During the year, parent contributed CHF 50,000 towards Share Capital.

UNUSUAL ITEMS AFTER THE FINANCIAL YEAR

No item, transaction or event of a material nature has arisen during the period between the end of the financial year and the date of this report which would affect substantially the operations of the Company during the current year.

STATEMENT BY DIRECTORS

In the opinion of the Directors, the accompanying financial statements were drawn up so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006 and of the results of the business for that period. Your Directors have taken all reasonable steps to prepare these financial statements on a going concern basis and that suitable accounting policies have been adopted consistently. Further, your directors are confident that with the support and guidance of the holding Company, your Company can commence operations shortly.

By Order of the Board

Basel, Switzerland
14th July 06

Guido Schaer
Director

Auditors' Report

Ernst & Young

Ernst & Young Ltd
Assurance & Advisory
Business Services Industries
Aeschengraben 9
P.O. Box, CH-4002 Basel

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To the Management of
Divi's Laboratories Europe AG, Basel

Basel, July 14, 2006

Report of the auditors

We have been assigned to audit the accounting records and the intermediate closing (balance sheet, income statement and notes) of Divi's Laboratories Europe AG for the period ended March 31, 2006.

These intermediate closing is the responsibility of the Management. Our responsibility is to express an opinion on this intermediate closing based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the intermediate closing is free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the intermediate closing. We have also assessed the accounting principles used, significant estimates made and the overall intermediate closing presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and intermediate closing comply with Swiss law and the company's articles of incorporation.

Ernst & Young Ltd.

Marc Riggerbach
Swiss Certified Accountant
(in charge of the audit)

Jurg Zurcher
Swiss Certified Accountant

Enclosure :

- Intermediate closing (balance sheet, income statement and notes)

Balance Sheet As At 31st March 2006

Particulars	31 March 2006 CHF
ASSETS	
Cash	57'611.10
Prepaid Expenses & Deposits	<u>20'002.50</u>
Current Assets	77'613.60
Fixed Assets	7'905.35
Less: Accumulated Depreciation	-372.50
Setting-up costs	14'325.70
Less: Setting-up costs written-off	<u>-14'325.70</u>
Fixed Assets, net	7'532.85
Total	<u>85'146.45</u>
LIABILITIES & EQUITY	
A/P Trade/Other	422.10
A/P Intercompany	131'912.70
Accruals	<u>19'572.80</u>
Current Liabilities	151'907.60
Capital	100'000.00
Not paid start-up capital	-50'000.00
Net Loss	<u>-116'761.15</u>
Stockholder's Equity	-66'761.15
Total	<u>85'146.45</u>

Statement of Income

Particulars	1.2-31.3.2006 CHF
Personnel	74'166.85
Recruiting, Travel & Memberships	3'090.35
Supplies, Tools & Equipment	1'704.75
Outside Services	<u>13'000.00</u>
R&M, Utilities, Insurance	10'024.90
Depreciation	372.50
Expenses	<u>102'359.35</u>
Operating Loss	-102'359.35
Interest Income	11.40
Property and income taxes	-87.50
Start-up Expenses written-off	<u>-14'325.70</u>
Net Loss	-116'761.15

Statement of Cash Flows

	31.3.2006
	CHF
Net Loss	-116'761.15
Operating activities	
Adjustments to reconcile net loss with net cash used in operating activities	
Depreciation and amortization	372.50
Net loss after operating activities	-116'388.65
Changes in operating assets and liabilities	
Prepaid expenses and accounts receivable	-20'002.50
Accounts payable	422.10
Accrued liabilities	19'572.80
Other assets and liabilities	0.00
Net cash provided by operating activities (a)	-116'396.25
Investing activities	
Capital expenditures	-7'905.35
Net cash used in investing activities (b)	-7.905.35
Financing activities	
Issuance of common stock	50'000.00
Advance from parent company	131'912.70
Net cash provided by financing activities (c)	181'912.70
Net cash in and cash equivalents (a+b+c)	57'611.10
Cash and cash equivalents, beginning of period	0.00
Cash and cash equivalents, end of period	57'611.10
Cash and cash Equivalents as per Balance Sheet	57'611.10
Less : Deposit etc. marked for specific purpose	0.00
Cash and Cash Equivalents at the end of period	57'611.10

Note : Because of the set-up period there is no comparable previous period.

Concerning the statement of Cash Flows there is no prescription in the commercial law(Obligationenrecht OR) of Switzerland.

Notes

1. Accounts drawn on accrual basis to Indian GAAP
2. Contingent Liabilities Nil
3. Disputed claims Nil
4. Undisputed claims Nil
5. Debts not acknowledged as debts Nil
6. Start-up expenses have been amortised and charged-off in the year of incurrence Nil
7. Calculation of Current Tax and Deferred Tax Liabilities

<u>Income tax 2006</u>	<u>Rate</u>		
Federal & Communal			0
<u>Capital Tax</u>	0.525%	100'000	88
8. Depreciation is charged at the following rates :
 - a) Assets valuing individually not more than CHF 150 have been written-off 100%
 - b) Furniture & Fixtures - 6.33% on Straight Line Method proportionate from purchase date
 - b) Computers/peripherals - 16.21% on Straight Line Method proportionate from purchase date
 - b) Other Equipment - 4.75% on Straight Line Method proportionate from purchase date
9. Deferred Taxation

Deferred Tax Asset/Liability calculated and recognised to the extent of reasonable certainty of realisation as per applicable local laws

Notice of Annual General Meeting

Notice is hereby given that the Sixteenth Annual General Meeting of the Members of DIVI'S LABORATORIES LIMITED will be held on Saturday the 2nd day of September 2006 at 10.00 A.M. at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at 31st March 2006, the Profit and Loss account for the year ended 31st March 2006 along with the reports of Directors and the Auditors thereon and the consolidated financials along with the Auditors' Report thereon.
2. To declare dividend for the financial year 2005 - 2006.
3. To appoint a Director in place of Mr. S Vasudev, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Madhusudana Rao Divi, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Dr. G Suresh Kumar, who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants, as Auditors of the Company who shall hold office from the conclusion of the ensuing Annual General Meeting to the conclusion of next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

7. To consider and if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, Mr. Madhusudana Rao Divi, be and is hereby re-appointed as Director (Projects) of the Company for a period of 3 years with effect from 1st April 2006 on the following terms and conditions:

1. Salary

Salary of Rs.260000 per month in the scale of Rs.260000-20000-320000.

2. Perquisites

In addition to the aforesaid salary, the Director shall be entitled to Perquisites as follows:

Rent free furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, re-imbusement of medical expenses and leave travel concession for self and his family including dependents, club fees, insurance premium towards personal accident and medi-claim and all other payments in the nature of perquisites and allowances agreed by the Board of Directors from time to time, subject to the aggregate monetary value of the perquisites in any year shall not exceed 40% of his salary. Perquisites shall be evaluated as per Income Tax Rules wherever applicable and in absence of any such Rule perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit:

- a. Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25 % of the salary wherein contribution towards provident fund shall not exceed 12 % of the salary.
- b. Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- c. Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of un-availed leave as per the rules of the company at the time of retirement / cessation of service.

3. Minimum Remuneration

In the event the Company does not have profits or its profits are inadequate, Mr. Madhusudana Rao Divi, Director (Projects) shall be paid salary and perquisites not exceeding Rs.3,20,000 per month as per Schedule XIII. However contribution to provident fund/annuity fund/pension fund/gratuity and encashment of leave at the end of the tenure shall not be included in the ceiling of Rs.3,20,000 per month.

4. Aggregate remuneration

The aggregate of remuneration, commission and perquisites / benefits including contribution towards provident fund, superannuation fund, gratuity fund, payable to Mr. Madhusudana Rao, Director (Projects) individually or to all whole time directors of the Company taken together, shall not exceed during any financial year 5% / 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956".

8. To consider and if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act 1956, Mr. Kiran S. Divi, be and is hereby re-appointed as Director (Business Development) of the Company for a period of 3 years with effect from 1st April 2006 on the following terms and conditions:

1. Salary

Salary of Rs.161000 per month in the scale of Rs.161000-12000-197000.

2. Perquisites

In addition to the aforesaid salary, the Director shall be entitled to Perquisites as follows:

Rent free furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for

Notice of Annual General Meeting

gas, electricity, water, re-imburement of medical expenses and leave travel concession for self and his family including dependents, club fees, insurance premium towards personal accident and medi-claim and all other payments in the nature of perquisites and allowances agreed by the Board of Directors from time to time, subject to the aggregate monetary value of the perquisites in any year shall not exceed 40 % of his salary. Perquisites shall be evaluated as per Income Tax Rules wherever applicable and in absence of any such Rule perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit:

- a. Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25 % of the salary wherein contribution towards provident fund shall not exceed 12 % of the salary.
- b. Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- c. Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d. Encashment of un-availed leave as per the rules of the company at the time of retirement/cessation of service.

3. Minimum Remuneration

In the event the Company does not have profits or its profits are inadequate, Mr. Kiran S. Divi, Director (Business Development) shall be paid salary and perquisites not exceeding Rs.200000 per month as per Schedule XIII. However contribution to provident fund/annuity fund/pension fund/gratuity and encashment of leave at the end of the tenure shall not be included in the ceiling of Rs.200000 per month.

4. Aggregate remuneration

The aggregate of remuneration, commission and perquisites/benefits including contribution towards provident fund, superannuation fund, gratuity fund, payable to Mr. Kiran S. Divi, Director (Business Development) individually or to all whole time directors of the Company taken together, shall not exceed during any financial year 5% / 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956."

9. To consider and if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT, in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any read with Schedule XIII of the Companies Act, 1956, following increased remuneration paid to Mr. N V Ramana, Executive Director with effect from 13th March 2006 be and is hereby ratified and the same remuneration be paid to him till it is revised:

1. Salary

Salary of Rs.275000 per month.

2. Perquisites

In addition to the aforesaid salary, the Director shall be entitled to Perquisites as follows:

Rent free furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, re-imburement of medical expenses and leave travel concession for self and his family including dependents, club fees, insurance premium towards personal accident and medi-claim and all other payments in the nature of perquisites and allowances agreed by the Board of Directors from time to time, subject to the aggregate monetary value of the perquisites in any year shall not exceed 40 % of his salary. Perquisites shall be evaluated as per Income Tax Rules wherever applicable and in absence of any such Rule perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit:

- a. Employees Stock Options and other benefits and allowances as per the rules of the company.
- b. Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25 % of the salary wherein contribution towards provident fund shall not exceed 12 % of the salary.
- c. Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- d. Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- e. Encashment of un-availed leave as per the rules of the company at the time of retirement/cessation of service.

3. Commission

He shall be entitled to commission @ 1.5 % on the net profits of the company computed in the manner laid down in section 309 (5) of the Companies Act 1956 in addition to salary, perquisites / benefits as mentioned above.

4. Minimum Remuneration

In the event the Company does not have profits or its profits are inadequate, Mr. N. V. Ramana shall be paid salary and perquisites not exceeding Rs.3,85,000 per month as per Schedule XIII. However contribution to provident fund / annuity fund / pension fund / gratuity and encashment of leave at the end of the tenure / stock options shall not be included in the ceiling of Rs.3,85,000 per month.

5. Aggregate remuneration

The aggregate of remuneration, commission and perquisites/benefits including Employee Stock Options, contribution towards provident fund, superannuation fund, gratuity fund and payable to Sri N.V. Ramana, Executive director individually

or to all whole time directors of the Company taken together, shall not exceed during any financial year 5 % / 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956."

10. To consider and if thought fit, to pass with or without modification, the following resolution as a SPECIAL RESOLUTION:

"RESOLVED THAT, subject to the provisions of Section 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, the following increased remuneration paid to Dr. P. Gundu Rao Director (R&D) with effect from 13th March 2006 be and is hereby ratified and the same remuneration be paid to him till it is revised:

1. Salary

Salary in the scale of Rs.140000 – 170000 per month with an increment of Rs.10000 due on 1st April each year

2. Perquisites

In addition to the aforesaid salary, the Director shall be entitled to Perquisites as follows:

Rent free furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, re-imbusement of medical expenses and leave travel concession for self and his family including dependents, club fees, insurance premium towards personal accident and medi-claim and all other payments in the nature of perquisites and allowances agreed by the Board of Directors from time to time, subject to the aggregate monetary value of the perquisites in any year shall not exceed 40 % of his salary. Perquisites shall be evaluated as per Income Tax Rules wherever applicable and in absence of any such Rule perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit:

- a. Employees Stock Options and other benefits and allowances as per rules of the company.

Notice of Annual General Meeting

- b. Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25 % of the salary wherein contribution towards provident fund shall not exceed 12 % of the salary.
- c. Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- d. Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- e. Encashment of un-availed leave as per the rules of the company at the time of retirement/cessation of service.

3. Minimum Remuneration

In the event the Company does not have profits or its profits are inadequate, Dr. P. Gundu Rao, Director (R & D) shall be paid salary and perquisites not exceeding Rs.2,38,000 per month as per Schedule XIII. However contribution to provident fund/ annuity fund/pension fund/gratuity and encashment of leave at the end of the tenure / stock options shall not be included in the ceiling of Rs.238000 per month.

4. Aggregate remuneration

The aggregate of remuneration, commission and perquisites/benefits including Employee Stock Options, contribution towards provident fund, superannuation fund, gratuity fund and payable to Dr. P. Gundu Rao, Director (R & D) individually or to all whole time directors of the Company taken together, shall not exceed during any financial year 5 % / 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956."

For and on behalf of the Board of Directors

Hyderabad
31st July, 2006

Dr. Murali K. Divi
Chairman and Managing Director

Notes

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company. The instrument appointing proxy should, however, be deposited at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.
2. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
3. Pursuant to Clause 49 of the Listing Agreement, additional information on directors seeking appointment / re-appointment at the annual general meeting is provided in the annual report.
4. Members / proxies are requested to bring the attendance slips duly filled in for attending the meeting and bring their copies of the Annual Report to the meeting.
5. In case of Joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
6. Members who hold shares in dematerialized form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
7. Closure of register of Members and Dividend:
 - (a) The Company has notified that Register of Members and Transfer Books will be closed from 25th August 2006 to 1st September 2006 (both days inclusive) for determining the names of the Members eligible for dividend, if approved, on equity shares. In respect of shares held in Electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
 - (b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid to those shareholders whose name appears in Register of Members as on 1st September 2006.
 - (c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 6 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centers / branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.
8. Bank particulars:

In order to provide protection against fraudulent encashment of the warrant, shareholders holding shares in physical form are requested to intimate the Company under the signature of sole / first joint holder, the following information to be incorporated on the Dividend Warrants:

 - (i) Name of the Sole / First joint holder and the Folio Number.
 - (ii) Particulars of Bank account, viz.,
 - Name of the Bank
 - Name of the Branch
 - Complete address of the Bank with Pin Code Number
 - Account type, whether Savings (SB) or Current account (CA)
 - Bank Account Number allotted by the Bank
9. Shareholders holding shares in electronic form may kindly note that their Bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. **Shareholders are requested to intimate immediately any change in their address or bank mandates to their depository participants with whom they are maintaining their demat accounts or to the company's share transfer agent, M/s Karvy Computershare Private Limited, if the share are held in physical form.**
10. Non-Resident Indian Shareholders are requested to inform the registrars, M/s. Karvy Computershare Private Limited immediately:
 - a) The change in the Residential status on return to India for permanent settlement.
 - b) The particulars of the Bank Account maintained in India with complete name, branch, account type, account number and address of the Bank, if not furnished earlier.
11. Corporate Members intending to send their authorized representatives are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.
12. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent M/s. Karvy Computershare Private Limited.
13. M/s. Karvy Computershare Private Limited, "Karvy House", Road No. 1, Avenue 4, Banjara Hills, Hyderabad – 500 034 acts as the Company's Registrar and Share Transfer Agent for physical transfer of shares and all correspondence may be addressed directly to them. In respect of shares held in Electronic form, shareholders may send requests or correspond through their respective Depository Participants.
14. Members desiring to seek any information on the annual accounts are requested to write to the company at an early date to enable the management to keep the information ready.

Explanatory Statement

EXPLANATORY STATEMENT UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No.7:

Mr. Madhusudana Rao Divi joined the company on 14.10.1994 as Director (Projects). He worked with M/s Howe India and M/s. Towell Construction Company and has executed several offshore construction contracts such as Vizag Outer Harbour Project, Defence and Civil construction contracts in Saudi Arabia, Iraq and Kuwait. He was Executive Director of M/s. Sadah General Trading and Contracting Company, Kuwait. He is holding 26900 equity shares of the company jointly with Ms. Shanti Chandra and Mr. Divi Satya Sayee Babu as on 31st March 2006.

The tenure of Mr. Madhusudana Rao Divi as Director (Projects) has expired 22nd May 2006. Keeping in view the contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 30th January 2006 have reappointed Mr. Madhusudana Rao Divi as Director (Projects) for a further period of 3 years w.e.f. 01.04.2006 on the terms and conditions mentioned above.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of Companies Act 1956.

The Board recommends passing of the proposed resolution.

None of the Directors of the Company except Mr. Madhusudana Rao Divi and Dr. Murali K. Divi, Chairman & Managing Director is in any way concerned or interested in the resolution.

Item No.8:

The tenure of Mr. Kiran S. Divi as Director (Business Development) has expired on 31st March 2006. Keeping in view the contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 30th January 2006 have reappointed Mr. Kiran S. Divi as Director (Business Development) for a further period of 3 years w.e.f. 01.04.2006 on the terms and conditions mentioned above.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of Companies Act 1956.

The Board recommends passing of the proposed resolution.

None of the Directors of the Company except Mr. Kiran S. Divi and Dr. Murali K. Divi, Chairman & Managing Director is in any way concerned or interested in the resolution.

Item No.9:

Consequent to the grant of stock options to Mr. N V Ramana, Executive Director, the proportionate compensation costs are to be borne by the company being in the nature and forming part of remuneration resulted in the nature of enhancement of remuneration.

On the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 29th May 2006 approved for enhancement of remuneration on grant of stock options to Mr. N V Ramana, Executive Director subject to member's approval in the ensuing annual general meeting.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of Companies Act 1956.

The Board recommends passing of the proposed resolution.

None of the Directors of the Company except Mr. N V Ramana is in any way concerned or interested in the resolution.

Item No.10:

Consequent to the grant of stock options to Dr. P Gundu Rao, Director (R&D), the proportionate compensation costs are to be borne by the company being in the nature and forming part of remuneration resulted in the nature of enhancement of remuneration.

On the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 29th May 2006 approved for enhancement of remuneration on grant of stock options to Dr. P Gundu Rao, Director (R&D) subject to member's approval in the ensuing annual general meeting.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of Companies Act 1956.

The Board recommends passing of the proposed resolution.

None of the Directors of the Company except Dr. P Gundu Rao is in any way concerned or interested in the resolution.

For and on behalf of the Board of Directors

Hyderabad
31st July, 2006

Dr. Murali K. Divi
Chairman and Managing Director

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Divi's Laboratories Limited

7-1-77/E/1/303, Divi Towers, Dharam Karan Road,
Ameerpet, Hyderabad – 500 016.

PROXY FORM 16TH ANNUAL GENERAL MEETING

Regd. Folio No. _____

*Client ID. _____

DP ID No. _____

I / We _____ R/o _____

_____ being a member / members of the Company hereby appoint
_____ or failing him / her _____

R/o _____ as my / our proxy to vote for me /us on my / our behalf at
the 16th Annual General Meeting of the Company to be held at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad
- 500 004 on Saturday, the 2nd September, 2006 at 10.00 A.M. and at any adjournment(s) thereof.

Affix
Revenue
Stamp

Signed this _____ day of _____ 2006.

Signature

Note: This form, in order to be valid and effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.

*Those who hold shares in demat form must quote their Client ID and Depository Participant ID.



Divi's Laboratories Limited

7-1-77/E/1/303, Divi Towers, Dharam Karan Road,
Ameerpet, Hyderabad – 500 016.

ATTENDANCE SLIP 16TH ANNUAL GENERAL MEETING

Regd. Folio No. _____

*Client ID. _____

DP ID No. _____

No. of shares held _____

I certify that I am a Member / Proxy for the Member of the Company.

I hereby record my presence at the 16th Annual General Meeting of the Company at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad - 500 004 on Saturday, the 2nd September, 2006 at 10.00 A.M.

Member's / Proxy's name in
BLOCK Letters

Signature of Member / Proxy

Note: Please fill up this attendance slip and hand it over at the entrance of the meeting hall. Members are requested to bring their copy of the Annual report to the Meeting.

*Those who hold shares in demat form must quote their Client ID and Depository Participant ID.

